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A Strategic Audit of Nintendo Co., Ltd.

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A Strategic Audit of Nintendo Co., Ltd.

An Undergraduate Honors Thesis
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Abstract

The astounding success of the Nintendo Switch since its launch in March 2017 has brought Nintendo back into the spotlight of the gaming industry. However, what strategies led to the Switch's success, enabling Nintendo to come back from the complete and utter failure of the Wii U? Also, what does Nintendo need to do to maintain its success over the lifetime of the Switch and beyond? This paper offers a strategic analysis of Nintendo, examining the company's history, recent products, competitive advantages, and reasons for the success of the Switch. It also provides an analysis of Nintendo's internal and external environments through various analysis methods such as SWOT, PEST, and Porter's Five Forces. Insights from these analyses are used to determine strategy evaluation criteria, offer multiple strategy options, evaluate these options, and recommend a new strategy, including an implementation plan, timeline, and contingency, for Nintendo to pursue in the future.

Keywords

Nintendo, Strategic Analysis, Gaming, Nintendo Switch, Business, Software Engineering

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Company History

From *Mario* and *Zelda* to the Wii and Switch, Nintendo is globally known as a dominant force in the video game industry, producing some of the most lucrative and beloved video game systems and franchises in the history of gaming. However, Nintendo's 130-year history started long before the video game industry, back in an age where "gaming" likely referred instead to card games.

Pre-Gaming Era

Nintendo was originally founded on September 23, 1889 by Fusajiro Yamauchi in Kyoto, Japan as a handmade playing card producer. Specifically, Nintendo produced Hanafuda Cards, which are a set of playing cards used to play multiple games, similar to the typical 52-card sets. Over time, Nintendo became the largest card manufacturer in Japan, became the first to sell plastic cards, and made a deal with Disney to print its characters on their playing cards to expand the appeal of the playing card market (Blazeski, 2017).

However, new Nintendo president, Hiroshi Yamauchi (grandson of Fusajiro), acknowledged the limited nature of the playing card industry and started using the capital gained from the success of their playing card business to explore new business ventures, including taxis, instant rice, vacuum cleaners, and toys. While none of these ventures were particularly successful, Nintendo's experience in the toy industry sparked an interest in the growing popularity of the video industry and led Hiroshi to acquire distribution rights for the world's first home console, the *Magnavox Odyssey*. From here, Nintendo had started developing home and arcade games including *Donkey Kong*, which acted as their breakthrough franchise into the video game industry (Jones, 2013).

Consoles

Sick of developing software for other systems, Nintendo ventured into the realm of game console development in an effort to support its software with custom, proprietary hardware. The first of Nintendo's home consoles, released in 1983, was the Famicom, which was later re-released and re-branded as the Nintendo Entertainment System (NES) in 1985. The NES featured the launch of many of Nintendo's now-infamous franchises, including *Super Mario Bros.*, *Metroid,* and *The Legend of Zelda*. Following the NES came a slew of innovative and impactful consoles, including:

- **Super Nintendo Entertainment System (SNES)** – launched in 1990 and introduced better graphics and sound than other consoles at the time.
- **Nintendo 64 (N64)** – launched in 1996 and was the first 64-bit home videogame system.
- **GameCube** – launched in 2001 and yielded some of the most beloved Nintendo games, including *Luigi's Mansion*, *Super Smash Bros. Melee*, and *Super Mario Sunshine* to name a few.
- **Wii** – launched in 2006 and introduced an innovative motion control system with games that captured the attention of traditionally non-gamers and casual gamers.
- **Wii U** – launched in 2012 and, despite its failure sales-wise, supported HD graphics for the first time and introduced the "GamePad," a tablet-like controller that greatly influenced later systems.
- **Nintendo Switch** – launched in May 2017 and revitalized Nintendo's hardware sales by combining many of its console and handheld innovations into one hybrid system (Nintendo, n.d.a).

Handhelds

Despite the popularity of its consoles, the majority of Nintendo's hardware sales come from handheld machines, three of which still hold places in the top ten best-selling consoles of all time (Plant, 2018). Nintendo's first handheld system and first video gaming product to gain major success was the Game & Watch, released in 1980. Each version of the Game & Watch offered a single 4-bit game on an LCD screen run by a microprocessor (the first portable system to use one in its design). Since the Game & Watch, Nintendo continued to produce a line of solid-selling handhelds, up until merging its handheld and console product lines with the Switch in 2017. Many iterations of these handhelds helped Nintendo constantly improve their hardware and dominate over portable gaming.

- **Game Boy** – launched in 1989 and was the first portable system to offer interchangeable games.
- **Game Boy Color** – launched in 1998, introducing a color screen and the *Pokémon* franchise.
- **Game Boy Advance (GBA)** – launched in 2001 and offered many technical upgrades, including 32-bit graphics and a backlit screen for the GBA SP model.
- **Nintendo DS** – launched in 2004 and offered unique, dual-screen portable gaming along with wireless multiplayer and a touch screen.
- **Nintendo 3DS** – launched in 2011 and was a landmark iteration of the DS that incorporated 3D visuals without the need for 3D glasses (Nintendo, n.d.a).

Game Franchises

Throughout its history, Nintendo has supported both its consoles and handhelds with well-known characters and stellar Nintendo-exclusive game franchises. Franchises such as *Mario* and *Pokémon* have become household names, on top of being the top two selling videogame franchises of all time (Rogers, 2018). Additionally, Nintendo has maintained relationships with many third-party and independent (indie) developers, ensuring other historic franchises are consistently available on their hardware, including *Final Fantasy, Sonic, Tetris, Call of Duty,* and more. With over 4.7 billion units of software sold on Nintendo systems over its lifetime, the success of Nintendo's software franchises and ability to produce high-demand games is undoubtedly a crucial part of their history and success (Nintendo, n.d.b).

