



**The Lisbon MBA 2019/2021 - Executive
Strategy & Value Creation**

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1 Executive Summary

For the purposes of our group strategic analysis, we have chosen the Japanese company Nintendo Co., Ltd. which engages in the development, manufacture, and sale of entertainment products. Its entertainment products include a variety of videogames (software) and both handheld and home consoles (hardware). The company was founded by Fusajiro Yamauchi on September 23, 1889 and is headquartered in Kyoto, Japan. Starting its first international branch back in 1979, today, as a global company, it is present in all continents operating in 41 countries and having the top-selling console (Nintendo Switch) in 2020 around the world.

In the report below, we proceed into the environmental analysis of the Company where we analyze both macro and microelements and how they impact the videogames industry and the Company in particular. We come across some challenges on macro-environment elements, namely on the political and economic dimensions around the world. There are also expectations with regards to customers' demographics as it shows positive trends both with age and gender. The industry has been showing significant growth over the last decade with the main players being Nintendo, Microsoft, and Sony, although the same industry is witnessing the growth of alternative propositions (mobile gaming, streaming services). And with fierce competition, key success factors such as price, replay value, engaging theme, and technologic innovations, among others, will play a critical role in the strategic fit of these companies.

Further, we do a multi-angle review of the Company's sustainable strategy and how the Company creates sustainable value in such a dynamic and ever-evolving industry. We also show how the Company, with such a long history and legacy, can manage to converge the long-existent traditional with rapidly growing digital not without challenges.

On the analyses of Nintendo's organizational structure, we can see very strong tangible and intangible resources with a stable increase in revenues and net income since 2016 - Nintendo Switch, launched in 2017, being the major accelerator of the financial results. Despite strong financial base, we must state, that Nintendo's biggest value is from its organizational resources, namely Intellectual Property characters such as Mario and Luigi, Donkey Kong, Pokémon, The Legend of Zelda.

As we proceed further into the analysis of business strategy, we see how Nintendo loses and gains its competitive advantage during different periods. Although Nintendo was not the first mover in the video game industry, it used innovation to quickly move from innovation follower to innovation leader. However, after the entrance of technology giants Sony and Microsoft in the market, Nintendo realized that it could not compete head-to-head in technical specifications and has wisely opted to apply blue ocean strategies to create new markets and opportunities, as it was the case in the development of new products like "Wii" and "Switch".

When analyzing vertical integration, we could conclude that Nintendo's strategy is based on internalizing as much as possible to better control and influence the final products (e.g. assembly in its factories, safety, and quality control- completely vertically integrated). On the other hand, they outsource activities where they have low level of core competencies or where transaction costs are high and there are disadvantages in internalizing (e.g. all production processes- vertically disintegrated).

On strategy formation, we review Nintendo's diversification strategy in detail throughout the time and highlight both related and non-related diversification strategies. They had a long journey from a playing card company to a multinational consumer electronics and video game company. And today, they present another piece in its diversification strategy story by launching an amusement park - a very bold approach of further expanding all the exclusive games and characters created throughout the time.

We proceed with corporate development specifically highlighting external developments such as strategic alliances, being one of the main contributors to Nintendo's success, and the Company's hesitant approach in mergers and acquisitions. The report progresses with the analysis of planning and strategy implementation specifying the Company's functional management and process and project management, as well as touches Nintendo's corporate governance and control systems where we specify management, group, and individual controls separately.

At the end of this report, we, as a group, highlight our conclusion with regards to Nintendo's current business and provide our recommendations of where possibly the Company can foster further success.

2 Company Overview

Nintendo is one of the leading companies in the global videogames industry, presenting its identity as follows (Nintendo, 2020d):

“Nintendo's mission is to put smiles on the faces of everyone we touch. We do so by creating new surprises for people across the world to enjoy together. We've forged our own path since 1889, when we began making hanafuda playing cards in Kyoto, Japan. Today, we're fortunate to be able to share our characters, ideas and worlds through the medium of video games and the entertainment industry.”

In fact, the company was founded in 1889 as a card shop named Nintendo Koppai that opened in Kyoto (Olenick, 2019). Nintendo means “leave luck to heaven”, clearly relating to the luck and chance of card games. The company was then established as Marufuku Co., Ltd in Kyoto, Japan, as a manufacturer and distributor of Japanese playing cards, named *karuta*, and western playing cards. In July 1951, the company's name changed to Nintendo Playing Card Co., Ltd, establishing in Tokyo in September 1961.

Nintendo was stock listed on the Second Section of the Osaka Securities Exchange and the Kyoto Stock Exchange in January 1962 and by October 1963 the company changed its name to Nintendo Co., Ltd, the actual trade name. Nintendo arrived to America in 1980 by establishing a subsidiary in New York, Nintendo of America Inc., followed by Nintendo Europe GmbH in 1990, France S.A.R.L. in 1993, and Korea in 2006. Since April 2017 the current trade name of Nintendo is Nintendo Sales Co., Ltd.

