



What's the future for Nintendo?

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Today, Nintendo finds itself in a position it has rarely held in the time it has competed in the home console market: the underdog. Sales of its current generation GameCube console are far behind sales of the previous generation's Nintendo 64, owing to the fierce competition from its two main rivals, Microsoft with its Xbox console, and Sony, with its PlayStation 2. However, there is still potential for profit for Nintendo in the home console market if it implements a strategy that draws on the company's strengths and prevents its competitors from exploiting its weaknesses. The company must first decide on an effective marketing strategy, and then choose to develop software and hardware that the target audience finds appealing.

Strengths

One of Nintendo's strengths is its earlier contact with consumers. Since Nintendo has a younger demographic it potentially has the ability to lock in a customer base starting at an early age. Also, Nintendo has the reputation of having more kid-friendly games, which is important to parents. Nintendo can exploit synergies between its successful handheld gaming systems and its consoles. Nintendo also has numerous game characters that have appeared in the company's software for years and have strong recognition among consumers.

Weaknesses

Nintendo's strength among younger players has cost them among older players, however. Nintendo has a low popularity in what has become the majority of the market with teen and adult gamers, a market which Sony and Microsoft share. Nintendo's lower price means that they generally have less powerful systems. Despite the fact that more powerful system does not always mean a better experience playing a game, consumers are becoming more aware of the internal workings of the system, often purchase one system over another based on a comparison of processor speed and other features. This hurts Nintendo, because it relies on innovation, art style, characters, and other factors rather than raw power or memory size to sell its products. Nintendo also has not shown plans to take advantage of the HDTV movement and will have to deal with not just inferior technology but also inferior potential. The next generation console is also being released significantly after Microsoft's which will skew most of the "toss-up" buyers to the Xbox.

Opportunities

Nintendo is likely to be a child's first video game system and can potentially exploit this by trying to lock in consumers. Nintendo should also try to exploit its well developed hand-held systems as a continued synergy. It also benefits from stricter video game legislation, since there are fewer "M"-rated games for its consoles. If teens cannot purchase violent games they might be more likely to go to a system with a greater variety of "E"- and "T"-rated games. Also, parental information helps Nintendo, as parents who are more concerned about game violence are going to buy a system

with a reputation as being better for kids. Also, Nintendo can benefit from the growing number of women and girls who are playing games, since they tend to play the less violent games.

Threats

A serious threat to Nintendo is the shrinking age at which children and teens start playing more mature video games. Also since a large number of gamers are older PlayStation and Xbox are able to exploit their desire to not be seen as little kids. Another serious threat seems to be the increasing number of games which are produced exclusively for one system, especially with popular games. It is unlikely with a much smaller market share that Nintendo will be able to be price-competitive with Xbox and PlayStation and will lose out on the opportunity to sell licenses.

Competition

As previously mentioned, Nintendo's two competitors in the home console market are Sony and Microsoft, whose products and strategies are actually quite similar. Both feature a more mature audience and more "M"-rated games, and include greater capability for online play. Both companies market to older and more experienced players, who care more about the hardware capabilities of the system than cute characters (partly because they have no such characters). Currently, the leader in the home console market by far is Sony, whose PlayStation has about 57% of the market. The PlayStation boasts the greatest variety of games and the allegiance of some of the biggest third-party game franchises, like Konami's "Metal Gear" series and Square Enix's "Final Fantasy" series. It also can exploit synergies between its console and the PSP handheld. However, the company is generally copies its competitors in technology innovations. Sony will be able so exploit synergies with its handheld device, the PSP, in the coming years. Microsoft's Xbox, with 25% of the market, boasts strong third-party support as well, as well as the best online-play capabilities. Nintendo is currently third in the market, with the remaining 18% share.

In the coming product cycles, Sony and Microsoft are both touting their systems as more than just gaming platforms. They will have capabilities that include playing CD-ROMS and DVD movies, browsing the Internet, online chat, downloading video, and displaying media transferred from PCs. This is a significant change from previous consoles, and will influence Nintendo's strategy.

Marketing

When Nintendo entered the home console market twenty years ago, it marketed exclusively to children, and it has remained strong in that demographic ever since. However, in recent years, the age of gamers has shifted higher, and now more than fifty per cent of the most frequent console game players are above the age of eighteen. Nintendo must broaden its appeal to include gamers other than its traditional group of young boys who play frequently.