Nintendo Now

Much of Nintendo's recent success can be attributed to the launch and continued success of the Switch since its release in 2017. This section gives a broad overview of Nintendo today, including details surrounding the success of the Switch, discussing all Nintendo's current products and ventures, and Nintendo's current situation in the gaming industry.

Nintendo Switch

The Nintendo Switch is a console-handheld hybrid system released on March 3, 2017. In portable mode, the Switch consists of an 8x4 inch touch screen and two detachable, wireless controllers called "Joy-Cons" that hook onto the left and right sides of the screen. The backside of the screen also features a kickstand that enables the player to prop up the screen on a flat surface and play with the Joy-Cons wirelessly, either using both Joy-Cons at once, or splitting the controllers between two players for local multiplayer. In console or "docked" mode, the Switch is slid into a rectangular dock that connects the Switch to a TV or larger, external screen. From here, the two Joy-Cons or a more traditional Switch Pro

Controller can be used to wirelessly play games like a typical home console. Switching between these different play styles is slick and painless, making the Switch easy to play nearly anywhere.

The launch of the Switch has been supported with a strong-selling catalog of software, including:

- **New first-party games:** *The Legend of Zelda: Breath of the Wild* (Mar 2017), *Super Mario Odyssey* (Oct 2017), *Pokemon: Let's Go* (Nov 2018), and *Super Smash Bros. Ultimate* (Dec 2018),
- **Popular Wii U ports:** *Mario Kart 8 Deluxe* (Apr 2017) and *Splatoon 2* (July 2017)
- **New third-party games**: *Xenoblade Chronicles 2* (Dec 2017) and *Octopath Traveler* (July 2018)
- **Old third-party icons:** *Doom* (Nov 2017), *Minecraft* (June 2018), and *Wolfenstein II* (June 2018)
- **Indie hits**: *Stardew Valley* (Oct 2017), *Overcooked* (July 2017), *Celeste* (Jan 2018), and *Hollow Knight* (June 2018)

Additionally, starting in September 2018, the Switch introduced a paid online service that gives players online multiplayer, cloud saves, and access to a library of old NES and SNES games ported to the Switch that also feature new multiplayer play. Compared to other modern online services, the Nintendo Switch Online service offers minimal features; however, with a low price of $20 per year, the service has been able to gain over eight million paid users within three months after its launch (Bankhurst, 2019).

The hybrid nature of the Switch made it a landmark console for both Nintendo and consumers. For Nintendo, the Switch marks the merging of its console and handheld product lines with a system that appeals to both markets. This merger has a significant implication on Nintendo's operations, since now most of their software development, marketing, and other resources are all focused on one platform, rather than needing to decide how to split resources between their portable and console lines. Also, the massive success of the Switch marks an upswing for Nintendo, pulling them out of the failure of the Wii U era, reinvigorating investors and consumers.

Furthermore, the technical innovation of the Switch was a tremendous hit with consumers simply because it made tons of people happy. The Switch maintained the appeal of console users by offering the traditional high budget, triple-A experience expected from consoles nowadays, all while using the portable playstyle to entice a new segment. This busy, traveling segment of the gaming market doesn't have the time to spend on a couch, sinking 50+ hours into long experiences, and the Switch embraced this segment that other gaming companies likely didn't notice was being alienated to begin with. This sentiment is best expressed by the quote, "Being able to take my TV games with me to the bedroom, on the train, or on vacation? It's enough to make me wish that every game, ever, was a Switch game" (Weinberger, 2017).

Anecdotes aside, exactly how successful is the Switch? Between its launch on March 3, 2017 and December 31, 2018, the Switch has sold 32.27 million hardware units and broken many records. In America, the Switch has sold 8.7 million units, making it the fastest-selling video game system in the U.S., outpacing the larger-selling, yet older systems from Sony and Microsoft (Price, 2018). In Japan, the Switch's first-year sales outperformed Sony's PlayStation2, which still holds the title for best-selling game console of all time (Weinberger, 2017). In addition to hardware sales, the Switch's software sales have provided enormous support to the console, with 163.61 million software units sold as of December 31, 2018 (Nintendo, n.d.b).

Overall, the success of the Switch has huge implications on Nintendo's current and future strategies. The "Internal Situational Analysis" section goes into further details on the strategies employed to make the Switch successful, as well as discussing lessoned learned from the Wii U era.

Nintendo Labo

Released in April 2018, Nintendo Labo is DIY cardboard accessory kits designed to work with the Nintendo Switch. An attempt to widen the market appeal of the Switch, Labo is marketed "for children and for those kids at heart," giving users a fun, creative way to interact with gaming. Different Labo kits provide materials for making cardboard pianos, fishing poles, racing wheels, and more. The software for the Labo systems provides instructions for assembling the peripherals, an interface for playing with them, and an explanation of how the whole system works. Additionally, the "Toy-Con Garage" software gives users an intuitive interface for programming the cardboard systems themselves.

Despite only selling around 1 million units, Labo has been applauded for encouraging creativity and learning while exposing kids to STEM (Crecente, 2019). Labo has also received multiple awards, including the BAFTA Games Awards for Innovation and Best Family and Social Game, and has been dubbed as an "undeniably Nintendo-like product," cementing the cardboard peripheral system as a unique part of Nintendo history (Doolan, 2019). As such, Nintendo using is Labo to expand into the VR market, releasing new Labo kits on April 12, 2019 that turn the Switch into a VR headset compatible with new Labo VR software and Switch hits *Legend of Zelda: Breath of the Wild* and *Super Mario Odyssey*.