As per Nintendo Annual Report 2020 (Nintendo, 2020a), quoting, “*Nintendo Co. Ltd counts with 27 subsidiaries and five associates as of March 31, 2020, primarily engaged in the development, manufacture and sale of entertainment products. Nintendo's major products are categorized into computer-enhanced “dedicated video game platforms,” playing cards, karuta and other products.*

Despite Nintendo reporting its financial results as a single business segment, “dedicated video game platforms” are responsible for most of its results. These products “are defined as hardware and software for the handheld systems and home consoles developed by

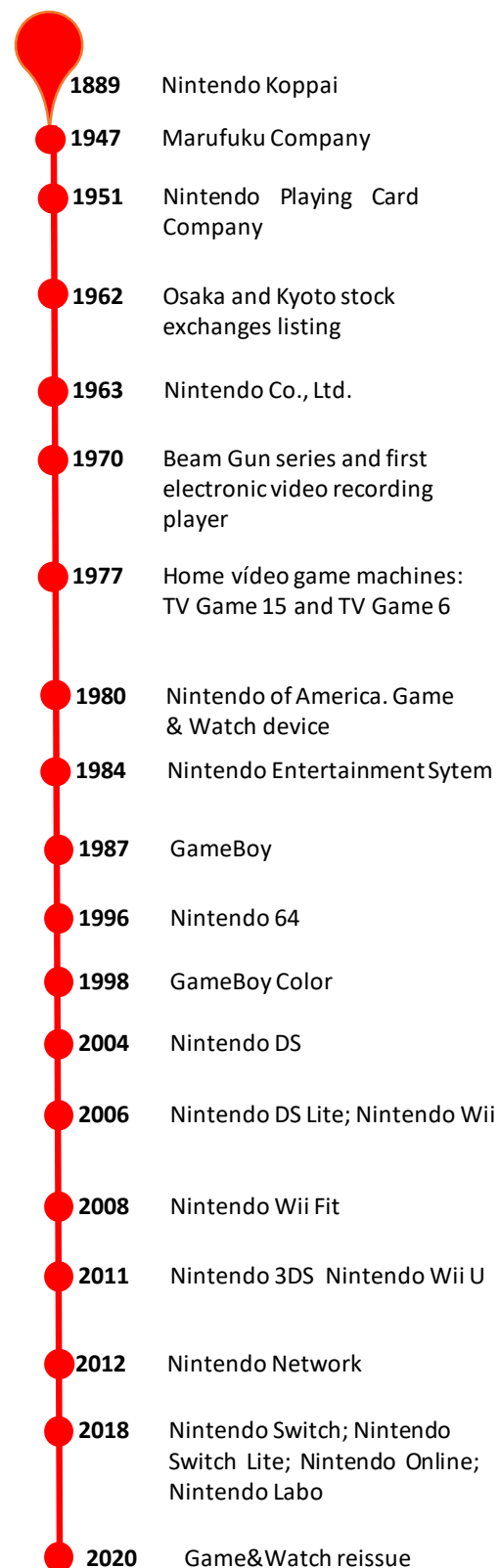


Figure 1 – Nintendo's Timeline

Nintendo Co., Ltd. and its subsidiaries and associates, manufactured by Nintendo Co., Ltd. and distributed primarily by its subsidiaries and associates in Japanese and overseas markets.”

The latest main launch of Nintendo Co., Ltd, beyond the re-issue of the Game&Watch Super Mario Bros from the 80’s, is the Nintendo Switch Platform. This product, accounting for 85.6% of the company’s revenue in 2019, belongs to a category with the same name that offers various software, including Nintendo Labo series, Super Smash Bros, Ultimate, Pokemon, Let’s Go, Pikachu!, Eevee!, and Super Mario Party. The Nintendo 3DS Platform, accounting for 5.3% of the company’s revenue, offers game such as WaioWare Gold and Luigi’s Mansion. The other products and platforms (“Other Category”), such as Virtual Console and amiibo, account for 9.1% of the company’s revenue (MarketLine, 2020d).

Beyond these current products, Nintendo developed in the past the Nintendo Entertainment System (NES) in 1984, the GameBoy in 1987, the Nintendo 64 in 1996, GameBoy Color in 1998, Nintendo DS in 2004, Nintendo DS Lite in 2006, Nintendo Wii in 2006 and Nintendo Wii U in 2011.

Entering in the mobile gaming, launched Super Mario Run game for iOS in 2016 and the year after the same game for Android users. Not to forget that the above mentioned games have subsequently launched the characters associated, with Super Mario undoubtedly the most recognized one globally.

As mentioned above, in the fiscal year of 2020 Nintendo Net Sales were \$12,115 million. Operating profit reached \$3,262 million in the same period.

Nintendo Co., Ltd is headquartered in Minami-ku, Kyoto, Japan, selling the products to customers directly through Nintendo branded stores, distributors and online, with operations across Asia, Europe and the Americas (MarketLine, 2020d).

The company counts with a total of 6,200 employees, with an average annual salary of \$86,583 (well above industry standards), an average age of 39,2 years and an average of 13.9 years at service (Nintendo 2020a).

The current Deputy General Manager is Yoshiaki Koizumi and the Representative Diretor and President of Nintendo Co., Ltd. Is Shuntaro Furukawa (MarketLine, 2020d). Following Mr. Furukawa at the Executive Board are Satoshi Yamato, Ko Shiota, Shinya Takahashi and Shigery Miyamoto.