Nintendo's long history has allowed it to develop a group of fans who are extremely loyal to the brand. These consumers await each new title in their favorite series' like Mario and Zelda, and purchase the new console each generation, expecting games in the franchise to appear. These customers will not switch to the competitors systems, due to the exclusivity of these franchises to Nintendo's hardware.

However, just relying on these fans will not keep Nintendo in business. Nintendo must broaden its consumer base beyond these die-hard fans and children. It can choose either to target players who would otherwise buy a different console, or players who would otherwise simply not play video games. Nintendo should market towards the latter group for several reasons.



Mario, one of Nintendo's most recognized characters, has appeared on every Nintendo system.

First, these players like less complex, less violent, easier-to-learn games. These are, by-and-large, similar to the kinds of games kids like to play, so there are many games that both groups can enjoy. Nintendo can use its advantage that it is the first console a child plays by continuing to offer content that appeals to the consume as he or she grows older. Offering games with this young/old crossover appeal expands the market of potential buyers, and locks in Nintendo's early advantage.

Second, marketing to the players who would otherwise buy a different console means producing more "M"-rated games, which would hurt Nintendo's valuable reputation as a kid-friendly company. Marketing to Sony and Microsoft customers also decreases product differentiation and increases competition.

Another factor to consider is the demographics of those who buy competing products. Microsoft's Xbox has attracted the loyalty of so-called "hardcore" gamers, who seek out the best and most powerful hardware with the most features and play more difficult and complicated games. The top Xbox titles are those from the "M"-rated "Halo" series, known for its advanced graphics and intense game play. However, the Xbox has done poorly in attracting the more casual players, so kid-friendly titles are scarce on the Xbox. Sony's PlayStation is also popular with older players, as its top titles are those from the "M"-rated "Grand Theft Auto" series, notorious for depicting graphic violence and crime. The game buyers are often parents, so games with less violence are going to be more popular.

Nintendo could reduce competition from Microsoft and Sony by marketing itself towards the younger or more casual game players. Nintendo and its competitors appeal to somewhat of a niche market, and as a result all parties can increase their prices. Considering its competitors positioning and Nintendo's strengths, Nintendo's best strategies are to appeal to younger gamers and casual gamers; to focus on retaining customers through many console generations, offering them games that they find enjoyable even as they age; and to continue to use the established characters to sell games.

Hardware

A key ingredient to Nintendo's success in the home console market is the design of its hardware. Gamers are very discriminating when it comes to hardware, often choosing one system over another based on the features that the console itself offers. If Nintendo wants to succeed in the market, it must develop a console with the specifications, features, and price that its target audience wants.

Historically, Nintendo has been an industry leader in hardware design, and an innovator whose designs are later mimicked by the competition. For example, the Super Nintendo was the first to feature shoulder buttons on the controllers. With the N64, Nintendo was one of the first to implement an analog joystick and a rumble pack (a device which shakes the controller in response to in-game actions) on its controllers. These made games more engaging to casual players, and easier to play. The N64 also boasted an upgradeable RAM memory module for improved performance on games, and a removable memory pack for storage. The N64's design was specialized for rendered 3D graphics, fast game play, and no loading times, since the games were stored on RAM cartridges, rather than CD-ROM media. Overall, the design of the Nintendo fit extremely well with the target audience, who were younger or less experienced gamers, who wanted a fun, simple game play experience. However, the N64's cartridge-based media had disadvantages compared to CD-ROMs, used, for example, by the Sony PlayStation. The PlayStation's optical media allowed it to play games with high quality audio and full motion video, capabilities impossible for N64 games. Due to its hardware, the PlayStation attracted developers of role playing games, which emphasized length, complexity, and storytelling over fast action. The role-playing games, in turn attracted more mature gamers to the PlayStation. Sony's PlayStation and its follower, the PlayStation2, continue to have more role-playing games than Nintendo.

The current generation has seen Nintendo lose its status as an industry leader in technology. The controller design is similar to PlayStation's and does not show any significant innovation over the previous generation. Nintendo's choice of media continued to be a problem for the company. In part to stem the proliferation of pirated video game sales, the GameCube was designed to play a proprietary format by Nintendo, a DVD-ROM three inches in diameter. While this made counterfeiting Nintendo games more difficult, sales of the GameCube suffered because of its inability to play standard DVD and CD media, like movies and music. This move also frustrated publishers, who were forced to buy the discs from Nintendo, and probably discouraged some publishers from making their games available on the GameCube. Finally, Nintendo chose not to develop a service for online multiplayer gaming. Xbox and PlayStation moved quickly in this area, and online gaming has become a major selling point for Nintendo's competitors.