Classic Systems

Capitalizing on recent nostalgia-fueled marketing trends, Nintendo has produced the NES and SNES Classics, two remakes of the original consoles, preloaded with a few dozen NES and SNES games. Despite being plagued with shortage problems, the NES Classic sold 3.6 million units, and the SNES Classic sold 5.28 million units during their lifetimes. As of 2019, Nintendo has stopped production for their classic systems, instead aiming to direct people to purchase the Nintendo Switch Online, which also gives players access to NES and SNES games in a platform more profitable and easier to sustain for Nintendo (Lee, 2018).

Mobile Gaming

Starting with *Super Mario Run* in December 2016, Nintendo began capitalizing on the growth of mobile gaming, especially in Japan. *Super Mario Run* was actually a relatively slow start to Nintendo's mobile gaming venture, gaining over 200 million downloads in 2017, but only $31 million in revenue, since many players were turned off by the one-time paywall to gain access to the game (Bell, 2017). However, Nintendo learned from *Super Mario Run*, switching to a microtransaction-based and incremental-app-update system for their future apps, which turned out to be much more profitable. *Fire Emblem Heroes* is Nintendo's most successful mobile game, raking in $487 million since its debut in 2017. Other Nintendo mobile games include *Animal Crossing: Pocket Camp*, *Dragalia Lost* (Nintendo's only app to feature new IP), and *Pokémon Quest* which have brought in a total of $118.1 million in revenue. As a whole, Nintendo's future in mobile gaming looks bright, with $358 million total revenue from mobile games (up 15% from 2017) and new games such as *Mario Kart Tour* coming out in 2019 (Nelson, 2019).

Media

Nintendo's most recent venture has been expanding into other forms of media, including movies. The *Pokémon* franchise has a long history of animated TV shows and movies, but Nintendo has taken this a step further with the announcement of *Detective Pikachu*, a live-action, high-production movie based off the *Detective Pikachu* 3DS game. The movie debuts on May 3, 2019 in Japan and May 10, 2019 in the United States, and the success of the movie will likely have implications on Nintendo's future in expanding this portion of its business.

Current Situation

Overall, Nintendo is thriving based on the success of the Nintendo Switch, enabling them to continue to be innovative, take on new ventures, and expand to new market segments through Labo, mobile gaming, and movies. However, the gaming industry is starting to change, with the growth of mobile gaming, virtual reality, and game streaming, Nintendo needs to find a way to adapt to these trends, either adopting them for its own products or continuing to find unique ways to differentiate itself from competitors. The following "Situational Analysis" sections will go into more detail on Nintendo's current internal and external environments, giving extra insight on success and problems the company may face in the future.

Internal Situational Analysis

Financials and Sales

As for many gaming companies, Nintendo's success as a business is often gauged through the number of hardware and software sales. Tables 1 below examines the lifetime sales for all major Nintendo consoles/handhelds. Notably, the Nintendo Switch has already outsold the GameCube and Wii U in less than two years.

Table 1: Lifetime Hardware Sales (as of December 31, 2018)		
Year	**Hardware**	**Units Sold (million)**
1980	Game & Watch	43.4
1983	Nintendo Entertainment System	61.91
1989	GameBoy & GameBoy Color	118.69
1990	Super Nintendo Entertainment System	49.1
1996	Nintendo 64	32.93
2001	Gameboy Advance	81.51
2001	GameCube	21.74
2004	Nintendo DS	154.02
2006	Wii	101.63
2011	Nintendo 3DS	74.84
2012	Wii U	13.56
2017	Nintendo Switch	32.27

Source: (Nintendo, n.d.b)

Despite its success, Nintendo's stock has been on a slow but steady decline since the launch of the Switch in May 2017. However, this behavior is to be expected, as the inflated stock from the anticipation of the Switch begins to even out over the lifetime of the console, approaching a price still significantly higher than the Wii U era (Yahoo, 2019). Still, to keep estimates accurate and ensure investors that

Nintendo isn't being overambitious, Nintendo has scaled back their 2019 fiscal year projected Switch sales from 20 to 17 million units (Bankhurst, 2019).

Furthermore, Table 2 below details lifetime sales for the most popular Nintendo Switch titles, including total units sold and the percentage of Switch owners that purchased the game, physically or digitally. Software sales continue to be a huge success for Nintendo, with Nintendo owning six of the top fifteen selling games of all time and with Switch games outperforming Sony's and Microsoft's best-selling games of this console generation in *Uncharted* (PS4) and *Minecraft* (Xbox One) (Fusco, 2019).

Table 2: Top Lifetime Switch Software Sales (as of December 31, 2018)		
Game	Units Sold (million)	Percentage of Switch Owners
MarioKart 8 Deluxe	15.02	46.545%
Super Mario Odyssey	13.76	42.640%
Super Smash Bros. Ultimate	12.08	37.434%
The Legend of Zelda: Breath of the Wild	11.68	36.195%
Pokemon Let's Go	10.00	30.989%
Splatoon 2	8.27	25.628%
Super Mario Party	5.3	16.424%
1-2 Switch	2.86	8.863%
Mario Tennis Aces	2.53	7.840%
Kirby Star Allies	2.42	7.499%

Source: (Nintendo, n.d.c)

With the success of the Switch, Nintendo has seen significant increases in net sales, operating profit, and bottom-line profit, as shown in Figure 1, which compares the three-quarter performance of Nintendo over the past five years. It's important to note that Nintendo's fiscal year goes from April to March, with FY 2018 going from April 1, 2017 to March 31, 2018. These figures perfectly showcase the success of the Switch and its impact on Nintendo's bottom line, with its operating profit growing nearly 500 percent from FY3 2017 to FY3 2018.