The company major 3 shareholders (hundred shares) are The Master Trust Bank of Japan, Ltd. with 86,275 (7.24%), Custody Bank of Japan, Ltd. with 60,604 (5.09%) and The Bank of Kyoto, Ltd. with 48,802 (4.10%). The Ownership and Distribution of Shares can be found in the graph below (Nintendo, 2020i).

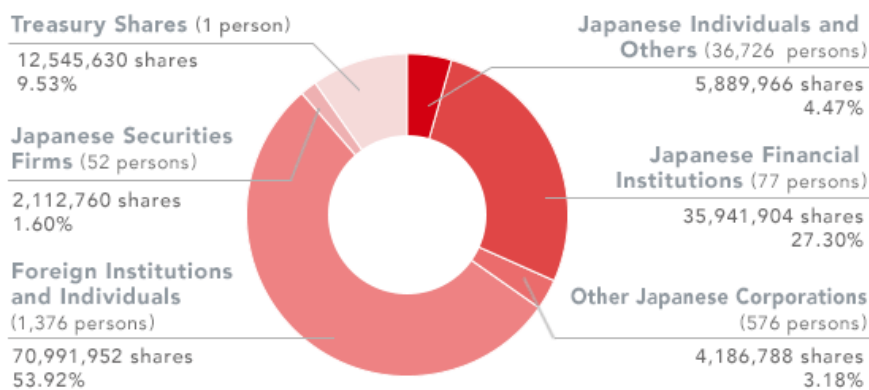


Figure 2 – Nintendo Co., Ltd Ownership and Distribution of Shares (Nintendo, 2020h)

This report explores Nintendo’s strategy and how that strategy contributed for the company to become a leading company in the videogames industry (and also in the broader entertainment industry).

3 Environmental Analysis

The gaming industry is very dynamic representing a quite competitive oligopoly in the console arena as well as the gaming front. Further, the gaming industry has increasing macroeconomic value. Therefore, macro and microenvironments described below, are highly significant and shape the strategy formulation of gaming companies.

3.1 Macro environment

When analyzing a company’s strategy, we should consider the general environment that represents broader dimensions which are beyond the direct control of companies, but which may represent a great source of opportunities and threats. An assessment of both the present state of the general environment and its likely future shifts is of importance and useful in the determination of a company’s strategic choices. For this analysis, we will recur to PESTEL framework. Figure 3 summarizes the assessment performed, while subsequent sections detail each dimension (Political, Economic, Social, Technological, Environmental and Legal).

	Trend	Demand	Supply
Political	Political instability (increased political risk)	The risks may lead to higher inflation and decrease GDP which will subsequently reduce aggregate demand.	Eventual disruption of global/regional supply chains due to political action.
	Increased protectionism with impacts on labour market	This may increase unemployment in certain markets and increase the demand of specialists as the industry relies on global value chain. However, the Increase of remote work can give a partial solution to the problem.	More tightened labour market will affect labour supply and decrease the pool of labour in certain specialized fields.
Economic	Long term trend for increasing income in leading markets	Higher level of income affecting spending on discretionary items/products	No change
	Covid Pandemic leading to an economic crisis and exchange rates increased risk	The demand is thriving up, despite the economic disruption caused by the coronavirus.	Covid is urging businesses to diversify their supply chain.
		Exchange rate instability will negatively impact the demand significantly	Exchange rate instability on exports can be positive, but not significant.
Increasing trade barriers (consequence of political instability)	Higher prices resulting from imposed tariffs will lower consumer demand	Shifts of supply chain to other countries	
Social	Globalization has a uniformization force for industry	Globalization can open new markets, new labour with significant improvement on Company’s economies of scale which in turn drives to lower prices and high demand by consumers	Globalization can increase sourcing opportunities. However, this may also cause supply disruptions and greater complexity on supply side

	Changes in demographics will open opportunities	This will open up new (increased) customer groups in gaming industry which will increase the demand	●	No change	
	Arising "sentiment" markets	As people start valuing the old experiences, the demand for some specific games will arise, amongst them brand loyalists	●	No change	
Technological	AI will continue to enhance gaming experience	AI will steer the growing demand for more realistic, interactive and appealing games	●	This will maximize supply synergy and optimize sourcing options	●
	AR and VR will have further opportunities, namely with 5G and edge computing evolution	It is expected that the demand of AR & VR games will increase so much that by 2025 there will be 216 mln users	●	Currently there is slowdown of supply constrained by infrastructure due to pandemic	●
	Cloud-Gaming/Streaming will change the gaming landscape	Cloud gaming competition heats up as well as its demand. However, this may have its disadvantage- the higher the demand, the bigger stress on network/energy	●	No change	●
Environmental	Energy saving awareness	Consumers more aware and choosing between products, demand for energy-saving products higher than normal ones.	●	Supply chain participants adopting to the increasing environmental trends	●
	Higher pressure on green compliant procurement	Adjusting the increased demand of green products	●	Suppliers should be focused on providing ethical sourcing to its customers who in turn effectively push the "green" demand through the supply chain	●
	Enhanced concerns with EOL products and reparability of devices	Increasing demand for improved EOL products forces companies to incorporate the initiatives into early phase of the product life cycle.	●	Companies take considerations of EOL at an early phase, reinforcing with the supply chain from the beginning	●
Legal	Looming laws on censorship/content	Proper and adequate content is of high demand especially with minors where the content is strictly followed by seniors. Some countries limit video gaming only to the ones with censorship	●	No change	
	Legislative shifts towards IP protection	Increased customer loyalty, as customers recognize that the products are authentic and high quality, it fosters consumers' confidence	●	Risk mitigation- IP protection locked as mandatory in agreements with critical suppliers	●