Nintendo certainly had the expertise to produce an online game service, so why did it choose not to? Perhaps Nintendo was afraid that the online world would turn off potential buyers (parents) who did not want their children exposed to potentially inappropriate content. Nintendo's GameCube was highly focused on games, without additional features like a hard drive or media playback, and the lack of an online component fits with the general "no-frills" strategy. More likely, however, is that this was

merely an oversight, and Nintendo did not anticipate that online gaming would become so popular.

Nintendo has also stated that it plans, in its upcoming Revolution console, to rectify some of the oversights of the previous generation. The Revolution will be backwards compatible with the current-generation GameCube games. It has also been confirmed that Nintendo will offer an online gaming service. The Revolution will be able to play standard DVD media, but only with the purchase of a peripheral.

With Revolution, Nintendo says it will once again become an innovator. As the name suggests, Nintendo hopes to make a radical change in the way that games are played. Rumors have circulated that this may include controllers that incorporate a touch-screen display (such as the display of the handheld Nintendo DS), controllers that respond to orientation in space, or even stereoscopic projection technology, to allow gamers to experience games in 3D. Whether any of these rumors is true or not remains to be seen, but it has been confirmed by Nintendo that major changes will be included in the system.

These changes can be a major boon to Nintendo's strategy, if they are implemented within its overall strategy. The technology will only be worthwhile if it is extremely easy to pick up and learn, and appeals to a broad audience, not just an experienced game player. A complicated control scheme can alienate new players, who find games frustrating or difficult, and turn them off from gaming in general. For many players, the Nintendo is the first system they ever play; if they are not satisfied with the first game they play, they will probably never buy any games or systems again. If using the new technology is easy to learn then it will broaden the audience for the system. New players will try Nintendo for the novelty of the experience, and this can introduce many new players to the console market.



Nintendo's upcoming console, Revolution, is a return to the severe look of its original NES. The Revolution's controller remains under wraps.

While the hardware specifications of a system are important, Nintendo should not sacrifice a low price for the bragging rights of having the fastest processor of all three systems. Nintendo's clientele are more price sensitive than those who buy Xbox and PlayStation. Therefore, Nintendo should not pander to the customer who wants to have the fastest CPU, but should instead focus on the features of that truly make the gaming experience more fun. The Xbox has secured a position as being the high-cost, fast system, so Nintendo should differentiate its product, and to minimize the response from Microsoft. As Sony and Microsoft include more and more elaborate media features, Nintendo should respond by sticking to its Nintendo's "we just do games" stance. This sends a powerful message that not only are its software products of higher quality, but that consumers who just want to play games are not paying for unnecessary features. Furthermore, it would be very damaging for Sony and Microsoft to try and compete with Nintendo for the lower-cost option, since their customers place such a high priority of

raw power. This is an example of Nintendo employing the judo strategy, exploiting the fact that the Sony and Microsoft have too much to lose by trying to compete for the lower end of the market; thus, Nintendo can claim that part of the spectrum.

Nintendo should include additional features in their systems only if those features can be cheaply integrated into the system. Nintendo should not offer features that will only be utilized by a fraction of the consumers. As the competitors implement more and more features, Nintendo can differentiate itself by being the bare-bones, games only machine that will keep the kids happy at a lower cost than the competitors. This strategy is also smart since it turns Nintendo's disadvantage (less powerful systems) into an advantage. Nintendo should take a conservative approach to adding unnecessary features to its systems, or else it could lose its status on the value end of the market spectrum. Nintendo's hardware design must fit into its overall strategy of attracting new gamers to the market, and providing a fun experience without frivolous, expensive features.

Software

The lion's share of Nintendo's profits come from game sales and licensing. Its game sales are improved by systems sales, but systems sales are often determined by "system seller" games. This is common for many systems, but Nintendo as the console manufacturer that has been in the market for the longest time has better established games that it should be able to leverage. Before trying to devise a strategy for what games Nintendo should make, it is important to look at what games have done well. Appendix 1 shows the top ten games from the years 2001 (the start of this generation of consoles) through 2004 ranked by number of units sold. Only games on individual platforms are considered here.