Figure 1: 3Q Income Statement Overview

Operating Profit ■ Bottom-Line Profit ■ Net Sales

FY3 2019: $1,980.26 / $1,528.07 / $8,975.66
FY3 2018: $1,408.16 / $1,216.49 / $7,713.11
FY3 2017: $236.84 / $926.72 / $2,980.09
FY3 2016: $382.37 / $365.02 / $3,830.98
FY3 2015: $284.44 / $535.64 / $3,986.28

Amount in Millions of USD
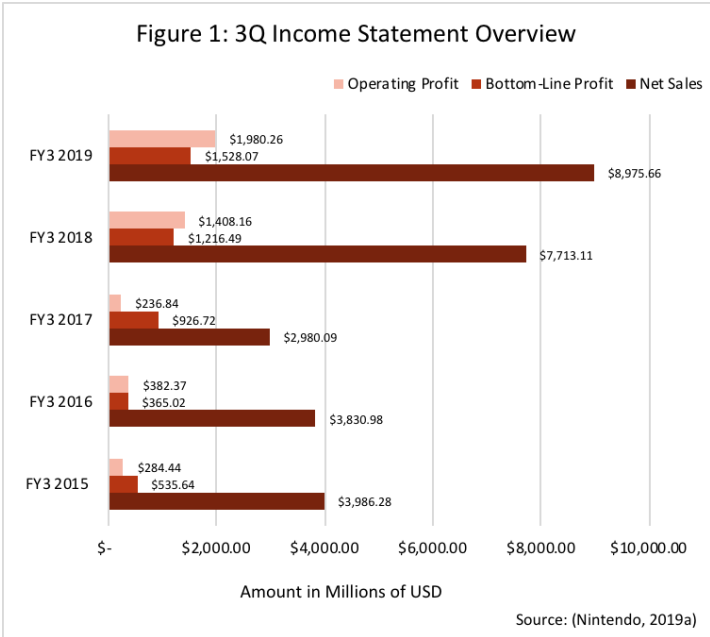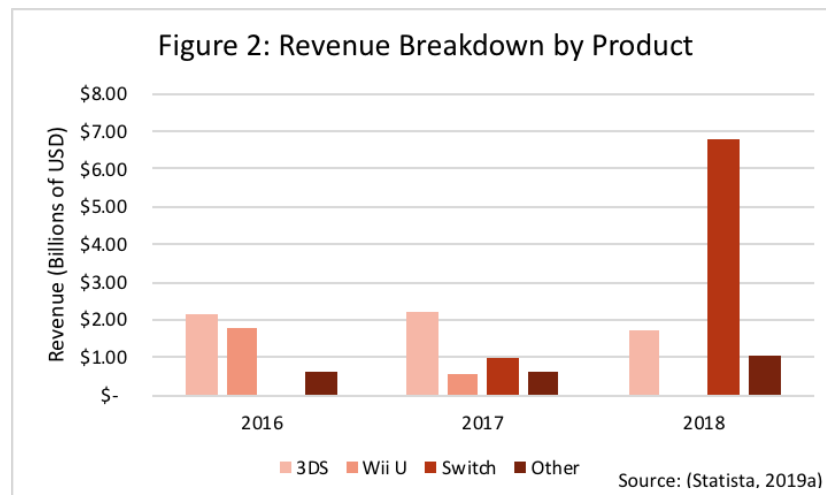
Source: (Nintendo, 2019a)

Figure 2 below further emphasizes the success of the Switch, showing a breakdown of Nintendo's revenue by product segments, with the 'other' category including smart devices and income related to intellectual property.

Figure 2: Revenue Breakdown by Product

Source: (Statista, 2019a)

Switch Strategy

Understanding the success of the Switch, along with why it's been so successful, is crucial to comprehending Nintendo's current situation, strategies as a company, and what they've learned from the flop of the Wii U. Aside from the technical innovation, the Switch's success can be attributed to a crystal-clear marketing strategy and value proposition, short release cycles for games, and balancing new franchises, ports of old games, and new experiences with existing franchises.

Clear Marketing and Value Proposition

One of the most noticeable improvements for the Switch from its successor, the Wii U, is the Switch's marketing strategy. The Wii U suffered from the perception that it wasn't a new console but instead an upgrade to the Wii, reinforced by its poor naming scheme, a similar physical design to the Wii, and the fact that ads directly stated it was "time to upgrade to the Wii U." Even the Nintendo of America President acknowledged that nobody could say "what the Wii U proposition was in 10 words or less."

On the contrary, the Switch came out with a clear proposition, that it can be played anywhere, anytime, with anyone. All the Switch's marketing materials highlighted this value proposition, showing users playing the Switch in a variety of home and on-the-go scenarios, from sitting on a couch to a rooftop party with friends to traveling on a plane. Marketing materials showed users the Switch's value proposition instead of telling them, and Nintendo delivered on this innovation from a technical front by making transitions between play styles slick and easy, further reinforcing its message (Evangelho, 2018). Nintendo's software releases also communicate the anywhere, anytime message, creating games such as *Super Mario Odyssey* and *Legend of Zelda: Breath of the Wild* that are designed to be consumed in either bite-sized chunks of time while traveling or in binge sessions on the couch (D'Argenio, 2018). Every public-facing aspect of the Switch communicates the same value proposition, leading to an excited consumer base that understands and engages with the Switch.

Short Release Cycles

Another reason the Switch has been able to maintain such great momentum is due to Nintendo's ability to generate hype for the system and its software though short release cycles. Building excitement for a product is a balancing act, since unveiling a new game produces hype that can drive sales, but announcing a game too early can build unrealistic expectations. In an age where competitors such as Sony and Microsoft are advertising games four or more years ahead of time, Nintendo has been able to generate hype and momentum for each of its releases by consistent communication and quick turnarounds (D'Argenio, 2018). For example, *Super Smash Bros. Ultimate*, one of the most anticipated games for the Switch, was announced on March 2018, only six months before its release in December 2018, shocking players and building enthusiasm that directly translated into the game's sales.