Figure 3 – PESTEL Analysis

3.1.1 Political

Political forces can impact the Company's own policies and procedures. This involves regulations, employment laws, tariffs, tax policy, trade restrictions, political stability and reforms etc. This dimension broadly encompasses all the relationships between businesses and government entities. Among other aspects, it analyses matters related to military stability, the relationship between the businesses and the government etc.

The growth of populism and political instability around the world (see, for example, the recent US presidency and elections, Brexit process and the looming elections in some of the European countries), reinforced by the increasing power of social networks, is a challenge affecting most of the industries. Despite Japan, a videogames industry powerhouse, being politically stable (Figure 4) this global context can ultimately impact the videogames industry affecting income and job security of customers and therefore affecting also demand.

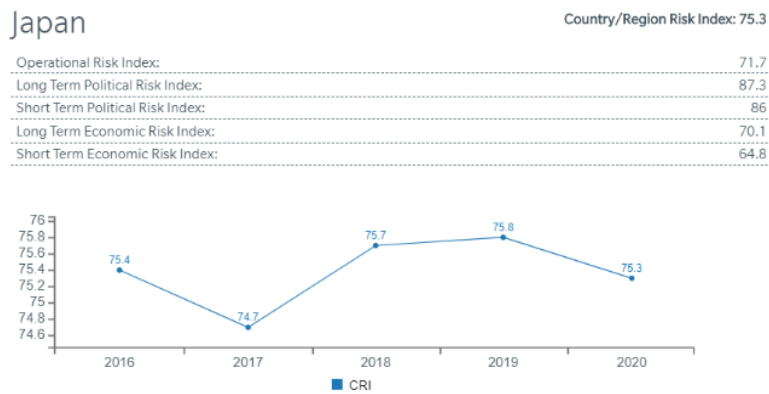


Figure 4 – Political Risk evolution in Japan (Marsh, 2020)

Protectionism and associated political restrictions on the movement of people (and consequently, talent) may represent another challenge for the industry. An example of this can be the most recent Brexit where previously UK had access to all European market as a hiring base or U.S. tightening visa regulations for skilled hires from overseas. Although, we must also confess, that the pandemic is shifting the general concept of workplace significantly hence this issue may take another direction where gaming companies can source talent from other countries without physical relocation. This, in turn, will open great opportunities to more labour markets, maybe even with better “skill vs pay” structures. While the majority of industries will be facing both tariff and non-tariff barriers in terms of diverse regulations and standards that will make it harder for companies to operate across national borders, we believe that the concept of “remote work” in the near future will have a more positive impact than negative and that the gaming industry will navigate through the world current political risks with stability.

3.1.2 Economic

This dimension monitors the likely impact changes in aggregated economic variables such as GDP, inflation, unemployment rates, price indexes and investment data, among others, have on businesses. Since gaming is somehow a luxurious good, the health of the whole gaming industry is dependent on a positive economic environment and high purchasing power of consumers. In addition, international video game companies are prone to the fluctuation of exchange rates between countries.

The video game business is dependent on disposable income of customers. We can also state that the biggest gaming markets, like U.S. and Europe have the highest disposable income, and have increasing trends, so the industry is well positioned in terms of its markets’ disposable income. Nevertheless, it should be mentioned that on the example of U.S. 2018 data, we can see that the majority of the video game players come not from the group with the highest disposable income but on the contrary, from the lower group but as long as they meet certain threshold to afford to buy it (Gough, 2018).

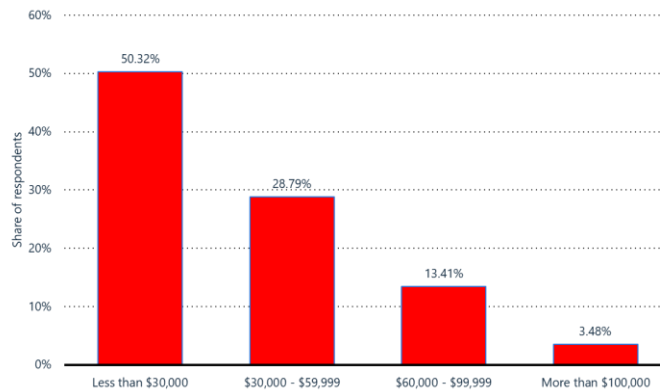


Figure 5 – Share of U.S. video gamers as of January 2018, by income (Gough, 2018)

Another economic factor that is shaking the world almost in all international industries is the trade war between the United States and China. Companies are forced to move their production out of China, partially or completely. These are measures taken to “diversify risks” rather than skirting potential tariff increased related to the trade war. The tariffs imposed on goods imported from China were set to increase under a proposal from President Donald Trump. Under the Trump administration's proposed tariffs on \$200 billion worth of Chinese goods, game-console makers would face a 25% tariff, an increase from the existing 10% rate (Gilbert, 2019).

