



Nintendo Strategy Analysis Report

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Abstract. This report analyses the internal environment of Nintendo by using VIRO and value chain. The results show that Nintendo meets the three conditions of value, scarcity, and inimitability in VIRO but fails to fully utilise these resources. Analysing the stakeholders demonstrates the importance of stakeholders for Nintendo. According to the results of the analysis, all five of Nintendo's stakeholders are very important and can influence Nintendo's profits to contribute to its growth. Based on the above analysis, it is recommended that Nintendo continue to implement its differentiation strategy, but it needs to refine the strategy.

Keywords: VIRO; value chain; stakeholders; differentiation strategy

1. INTRODUCTION

Founded in 1889, Nintendo is a game producer with global influence[13]. Throughout its rich history it has created many popular characters and has frequently been considered an industry leader. However, as trends have changed, Nintendo has gradually gone from a 90% market share to a 10% market share today. This report provides an internal analysis of Nintendo through four methods, VIRO, value chain, stakeholder, and strategic evaluation, and suggests improvements to Nintendo's differentiation strategies.

2. ANALYSIS

2.1. VIRO Analysis

VIRO is often used to find a sustainable competitive advantage [3]. It has four main parts: valuable, rare, imitative, and organisational.

Valuable: Nintendo has been in business since the 19th century, and for a long time, the brand was the market leader with 90% of the market share. Nintendo also has a wealth of character IPs, such as Mario, Princess Zelda, Dr. Kawashima, and Pokémon. Moreover, Nintendo has many game hardware patents, which are very important resources. Therefore, from the perspective of technology patents, character IPs, and brand image, Nintendo has high value resources, which provide great support for it to innovate, develop game reputation, and increase influence.

Rare: Nintendo’s century-old brand image, rich character IP, and numerous game hardware patents represent scarce resources.

Imitative: Nintendo’s brand history and IP is not easily imitated. From a games perspective, although Nintendo has many games hardware patents, the current technology can easily replace the old technology if Nintendo doesn’t maintain a leading position in game hardware development.

Organisational: Nintendo’s game technology and game resources are effectively utilised by the organisation in its field (i.e., game development), but Nintendo is not aware of the scarce resource (character IP) that its organisation possesses, which results in that resource not being effectively utilised.

Based on the analysis of the above four aspects, it can be concluded that Nintendo has an inherent advantage in terms of game resources, its superior game hardware patents, character intellectual property rights, brand image, brand status and other resources are scarce and cannot be imitated. This also makes Nintendo have a strong competitive advantage. But Nintendo's use of these rare resources is not complete, in terms of character IP, Nintendo only in recent years intends to use their rich character IP, which has a huge loss of value for the character. Therefore, from the above four aspects, although Nintendo has valuable, scarce, and inimitable resources, but still suffers a competitive disadvantage, because its resources are not effectively used. As show in figure 1.

VIRO analysis				
Valuable	Rare	Inimitable	Organized	
yes				
yes	yes			
yes	yes	yes		
yes	yes	yes	no	Untapped competitive advantage

Fig. 1. VIRO Analysis

2.2. Value Chain Analysis

The value chain consists of five main factors: inbound logistics, operations, outbound logistics, marketing and sales, and services [14]

Inbound logistics: Nintendo is a game development company with a long history. The publishers accept games published from third-party game publishers.

Marketing and sales: Nintendo’s marketing strategy not enough. They are cooperating with other technology companies’ games and publish come from self-innovation and collaboration with third-party game by developing its own unique hardware, game patents. Popular game products are introduced to attract customers to buy them. But their marketing and advertising efforts are not sufficient, which makes their products not well known to the public.

Nintendo’s sales strategy approach is to sell its products everywhere by way of cooperation with other companies.

Services: Nintendo is a game company that provides a one-stop support solution to their customers for all their products and games.

Firm infrastructure: Nintendo has divided its research and development department into three sub-departments, allowing for healthy competition between teams and the development of more new games. Nintendo’s tradition is to develop and create new ideas.

Technology development: Nintendo has continually developed new proprietary technologies, becoming the supplier of choice in the United States because of its advanced technology. The development of technology has allowed Nintendo to gain more consumers.

Procurement: Nintendo cooperates with third-party game publishers and requires them to publish only five games per year to secure interests and avoid mistakes. In addition, Nintendo requires third-party game developers to pay money upfront as an investment so that if the game fails, Nintendo can mitigate its losses.

2.3. Stakeholder Analysis

Stakeholders are individuals, groups or organisations that are directly involved in or indirectly affected by a project, product service or business[6]. Stakeholder involvement at the strategic level directly influences the company’s decision-making process and thus job performance, meaning that stakeholders are one of the key dimensions affecting company performance[9].

Nintendo has five main stakeholders: customers, competitors, partners, suppliers, and company executors. The company’s customers are mainly from North America, and the company’s main competitors are Sony and Microsoft. The company’s partners are Japan’s leading mobile provider, Philips, and the Japanese government. The company’s suppliers include third-party game publishers. Finally, the company’s CEO is Satoru Iwata.

Figure 2 lists Nintendo's major stakeholders and the extent of their influence on the company. In these five major stakeholders have a significant impact on Nintendo. Importance consists of low, middle, and high, which elaborates whether the influence of that stakeholder is significant for Nintendo.