Additionally, one unique aspect of Nintendo, when compared to competitors, is that it has near-monthly Nintendo Direct presentations dedicated to communicating information on upcoming releases directly to consumers. These presentations are key to keeping players engaged and enticed about upcoming Switch games, often rewarding fans with shadow drops, which are immediate releases of games following their announcement. Nintendo's ability to use short release cycles and rapid communication of information has been crucial to maintaining the momentum of the Switch throughout 2018 and 2019.

Game Variety

Software sales are key to maintaining a long lifecycle of any hardware platform, and Nintendo has been able to balance their software release schedule with a variety of game types, including new entries in existing franchises, indie games, ports of old games, and third-party exclusives. Nintendo uses landmark titles such as *Zelda*, *Mario*, *Super Smash Bros., Pokémon,* and more to drive hardware sales, releasing a few throughout each year. In the time between these big-sellers, Nintendo continues to push software sales with titles that require fewer resources to develop yet still engage players. One way Nintendo has done this is by porting many Wii U games to the Switch, capitalizing on the small install base of the solid Wii U software catalog that was caused by such few hardware sales (D'Argenio, 2018).

Another aspect of this strategy that Nintendo has improved immensely in the Switch era is its relationship with third-party and indie developers. Historically, Nintendo has struggled to maintain the support of third-party developers following the launch of new hardware, with developers looking instead to Sony and Microsoft systems. However, Nintendo has used the Switch to make major strides with third-party developers, getting games from publisher giants Ubisoft, EA, Bethesda, and Rockstar and system-exclusives from Square Enix, Platinum Games, and Activision on the Switch by making software development easier and adding support for popular game engines such as Unreal and Unity (Shea, 2017).

Additionally, indie developers have found a home on the Switch, thanks to its online store and "Nindies Showcase," a Nintendo-produced presentation added to the Nintendo Direct series that specifically showcases indie games. The influx of third-party and indie games on the Switch helps round out the console's software catalog, keeping players engaged and enticed in the periods in between huge Nintendo releases. However, Damon Baker, Nintendo's head of third-party and indie relations and the individual responsible for much of Nintendo's improvement in external developer relationships, has recently left Nintendo, so Baker's replacement will need to follow his trends to keep a variety of games coming to the Switch.

SWOT Analysis – Strengths and Weaknesses

Strengths

1) Franchises: Nintendo's core strength lies in its game franchises. From *Mario* to *Zelda* to *Pokémon*, Nintendo has produced some of the most beloved games and characters in the history of gaming. Since this IP is owned by Nintendo, the company will continue to have exclusive rights to sell games and media surrounding these high-demand franchises.

2) Capturing Unique Markets: A rather distinct competitive advantage of Nintendo is the company's ability to consistently capture unique markets outside of hardcore gamers. The Wii opened gaming up to those of all ages, from young to old, by combining its innovative technology and wide catalog to attract hardcore gamers, casual gamers, and those who wouldn't even consider themselves gamers. A multitude of DS and 3DS hardware iterations, with widely varying price points, expanded the reach of the portable system to players with a variety of incomes. With the Switch, the portability of the console brought many former gamers back into the market, giving them the option to play games anywhere, despite their busy schedules. Nintendo Labo brought the Switch to an entirely different market, convincing reluctant parents that the Switch could be educational and worth buying for their kids. With Sony and Microsoft on a race to produce the most technically impressive consoles and capture the hardcore market, Nintendo's continued ability to expand the reach of gaming to capture new, less-competitive markets has been crucial to the company's success.

3) Cash Assets: A key favorable resource of Nintendo's that often goes under the radar is its sheer amount of cash assets. Even with sales and stock plummeting during the Wii U era, Nintendo kept cash reserves as high as $10.5 billion in 2012 (Cundy, 2012). As of December 2018, Nintendo still retains around $6.5 billion in cash assets, enough resources for Nintendo to operate at a loss for many years and still stay afloat (Nintendo, 2019b). Nintendo's mound of cash directly enables two additional competitive advantages, first, empowering the company to consistently pursue innovation and take risks on new ventures despite potential losses, and second, to maintain focus in applying its resources, since Nintendo is solely a gaming company, unlike major competitors Sony and Microsoft.

4) Console Lifecycle: The positioning and timing of the Switch launch have given Nintendo the advantage of operating in a different console lifecycle from Sony and Microsoft. This lessens the competition for Nintendo since the company isn't tied to next-gen horserace currently occupying Sony and Microsoft, allowing them to focus on maintaining the success of the Switch and making it a complimentary system instead of a direct competitor to other consoles.

5) Distribution: Nintendo has access to a wide variety of well-known distribution channels for physical purchases, including physical retailers such as Walmart, Target, GameStop, and Best Buy and online retailers such as Amazon.

6) Pricing: Unlike many game developers, first-party Nintendo games rarely go on sale, yet players are more than willing to play a premium for Nintendo software over an extended period of time.

Weaknesses

1) Low Margins: Overall, Nintendo makes fairly low margins, with about 17% margins in 2018.

2) Third-Party Relationships: Despite recent improvements, Nintendo still struggles with getting major third-party games onto its platforms.

3) Online Infrastructure: Overall, Nintendo has minimal online infrastructure and services when compared to competing systems such as Xbox Live and the PlayStation Network. Additionally, Nintendo's online systems are often clunky to use (i.e., requiring a separate phone app for multiplayer voice chat and a difficult-to-search E-Shop) or have connection issues.

4) Technical Prowess: Nintendo consistently produces consoles with hardware specifications and capabilities subpar to competing consoles at the time. This drives away both hardcore gamers who want crisp, clear graphics and third-party developers whose games are too intensive for Nintendo systems without major alterations.