The exchange rates are another condition to be considered. For international brands operating across the globe, sales are normally generated in the overseas markets, with most transactions carried out in different currencies. This refers also to the full industry value chain where there is a very complex economic transactions between the Company and its many stakeholders that may be allocated in different markets. In addition, international companies may hold a substantial amount of assets in foreign currencies; fluctuations in foreign exchange rates have a strong influence not only when accounts in foreign currencies are converted to the Company's home country currency but also when they are revaluated for financial reporting purposes. While companies use different techniques to reduce the impact of fluctuations, it is difficult to completely eliminate their risk. As a result, exchange rate fluctuations have an impact on financial performance.

Games have always had such strong underlying growth that sometimes they were considered as "recession-proof" industry, but this may not be the case today. In reality, broader recessions did slow down - though not reverse - the industry's growth. In hard economic times which are already predictable to happen due to the pandemic and its global impact, casual gamers will most likely resort to mobile gaming and hardcore gamers will rather spend on more realistic gaming machines, specially designed to meet their needs. The much-expected growth in developing countries – India, Brazil, South Africa and Russia – is slowing down. This may be a challenge for big players of the industry like Nintendo, a company whose product is “sandwiched” between the easily available and less costly mobile games and its main competitors (Sony and Microsoft) focused on hardcore gamers.

In addition, if countries become more hostile to free trade, all of that will become more complex and expensive. So if we start to think about what happens to game hardware, from consoles that source components from across Asia before assembly in China or Japan, or PC and smart device parts that are from China, Korea, Taiwan as well as from developing nations in South-East Asia. If tariff barriers are raised, all of these things may get more expensive. Although, it goes without saying that those trade barriers - be they tariff barriers or non-tariff barriers – will put the consumer base at risk due to anti-trade sentiments.

With the looming economic crisis, we see a lot of industries experimenting the most challenging times of their business, however this cannot be said about the gaming industry. In fact, the crisis, driven by Covid, will bring other opportunities for this industry – both new customers and more frequent users among the current customers. With the confinement, lack of socialization, games may be viewed as cheap substitutes for other forms of entertainment.

3.1.3 Social

It goes without saying that that culture or social influence impact certain businesses differently from country to country. It is significant to consider these factors. The social factors include safety and health consciousness, various demographics, cultural values, beliefs, lifestyle etc. The social factors impact on the video game industry from demographics, lifestyle changes, social mobility, attributes to work, income distribution, level of education, consumerism, and consumer behaviour.

Globalization – Perceptions around gaming have changed significantly over the last decade. This perception change has led more people to become part of the community and the gaming culture than before. This is mostly due to globalization where companies try to go into different markets while building their product with other countries in mind and creating homogenization of consumption habits and lifestyles. Previously, video games were created with a specific market in mind. If it was a hit, the publisher would replicate that success around the world. However, today we are seeing more global releases of many popular titles, so the concept of globalization in the game industry may seem very attractive.

Changing demographics – Over the last 20 years, the demographics of players have changed dramatically. Gone are the times when the typical computer game player was a teenage boy playing alone and firing away at bad guys ahead of a television screen reception. Today, the typical game player is thirty something, as likely to be female as male, will play on multiple devices and may come from anywhere within the world.

Gender split - Gaming has traditionally been seen as a more male hobby, and this can be reflected within the indisputable fact that, on average, men spent longer both during the week and on weekends playing games on the PC. However, the increase of female gamers has been rapid in recent years, with a 2019 figure estimating that 46% of all computer and video gamers within the U.S. are female. This is a big increase from the 38% female gaming population in 2006.

These demographic changes are a huge opportunity for the video game industry to increase its customer base. While some companies may be already in a good position to exploit these opportunities, others may start looking at this as something emerging in the portfolio of products they have- expanding it with more middle-range prices, games with less violence etc. All the industry players have to do is to design more games specifically aimed at these market segments.

Perhaps expanding demographics of gamers are the most interesting change in the video game industry. With more people playing games, creating demand for more immersive entertainment, and looking for easier ways to access games, in this regard the future of the video game industry looks bright.

Social violence – Violence is a huge social theme, especially in the video game community, and in U.S. gun violence is a hugely debated issue at every level of society, government and the media. The video game industry is sometimes blamed for this violence. This is getting its momentum even outside of U.S. market and we believe that companies that put this as part of their strategy should loudly advertise this aspect of its software content and create goodwill within the community. This will present the video game companies with some opportunities, with a possible direct impact on the extent of its consumer base, brand loyalty and possible sustainable revenue growth and increased profitability. This may lead to greater investor confidence and an appreciation of the company's stock market valuation.

Vintage Games – We see the world getting back to the old, making reboots and remakes of favourite films and shows from the past. This is also happening for video games. Vintage video games are in high demand and have recently become very popular even with new generation. Some companies are taking advantage of this, especially those who have been in the industry from the early stages.

3.1.4 Technological

This dimension monitors the present and potential future use of knowledge base for economic purposes. Issues covered on this dimension include, but aren't limited to, R&D investments, new patents and products, and speed of technological adoption.