While the Game Boy Advance games are not directly relevant to explain the characteristics of console games, they are still clearly an indicator of the types of games that sell systems, and in turn make other games for the system sell more copies. A quick inspection of these charts shows that there are 35 individual games over the four years listed. Of the 35 games listed, six are based on major professional sports, another three if you count skateboarding bringing the total to nine of the 35 games. However, this only represents four different game lines. In fact, of the 35 individual games, there are only eighteen game franchises present. The vast majority of these games are either sports games or some kind of adventure game which seems to indicate some strong consumer preference. Between the individual genres, it seems that the sports games can get away with less improvement from one game generation to the next as consumers are pushed to buy these games for their updated rosters. The very successful Madden NFL series of games sells for an average retail price of \$49 somewhere on the higher end of the average game whereas the ESPN series sells for an average retail price of \$19 for both the Xbox and PlayStation 2 versions. In 2002 of the console game purchases 25.1% were action games, 19.5% were sports games, and 16.6% were racing games, indicating that violent, "M"-rated games, while sometimes top sellers, are by no means dominating the market. Only 16% of games sold are rated "Mature."

The Nintendo Brand

Of the eighteen game lines among the top sellers, only four are not sequels or continuations of already existing game lines, and of those four, only two do not have sequels outside of the top charts. There is a large continued marketability of game sequels and that the value of a successful game line is quite high. This is clearly part of Nintendo's business model and has been for a long time. A large number of Nintendo's consoles are sold based on the popularity of the major Nintendo brand name characters such as Mario, Zelda, and Pokémon. While the last of these was mostly popularized by handhelds it is extremely valuable to Nintendo to solidify its younger demographic and also to popularize the Nintendo brand name. The existence of these characters serves to differentiate Nintendo's consoles from Sony's and Microsoft's consoles.

One of the causes of Nintendo's declining market share can probably be correlated with the delayed release of the Mario Adventure Series game Super Mario Sunshine from the initial release of the GameCube. The success of these series can be traced all the way back to the original Super Mario Bros. for the Nintendo Entertainment System (NES) followed by Super Mario World (SNES) and Super Mario 64 (Nintendo 64). In each of these cases the launch came along with the Mario brand game. Especially in the case of Super Mario 64 this was a great opportunity for Nintendo to display the new capabilities of the Nintendo 64. This is where there is a strong availability to use a game to sell the system and turn around and sell more licensing rights to games. Packaging a Mario game with the console, or at least publishing one at the console launch time not only builds the reputation of the characters' brand, it serves to raise the perception of quality of the console, since players will associate it with past quality games, like the past Mario titles.

Of the major three categories of games: action, sports, and racing—sports seems to be the area where there seems to be the area where there is the most potential for Nintendo to expand its current home-made line of games. While their entries in this category such as Mario Tennis and Mario Golf have had slight success there still seems to be room to improve significantly in other main-stream sports such as basketball, football, baseball, soccer, and hockey especially in the U.S. market. There have been earlier attempts with basketball and soccer, but these were many generations back when the game play capabilities and technology were still primitive.

Nintendo should not go the route of its competitors in seeking more mature games, but instead should stick with its branded characters, and expand into other titles



"The Legend of Zelda: The Wind Waker" is one of the most successful GameCube games. It is extremely kid-friendly, but its appeal also extends to more mature gamers. It features a unique art style with which other developers rarely experiment.

suitable for younger and casual gamers, such as sports and racing titles. Nintendo also should focus on games that appeal to both young players and older players who do not have the time to devote to learning a difficult game. Such games would include puzzle titles, non-competitive role-playing games (like *Animal Crossing*), and simple racing games (like the *Mario Kart* series).

Nintendo needs to take a serious look at how to expand its audience range by exploiting its specialties. The “little kid” reputation Nintendo’s games have stems from two reasons. The first reason is that games were originally targeted towards a younger audience and Nintendo came from this time, secondly with Nintendo’s inferior graphics capabilities, the games that look the best tend to be more cartoon-like. However, as television shows and movies such as *Family Guy*, *The Simpsons*, and *Shrek* have shown, it is possible to attract a more-mature audience to an animated medium. Nintendo trails Microsoft and Sony in technology, but this also gives them an advantage in terms of price, to best take advantage of their situation, they need to develop more animated characters like Mario, where Nintendo’s inferior graphics capabilities will matter less. This also most importantly does not negatively affect Nintendo’s current market position, which is important as the gap between Microsoft and Sony expands technologically and in terms of target audience it will have the advantage of being the first system most gamers will have exposure to. This also will position Nintendo well to move into one of the fastest growing markets of potential gamers: female gamers. Female gamers also prefer the less violent and less complex games, which Nintendo should produce for various other reasons as well.