External Situational Analysis

Market Analysis

The value of the gaming industry has been on a steady rise, as shown below in Figure 3. With the industry on course to generate around $135 billion in 2018, up 10.9% from 2017, the industry shows no signs of slowing down anytime soon (Statista, 2019b).

Figure 3: Gaming Market

Source: (Statista, 2019b)
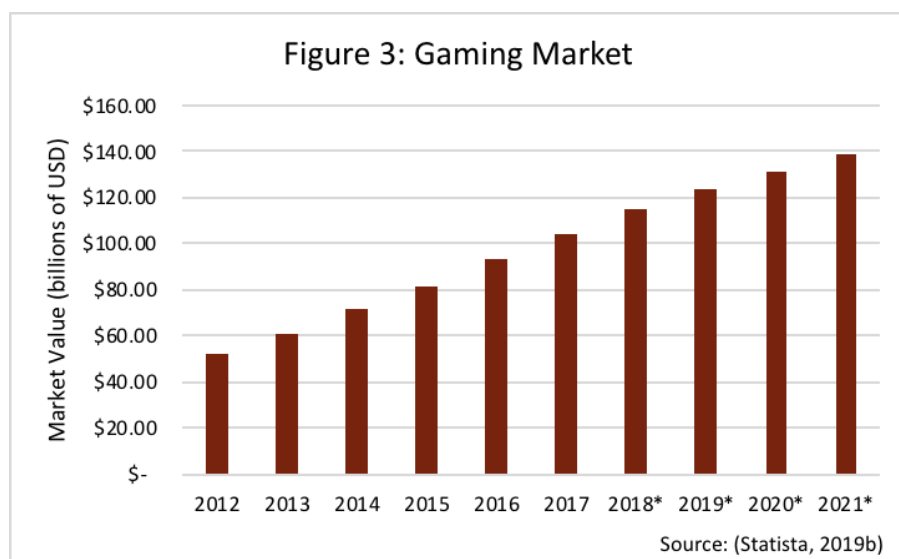
The recent growth of the gaming industry is highly attributed to mobile gaming, with the phone/table segment drawing in 51% of the market, accounting to $70.3 billion in revenue in 2018 and up 25.5% from 2017. The console and PC markets take up the rest of the pie with 25% and 24% global market shares respectively. Internationally, Asia-Pacific countries own the largest portion of the global games market with 52% of all revenue, whereas North America, Europe/Middle-East/Africa, and Latin America consist of 23%, 21%, and 4% of the market revenue respectively (Wijman, 2018).

For the console market, which is still seeing around 4% annual growth, Nintendo places third as of 2017 for total market share by revenue, behind Sony and Microsoft. However, the huge success of the Switch in 2018 and decline of the Xbox One will likely push Nintendo into the second-place spot over Microsoft and draw some market share from Sony based on 2018 numbers (Birch, 2018).

PEST Analysis

Many of the external factors that may influence Nintendo result from it being an international company and needing to comply with various laws, regulations, demographics, and trends.

Political

Any laws regarding manufacturing, imports and exports, and data collection or privacy would impact Nintendo's own policies and procedures.

Economic

Since gaming is a fairly luxurious good, the health of the gaming industry as a whole, and thus Nintendo, is dependent on a positive economic environment and high purchasing power of consumers. As an international company, Nintendo is also subject to the fluctuation of exchange rates between countries.

Social

As Nintendo grows older as a gaming company, so does the company's initial userbase, introducing the need to appeal to a variety of gamer demographics. Nintendo must also ensure its strategies aim to maintain its brand image and keep its consumers excited and engaged. Technology-related consumer trends also significantly impact Nintendo, including the global adoption of smartphones. The culture of the game streaming and content creating market also influences social trends and public perception of Nintendo and the gaming industry.

Technology

As a tech-driven industry, the gaming market is heavily influenced by new technologies. Current technology trends that may impact gaming include virtual reality (VR), augmented reality (AR), game streaming, voice and facial recognition, high-def displays and graphics, and wearables.

SWOT Analysis – Opportunities and Threats

Opportunities

1) New Segments: The growth of VR and mobile gaming offers new markets for Nintendo to use their IP to capitalize on new trends and grow its gaming market segment outside of just the console segment.

2) Grow Online Systems: Aided by a large lump of cash assets, Nintendo has the opportunity to grow the functionality offered by current online systems. Nintendo can also use the popularity of the Switch to entice more online apps and service to join the platform, such as Netflix and Twitch.

Threats

1) Competition and Substitution: Nintendo faces significant competition from Sony and Microsoft. Additionally, alternative gaming avenues such as PC, VR, and mobile gaming threaten Nintendo as substitute goods for the company's console hardware and software.

2) Low Software Barrier to Entry: From the software front, developing new games has an increasingly low barrier to entry as the gaming and software industries age.

3) Rapidly Evolving Technology: Old technologies are constantly changing, and new technologies are constantly emerging, requiring that Nintendo incorporates new trends into their existing systems to keep their products relevant. This is especially true with new technologies such as the Google Stadia

game streaming service threatening to revolutionize the gaming industry similar to how Netflix impacted the movie and TV industry.

Porter's Five Forces Analysis

Bargaining Power of Suppliers – Medium: Nintendo hardware supply is largely dependent on the capabilities of their manufacturers, Foxconn and Hosiden. However, once the systems are manufactured, these suppliers lose any power over the development of software.

Bargaining Power of Buyers – High: Customer purchasing behavior has a direct impact on the success of video game systems and software since units sold and revenue are the two main metrics used to gauge success in the gaming industry. If customers are unable or unwilling to buy Nintendo products for any reason, they are easily able to switch to other products that better fit their needs.