We all know that technological advancements are happening very fast. In today's world, the pace doesn't appear to be slowing down soon. Being able to leverage technology strategically will be critical for the existing industry players. If we compare graphical differences of consoles in 90ies and 00ies with the high-end PC today, we see an incredible difference in such a short time. So, what are the future technological innovations that will radically impact the global gaming industry, what will our future games look like? We think that these emerging technologies will ultimately disrupt the existing gaming experience and most likely bring a considerable scale within a short period of time.

Artificial Intelligence (AI) - AI is of course one of the biggest technological innovations that is already changing the gaming experience with people. This technology is allowing people to play with robots without feeling that they are playing with a robot. This trend is already in transit and will have a massive impact in modern games.

Augmented Reality (AR) & Virtual Reality (VR) - We already see AR and VR coming into the gaming screens- whether it is indoor games or gaming apps, the gamers are already experimenting this technology. Video games have already surpassed many other forms of entertainment and VR will of course add yet another layer to this. There will also be further experimentation with controls, such as adding voice, touch screens, and gestures to game mechanics when the consoles add peripherals to take in those inputs (Beattie, 2020). VR gaming will continue getting more traction and will be driven by the new content and growing esports. Although some of the AR games failed over the last few years, we believe that 5G will be an advantage for AR gaming and it will also help in the advancement of multi-player AR games.

Cloud Gaming- One of the trouble points for gamers has always been the huge investment in hardware that can provide high-quality gaming. Cloud Gaming is currently addressing these issues by providing millions of gamers to play high-end games on their web-browsers.

Graphics – Graphics technology (3D designing and VFX) has changed significantly over the last decade and is still progressing with the final goal being “Virtual world, as real as the real world”. So, the industry players acknowledge the value it brings and are investing in applying great technology in gaming space to enhance their gamers' experience and make their characters as real as the real world.

Facial recognition- This is the next “surprise” for video game fans. Big gaming companies have been already testing this technology and will most likely present the technology in near future where a game console can read the gamer's facial expression and assist during the game.

As a conclusion we can say that there will definitely be further breakthroughs in technologies like VR and AR which will allow more immersive gaming experience. Cloud may become the future of gaming, so in 10-15 years' time we may see a decline in traditional PC and console gaming especially as the internet and

broadband infrastructure evolve with 5G services with low latency for streamed game, this may ultimately render the use of consoles obsolete.

3.1.5 Environment

This dimension essentially deals with issues linked to the awareness of climate change, preservation of nature, such as waste disposal and energy consumption etc. This concerns itself with the ecological impact companies' actions have on the natural environment and how the community responds to these company actions.

Video games might not seem to be connected with the climate crisis, but in reality they are. There's the electricity use of gaming devices themselves, estimated to sit at 34 terawatt-hours of energy each year, or the equivalent of 5 million cars. Once you start looking at areas where the industry intersects with environmental issues, the list might become quite big- from the petroleum-based substances the hardware is made of, the workers mining raw materials in already sweltering conditions, to the millions of air miles underpinning business deals. Even just a cursory peek into the future shows the internet infrastructure games are reliant upon might be submerged by rising sea levels. As the crisis rolls on, game makers are beginning to give serious thought to how they might reduce their industry's contributions to the crisis. But it is also consumers who are becoming more and more concerned with the energy consumption levels of console (either for economic or environmental reasons) (Gordon, 2020).

So the main areas where the video gaming companies are looking for opportunities to decrease environmental impact are a) Energy saving i.e. how to improve the energy efficiency of their products, b) End-of-life environmental impact of its products i.e. the use of materials that contribute to resource conservation, and c) Green procurement i.e. procurement of parts for video game systems and accessories free of chemical substances toxic to humans or the environment.

In 2019, at UN Secretary-General's Climate Action Summit, some of the biggest names in the video games industry, with a combined audience of 970 million players, formally committed to harness the power of their platforms to take action in response to the climate crisis. Combined, these commitments from 21 companies will result in a 30 million tonne reduction of CO2 emissions by 2030, will see millions of trees planted, new "green nudges" in game design and improvements to energy management, packaging, and device recycling (Rukikaire, 2019).

The environmental aspect presents an interesting marketing and strategic positioning point which the video game companies should not be losing as an opportunity to bolster its brand image with the general public. Creating an image of not only caring for family values, but also for the environment may be good for building goodwill with pressure groups and reinforcing brand awareness. Gaming is definitely becoming a way that people connect and spend their time. Not to have "game over" sooner than anyone wants, it is paramount to reduce the impact of this hobby ensuring the health of the planet.

3.1.6 Legal

This dimension analyzes how existing laws or proposed future laws will impact businesses and how such laws can be used for advantageous company positioning. Issues linked to legal factors, normally include anti-trust laws, patent laws, product safety and employment laws amongst others. This dimension sometimes overlaps with the political dimension

The speed at which the gaming industry is progressing can be a challenge itself as the laws around this industry very often lag behind or just simply cannot provide adequate solutions to an emerging or unforeseen situation. These challenges are further complicated by the lack of harmonized legal system applicable to the video game industry around the world.