Long-term Outlook

While focusing on games for the younger audience is a good strategy now, the market is shifting towards older players, and suitable games must be available on its console, or Nintendo will become irrelevant. Xbox and PlayStation will eventually achieve good reputations for kid-oriented games, and will use this to encroach on Nintendo’s position. Nintendo will have to respond by finding a way to hold on to its customers for a longer and longer time, and will have to do so by allowing more violent games on the console. Nintendo can overcome the damage to its own kid-friendly reputation by allowing third parties to develop more violent games, while still developing family-friendly material themselves. This will please both groups, while reassuring parents that if they buy a Nintendo game, they are getting something appropriate for their kids.

Nintendo previously did not have faith in online games and focused more on standalone games. However the success of Xbox Live demonstrates the flaw in this strategy. Nintendo may increase its performance by introducing high-quality network games to its system. Such network connectivity must also be extended to include its portable DS system. The capability of Nintendo console to be connected with its DS system will make the whole product more appealing for both Nintendo console and DS customers. In addition, Nintendo can add a parental lock feature into its online game network to strengthen its image by exploit parents’ concern about the mature-rated content in the network.

Finally, Nintendo should make strong partnerships with related industry such as motion pictures companies, like Walt Disney and Fox, as well as 3rd party software developers, like Capcom and Konami. Nintendo expertise in producing animated games and hence exploiting synergy by having exclusive deals with a company like Walt Disney may be appealing and profitable, for example, it can exclusively launch an animated game on the day its movie is released. Nintendo also needs to establish a good rapport with 3rd party software developers to increase the number of games for its console since having both a variety of games comparable to that of Xbox and PlayStation and some games available exclusively on Nintendo's console would make it stand out in the competition.

While it is unrealistic for Nintendo to compete with Microsoft or Sony technologically, it is still possible to compete with them for successful games. It is important that Nintendo recognize that it cannot fight a high-end war with the two giant conglomerates; instead it should concentrate on stonewalling its current market share and growing outwards. To take advantage of its position it needs to develop characters that can still be displayed ideally with their weaker hardware. This involves developing additional game characters that are more animated, but possibly slightly more mature. This still fits in with its current position as the low cost, high quality to price ratio especially with Microsoft and Sony both taking stances as expensive, high-end devices, the competition for the lower end of the market is less fierce. If Nintendo can adopt this strategy it will be able to solidify and expand its market share and sustain its profits in the coming years.

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Appendix 1 – Top Selling Console Games by Year

PS2 = PlayStation 2, PSX = PlayStation, GC = GameCube, GBA = Game Boy Advance
 XBX = Xbox

2001

Rank	Title	Platform
1	Grand Theft Auto 3	PS2
2	Madden NFL 2002	PS2
3	Pokémon Crystal	GC
4	Metal Gear Solid 2	PS2
5	Super Mario Advance	GBA
6	Gran Turismo 3: A-Spec	PS2
7	Tony Hawk's Pro Skater 3	PS2
8	Tony Hawk's Pro Skater 2	PSX
9	Pokémon Silver	GC
10	Driver 2	PSX

2002

Rank	Title	Platform
1	Grand Theft Auto: Vice City	PS2
2	Grand Theft Auto 3	PS2
3	Madden NFL 2003	PS2
4	Super Mario Advance 2	GBA
5	Gran Turismo 3: A-Spec	PS2
6	Medal of Honor: Frontline	PS2
7	Spider-Man: The Movie	PS2
8	Kingdom Hearts	PS2
9	Halo	XBX
10	Super Mario Sunshine	GC

2003

Rank	Title	Platform
1	Madden NFL 2004	PS2
2	Pokémon Ruby	GBA
3	Pokémon Sapphire	GBA
4	Need for Speed: Underground	PS2
5	The Legend of Zelda: The Wind Waker	GC
6	Grand Theft Auto: Vice City	PS2
7	Mario Kart: Double Dash	GC
8	Tony Hawk Underground	PS2
9	Enter The Matrix	PS2
10	Medal of Honor: Pacific Sun Rising	PS2

2004

Rank	Title	Platform
1	Grand Theft Auto: San Andreas	PS2
2	Halo 2	XBX
3	Madden NFL 2005	PS2
4	ESPN NFL 2K5	PS2
5	Need for Speed: Underground 2	PS2
6	Pokémon Fire red w/ adapter	GBA
7	NBA Live 2005	PS2
8	Spider-Man: The Movie 2	PS2
9	Halo	XBX
10	ESPN NFL 2K5	XBX