Threat of Substitutes – High: Alternative gaming technologies including PC, mobile, and VR offer substitutes to gaming consoles, and other entertainment mediums act as substitutes for the gaming industry as a whole.

Threat of New Entrants – Low: Breaking into an industry with long, dominant forces such as Nintendo, Sony, and Microsoft would be difficult for any new hardware or software developer, since new hardware would struggle to secure a place among pre-existing systems and new software would require approval from Nintendo, Sony, and Microsoft to be published on their systems.

Competitive Rivalry – High: Overall, the gaming industry is very competitive, meaning old gaming companies must keep on top of industry trends and demands to remain relevant and new gaming companies must find a niche competitive advantage that makes their products stand out to be successful.

Evaluation Criteria/Goals

Any strategy for Nintendo must maintain or improve upon the current success of the Switch. Common metrics for the gaming industry include revenue, profit, units sold, and market share, so an important goal for Nintendo is to keep improving these figures. Additionally, maintaining a cash reserve is important to fueling Nintendo's risk-taking and innovation. A unique goal specific for Nintendo is to continue improving relationships with third-party and indie developers, since continuous growth of the software catalog of its platforms is key to continued engagement of players and is difficult to support through only first-party games.

Thus, strategy alternatives proposed in this paper will be evaluated based on the strategy's impact on net sales and bottom-line profit, units sold and revenue from both hardware and software sales, console market share, global gaming market share, total cash assets, and third-party developer relationships.

Strategy Alternatives

Based on the above goals, the below strategy alternatives are proposed, identifying ways Nintendo can maintain and build upon its current advantages and successes.

Alternatives

1) Maintain the Switch's Momentum – Nintendo should continue many of its current practices that have built the momentum of the Switch over 2018, including attracting a variety of different games, clear marketing, and continuous, frequent communication to maintain hype. Nintendo should capitalize on the benefits of merging its console and handheld lines into one product line by continuing to release a balance of new games, ports, and third-party games.

2) New Switch Models – Nintendo should make more versions of the Switch to broaden the Switch's appeal to consumers and developers. A more powerful, "pro" version of the Switch would attract more hardcore gamers and third-party developers to the system, whereas a slimmed down, cheaper model would attract consumers with a more diverse economic background. Multiple iterations of the DS and 3DS models were key to pulling in new consumers and massive sales, and Nintendo should apply the experience and lessons learned from these systems to the Switch.

3) Invest in Online – Nintendo should use some of its cash assets to invest in improvements to online infrastructure, enabling improvements on current online services and multiplayer systems.

4) Expand to New Markets – Nintendo should use its well-known franchises and history of innovation to expand to new markets, such as mobile gaming, VR, and other forms of entertainment.

5) Begin Next-Gen R&D – Nintendo should dedicate significant resources to developing its next-generation system.

Evaluation of Alternatives

1) Maintain the Switch's Momentum – This option is almost a given; Nintendo will need to maintain some amount of success with the Switch if it hopes to remain profitable and competitive in the gaming industry. Continuing the success of the Switch will improve revenue, profit, and units sold across the board, also enabling Nintendo to grow total cash assets through Switch system and software profit.

2) New Switch Models – Some sort of new Switch is likely necessary in the next few years to maintain hardware sales figures by appealing to new users. Producing a more powerful Switch Pro model would be the most beneficial, increasing revenue and profit with lower manufacturing costs while also increasing hardware sales and market share by enticing more dedicated, hardcore gamers. Additionally, better hardware would improve relationships with third-party developers, allowing more taxing games typically found on Sony and Microsoft consoles to be brought to the Switch without needing significant changes, further improving software sales. Developing a new Switch model would not require a significant investment and could be funded using profits from the first model without taking from Nintendo's cash assets. A slimmed down, cheaper version of the Switch could also attract new sales from customers turned off by the current model's price point. However, this model is ultimately unnecessary and could be accomplished by reducing the price of the current Switch model after releasing a new, upgraded model.

3) Invest in Online – While improving current online systems would likely please users (including yours truly), dedicating company resources to improve online infrastructure for the Switch would be too little too late in the Switch's lifecycle. Nintendo's online systems have never been the driving point of sales, and using up cash assets to improve these systems likely wouldn't yield the desired improvement in

revenue, profit, or hardware/software sales. A better option would be for Nintendo to integrate an existing, quality online system such as Xbox Live, which has already been confirmed by Microsoft to be coming to Switch (Gilbert, 2019). Furthermore, investing resources in getting online media apps such as Netflix, Twitch, or an internet browser could be harmful, since they would encourage more usage of the Switch yet also distract users from buying and playing games, which would negatively impact software sales figures.

4) Expand to New Markets – Expanding into new markets is essential for Nintendo to maintain revenue figures in the case of a Switch decline and during the transition between the Switch and Nintendo's next system. Mobile gaming holds the most potential since it currently consists of 51% of the global gaming market and its market revenue is continuously on the rise (Wijman, 2018). With only five mobile games currently available, Nintendo can use its many franchises to expand its hold on this market, increasing revenue and total market share of the gaming industry. Other media, such as TV and movies, could also provide alternative ways to get new revenue from existing IP. However, Nintendo itself must remember that its strengths lie in the fact that it is solely a gaming company and should operate with external companies and resources if pursuing alternate entertainment markets.

5) Begin Next-Gen R&D – Developing its next-generation system is a necessary step in continuing Nintendo's power in the gaming industry long term. However, a new system should not be released until the Switch has reached the end of its lifecycle, and any significant steps in this direction now would detract resources from maintaining the current success of the Switch.