Intellectual Property – All entities involved in the video game ecosystem - developers, publishers and distributors – face core legal issues which are to ensure that appropriate legal arrangements are in place to enable a full game creation and distribution process. Having a proactive IP strategy is essential to the developer’s success. For the last few years, there has been a growing trend to enforce international patent laws, with countries such as China and India trying to enforce the same compliance standards as the developed countries. This helps to combat counterfeit games and consoles, as well as other products using trademarked characters.

Laws on censorship of game content – This element represents a negative effect, especially for companies which allow their consoles to play games with adult or politically sensitive content (language, violence). It can represent an opportunity for those video game companies who have lots of educational and sports content. They can keep advertising this aspect of their business policy, especially in China where censorship is highly enforced. This would give the company a good image both among the customers (parents) and external parties like pressure groups and the government, which can be a good way to create brand loyalty and goodwill within the community.

Lifting gaming bans - Usually a law that lifts the previously existing bans opens up new markets to a Company. A great example of this is when, in the beginning of 2014, China lifted its almost 14-year-old ban on the sales of video game consoles. This opened up huge opportunities for console companies, who could directly control and manage the Chinese market. This was good for gaming companies because it represented a new market and an opportunity to expand their customer base. Of course, this opportunity has its peculiarities, such as the fact that consoles must necessarily be manufactured in China (a condition imposed by the Chinese government), and the fact that Chinese consumers are more acquainted with computer games rather than console games. Besides, the trade war between U.S. and China might set some expected challenges in Chinese market for some of Nintendo’s competitors, namely Microsoft.

3.2 Microenvironment

While the macroenvironment affects the functioning of all the industries, in this chapter we will discuss microenvironment that affects the working of a particular business, impacting the company’s business activities. The microenvironment surrounding Nintendo is complex and diversified, with several variables impacting it. Such an environment and factors are critical to the company’s future.

3.2.1 Customers

Video gaming is enjoyed both by the young and the old around the world. Figures in 2020 showed that there were almost 1.5 billion gamers in the Asia Pacific region, hence making it the largest region for video gaming worldwide. In total, there were an estimated 2.7 billion gamers across the globe in 2020. By estimates, the total number of gamers may reach 3.07 billion by 2024.

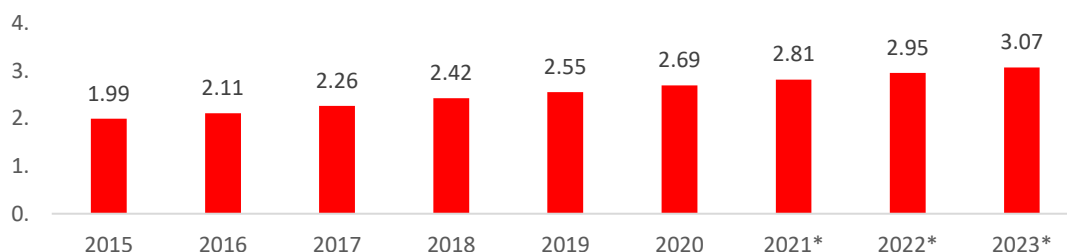


Figure 6 – Number of videogamers (in billions) worldwide (2015-2023) (Gough, 2020d)

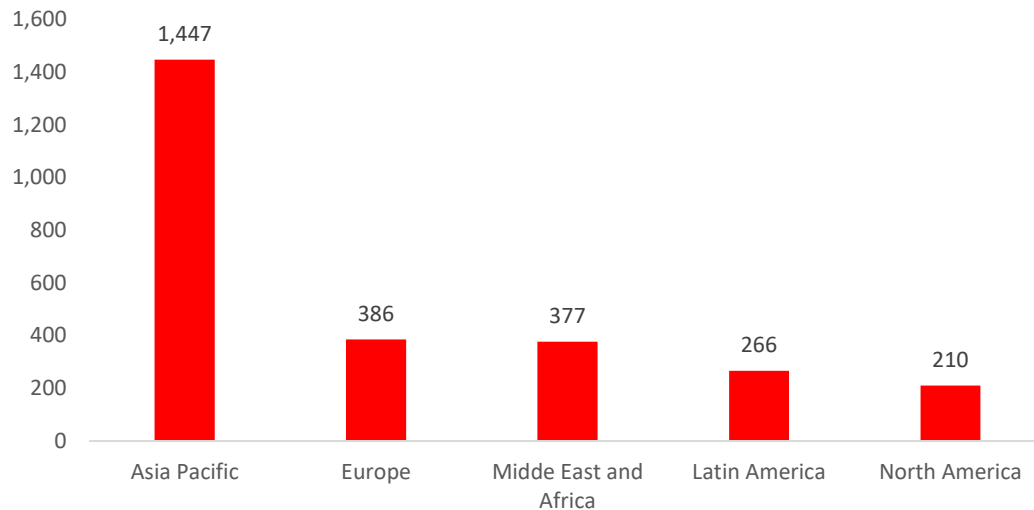


Figure 7 – Number of videogamers (in millions), by region, in 2020 (Gough, 2020c)

As of August 2020, there are an estimated 3.1 billion people consuming games, representing around 40% of the population of the planet. The number of gamers who say they are playing video games more now due to the COVID-19 pandemic increased between March 23 – June 3rd 2020 by 46% in the U.S., followed by 41% in France, 28% in the U.K. and 23% in Germany. Statics Data (Nielsen, 2020).