Stakeholder	Interest/expectations	Importance (low-high)
Customer	<ul style="list-style-type: none"> Sixty-five percent of Nintendo's consumers are from the United States and Europe. 	high
Competitor	<ul style="list-style-type: none"> The main competitors are Tencent, Microsoft and Sony 	high
Partners	<ul style="list-style-type: none"> In 1990 Nintendo became a partner with Philips. <ul style="list-style-type: none"> Government: Patent application 2014 Nintendo and DeNA6, Japan's leading mobile provider, form partnership. 	high
Suppliers	<ul style="list-style-type: none"> Nintendo partners with third-party game publishers to reduce risk by establishing a threshold for cooperation 	high
Company executors	<ul style="list-style-type: none"> Before 2015, CEO: Satoru Iwata 	high

Fig. 2. Stakeholder Analysis

Customer: Customers are usually considered to be direct stakeholders because they are involved in most of the company's business. At the same time, customers are also the stimulus point that drives companies to innovate[1]. However, Nintendo has not catered to changes in customer preferences, leading to repeated declines in its profits and a gradual decrease in market share.

Competitor: A focus on competitors can cause imitation, but it can also help companies to innovate. When a competitor makes a technological breakthrough, it stimulates a company to conduct research to close the gap [1]. Nintendo's competitors are Sony and Microsoft. It was only after seeing the success of its competitors' use of character IP that Nintendo decided to use its own rich character IP, which shows that Nintendo's competitors were the ones who stimulated it to reform and innovate.

Partners: Partnerships can improve performance for a company [7]. In 1994, Nintendo established a partnership with Philips because of the disagreement between Nintendo and Sony on licensing terms due to the news of the PlayStation being made public. Nintendo's partnership with the Japanese government focuses on protecting intellectual property rights from infringement and thus securing its interests. In 2014, Nintendo partnered with Japan's leading mobile provider to develop apps for smart devices.

Suppliers: Nintendo's suppliers are mainly third-party game publishers. Nintendo strictly controls its cooperation with third-party game publishers so that both parties can gain if a game is successful, and Nintendo will lose less if a game fails. Cooperation with third-party game publishers allows Nintendo to increase its profits.

Company executors: A successful leader knows how to make a vision a reality [12]. Nintendo's former CEO Hiroshi Yamauchi encouraged his employees to innovate and allowed healthy competition between teams, resulting in Nintendo having over 90% of the global console game market share. In addition, leaders should have dynamic capabilities. Dynamic capabilities enable leaders to seize opportunities and enable companies to adapt to changing and uncertain environments [5]. However, as mentioned in the case, Nintendo did not keep pace with global trends, which led to the decline in its profits.

2.4. Evaluation of Current Strategy

Strategic evaluation enables companies to continuously evaluate current practices and their contribution to strategy implementation. Strategy research enables companies to identify and correct strategies when their implementation fails [8]. Nintendo uses a differentiation strategy to maintain a competitive advantage. A differentiation strategy is the creation of a unique product or service by conducting supply chain activities in a unique way based on customer demand, thereby offering the product or service in the market in a unique way [10]. In this case, each product developed by Nintendo has a unique idea, and each of its products is clearly differentiated from its counterparts. For example, the Game Boy and Nintendo DS have distinctly different characteristics from other products of the same type, and their derivative products are not available in other products. This is in line with the differentiation strategy of providing unique products. Nintendo is also a one-stop solution company for all gaming needs, differentiating it from other companies. The Wii and Nintendo DS have increased consumers' brand

loyalty to Nintendo. Based on the above analysis, Nintendo uses a differentiation strategy to gain competitive advantage in the market.

3. CONCLUSION AND RECOMMENDATIONS

Based on the analysis of Nintendo's internal factors, it is recommended that Nintendo maintains its differentiation strategy because it has the resources to support it. The reason for the decline in Nintendo's profit is that the company failed to keep up with trends, and most of its products are based on first-generation products. Although the features of the products increased, innovation did not increase and attractiveness to customers did not increase. Nintendo did not use its resources wisely, failing to fully exploit the value of its characters. Although in 2014, Nintendo's CEO proposed expanding its character licensing, according to the data on Nintendo's revenue mentioned in the case, despite an increase in profit, it only reached a 0% increase in 2015.

Firstly, for Nintendo to successfully implement its differentiation strategy, it needs to innovate its products and continuously create uniqueness in its products and its services by identifying customer needs in a timely manner through market research. Understanding customer needs can improve a company's performance [4]. Therefore, Nintendo can continue to develop unique products, but it needs to build on understanding customer needs. For example, if customers have a unique impression of Mario as a character, Nintendo could design a gamepad based on an image of Mario. In addition, Nintendo could choose to cooperate with a cell phone brand and link the games so that players can easily switch between their phone, Nintendo device, and an external screen.

Secondly, Nintendo should continue to expand the licensing of IPs and make full use of the value of its characters to create more company. At the same time, making its character IP more deeply rooted could increase customer brand loyalty. Customer loyalty is an important factor for companies to gain competitive advantage. Loyal customers view a company positively, recommend it to others, and participate in buybacks [11]. Therefore, Nintendo could continue to expand its character IP licensing to make its character IP more deeply rooted and thus increase its customer loyalty. In addition, Nintendo could choose to relax the terms of cooperation with third-party publishers, thus attracting more potential games to cooperate with Nintendo and attracting customers by diversifying its products.

Finally, Nintendo could improve its human resources by hiring more skilled, innovative people. Human resource management is the management of people at work to help achieve a company's goals. Motivation theory is a human resource management theories that discusses the methods used in human resources to increase engagement, reward employees, and manage performance [2]. It is possible for Nintendo to change the way the company manages performance. When an employee provides a major technological breakthrough for the company, the company could choose to give a small number of shares to the employee, promoting motivation and increasing employee loyalty.

In summary, Nintendo does not need to change its strategic policy, but it needs to improve its strategy by understanding customer needs, continuing to expand character

licensing, and relaxing the terms of cooperation with third parties in ways that can help it to refine the implementation of its differentiation strategy.

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