Strategy Recommendation and Justification

Based on the evaluation of each strategy alternative, a combination of strategies 1, 3, and 4 offer Nintendo the best path to maximize growth for the remainder of the Switch era and beyond. The rest of this section goes into detail on each strategy component and why these components were selected.

Maintaining Switch Success

Continuing to grow the Switch's software catalog with a variety of games should be Nintendo's primary goal throughout the platform's lifecycle. These games should include new first-party entries in existing franchises, new first-party franchises, new third-party exclusives, third-party ports of popular games, new third-party multi-platform games, and indie hits. Each year, Nintendo should be sure to release few first- and third-party "hardware-sellers," which are popular titles, such as *Super Smash Bros. Ultimate,* that motivate hardware purchases. Table 3 below shows a suggested breakdown of the minimum number of games from each of these categories that Nintendo should introduce each year.

Table 3: Suggested Yearly Software Release Breakdown	
First-party, new game, existing franchise	5 titles (2 hardware sellers)
First-party, new game, new franchise	1 title
First-party, port of old, popular game	3 titles
Third-party, new game, platform exclusive	3 titles
Third-party, port of old, popular game	2 titles
Third-party, new game, multi-platform	2 titles (1 hardware seller)
Independent developer hit	6 titles

Nintendo should also continue its usage of Nintendo Direct presentations to supply players with a constant flow of information on upcoming releases. These presentations should include many shadow drops and short release cycles, fueling yet managing consumer anticipation and leading to increases in software sales and revenue.

Nintendo should develop a Switch Pro version that features longer battery life, a better screen, and an improved processor. The Switch Pro would be sold regular price for $349, in software bundles for $399, and on sale for $299. The original Switch model would then be marked down to a regular price of $249, a bundle price of $299, and a sale price of $199. These two versions will widen the appeal of the Switch to more hardcore gamers and financially conscious customers, increasing hardware sales (and thus software sales), market share, revenue, and profit, since the Switch has become easier and cheaper to manufacture. Additionally, the more powerful Switch Pro will attract more third-party developers to put their intensive software on the system.

Mobile Gaming

Nintendo should continue using resources to expand the reach of its mobile gaming business segment, developing at least two new mobile games each year while continuing with incremental updates to current games. New mobile games could fall under three categories:

1) New experiences with existing franchises such as *Zelda*, *Splatoon*, *Kirby*, or *Mario Kart* (which is already slated for release in Summer 2019)
2) Old games such as the original *Super Mario Bros.* or early *Pokémon* remakes
3) Entirely new franchises and IP

Regardless of the game, Nintendo should continue to use a free-to-play, microtransaction system for its mobile games, giving players enough free content to get them engaged with the game while also profiting off of more dedicated players through purchasable in-game currency, characters, bonus stages, accessories, and more. Additionally, Nintendo should begin producing short Nintendo Directs specifically for mobile games, highlighting new releases and updates to existing games a couple of times each year. The growth of Nintendo's mobile gaming segment would yield significant increases in revenue, profit, and cash asset potential, since the games would have no physical costs associated with distributing the software, and would help increase Nintendo's total gaming market share.

IP Expansion

Nintendo should use a small portion of its cash assets to fund research into new markets and ways to expand the reach of its IP. Pursuing ways to incorporate IP with VR and alternate media, such as Labo VR and the upcoming *Detective Pikachu* movie, will fuel innovation for the company. While not all of these ventures may succeed, some will likely produce new, successful products or services that help increase revenues and profits while decreasing Nintendo's dependence on the success of the Switch.

Strategy Implementation

This section maps out a potential timeline for releases of Switch software, a new Switch Pro, and mobile games. Since much of Nintendo's schedule for 2019 has already been announced or determined, these suggestions aim to provide a broad. In case of failure, a contingency plan is also detailed.

Timeline

Figure 4 below shows a template schedule for types of Switch games released over a single year. While this figure does not encompass every game released on the Switch in a year, it presents goals for maintaining a balanced, diverse software library.

Figure 4: Proposed Yearly Switch Software Release Schedule					
Jan	**Feb**	**Mar**	**Apr**	**May**	**June**
First-party, port of old, popular game	Third-party, new game, platform exclusive	First-party, new game, existing franchise*	Third-party, port of old, popular game	First-party, new game, new franchise	Third-party, new game, platform exclusive
Independent developer hit	N/A	Third-party, new game, multi-platform	Independent developer hit	Independent developer hit	First-party, port of old, popular game
July	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
First-party, new game, existing franchise	Third-party, port of old, popular game	First-party, new game, existing franchise	Third-party, new game, platform exclusive	First-party, new game, existing franchise	First-party, new game, existing franchise*
Independent developer hit	Independent developer hit	N/A	Independent developer hit	Third-party, new game, multi-platform*	First-party, port of old, popular game
* indicates hardware selling title					

Within this model, hardware-sellers are positioned at the end of the calendar year (November/December) to drive sales throughout the holiday season and at the end of the fiscal year (March) to help wrap up sales for the fiscal year and carry momentum into the next. The two mobile game release would likely fall in February and September, the slower months of the Switch schedule, to spur additional revenue.

The new Switch Pro should be released during early November, taking advantage of two hardware-selling games that occur at the end of the year. This staging uses the holiday season as the prime time to debut the cheaper, old model of the Switch to pull in new consumers.

Contingency Plan

The main potential source of failure for Nintendo's business strategy is if the company cannot maintain the success of the Switch, causing hardware and software sales to drop significantly. If this occurs faster than expected (i.e., within the next year or two), Nintendo should start using its cash assets to focus additional resources in developing future consoles, mobile games, and IP expansion. However, in doing so, Nintendo needs to be cautious not to abandon the Switch platform completely and should use some resources to investigate potential causes and solutions to sales decreases, such as price points, lack of enticing software, or alienation of third-party and indie developers.

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