The individuals playing video games represent an increasingly large group. According to the Entertainment Software Association, the average gamer is 35 years old and has been playing for 13 years. Today video game players' segment has become more diverse- involving students, employees, military troops, seniors, mothers and fathers who have driven the evolution of games into a new dimension. The first gamers have grown up, started families and included their children and parents in the fun, multiplying the pool of multi-generational gamers exponentially. And as the population of video gamers has been expanding at a rapid pace, market forces have been dictating game developers more and more to make games more accessible to this new, diverse audience.

Analyzing consumer buying behaviour is important to marketers as this helps them to determine what satisfies consumers. The decision-making behaviour of a consumer within the game industry is of high involvement and significantly reply on the views of the opinion leaders. The influences that affect buying decision process can be either personal or social.

Segmentation within the video game industry is done according to **demographic**, **psychographic** and **behavioural** criteria.

Over the period, the demographics of the customers played a major role, from children to the middle-aged, also the women, the video game industry now has a wide audience.

Age - Video gaming is no longer a hobby exclusively enjoyed by the young. As generations have grown up with video games a normal part of life, the age of the average gamer also increases. During a 2020 survey, 38% of video game players still come from the 18 to 34 age demographics, and 6% are 65 years and older. The data also shows that in 2018, Americans aged between 15 to 19 years spent 49 minutes on gaming or leisurely computer use during an average weekday, and more than 90 minutes doing so during weekends or holidays (Gough, 2020b). The age demographic group which devoted the least amount of time to gaming was the 45 to 54 years category. Members of this age demographic spent an average of just 10 minutes playing on the computer during the week and only 22 minutes during weekends and holidays. In

a further survey, some 11.6% of respondents in the U.S. admitted to playing video games for more than 20 hours a week, while another 11.4% claimed to spend between 12 and 20 hours a week gaming. They also revealed that China has the most gamers overall, and that 61% of people aged 11-64 in France play video games (Gough, 2020a).

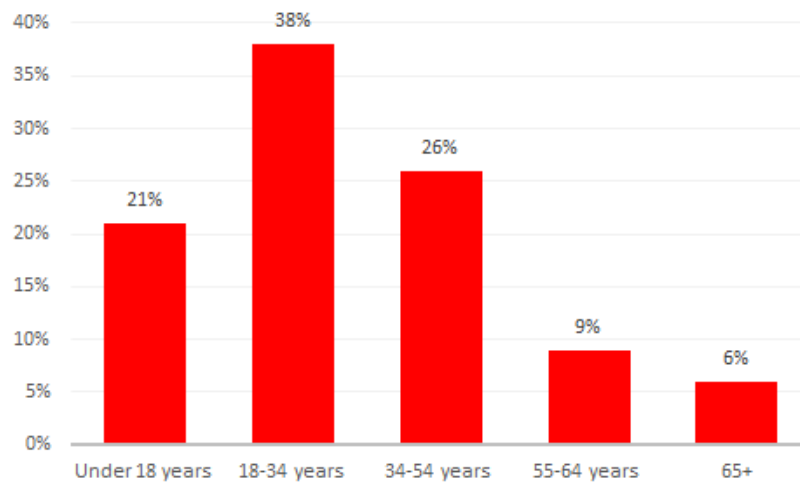


Figure 8 – Age breakdown of video game players in the USA (Gough, 2020a)

Gender - we have definitely noticed a significant shift in women gamers. While previously the customers of game market were predominantly men, nowadays they are almost balanced. The rise of female gamers has been rapid in recent years, with a 2019 figure estimating that 46 percent of all computer and video gamers in the United States are female.

Over the period, the demographics of the customers played major role, from children to more aged people, from men to more women, enriching the industry with bigger audience. The psychographic aspect of video games reflects Maslow's theory wherein the industry becomes a part of the social and esteem needs. This usually refers to what different players like seeing and doing in a game by observing the consumers' behavior, traits, interests, motivations (Kuraden, 2009).

Behavioral segmentation takes into account the buyers relationship with the product. Factors such as benefits sought, usage rate, loyalty, attitudes etc.

If we bring an example from Nintendo where we see the dimensions of segmentation used by the Company, which can be the most recent one, on the social side, when Nintendo targeted their target demographics by using brand loyalty and used psychographics by piquing interest through social media opinions of other people that have purchased and played with their new Nintendo Switch. Because of the pandemic people started to look for other activities that can be done at home. This of course had a direct impact on the increase in gaming which in turn supports the popularity and sales growth of the Nintendo Switch. Nintendo was also able to target a new target demographic of 16–35 instead of its original 18–34. They had already studied their target well by creating an adaptable console that could be used on the go. The factors that had an impact on the increased sales of Nintendo Switch could be summarized into the following: target marketing, pandemic and more people being at home, brand loyalty focus, and increasing presence on social media channels.

Using the 8 generic criteria for B2C customers and summarizing the information mentioned above, we have divided game users into 5 customer segments. Although a single criterion sometimes is enough to differentiate customer segments, in this case, it was helpful to expand a further analysis of other criteria.

Criteria		Hardcore Gamers	Traditionalists	Casual Gamers	Sentiment Gamers	Social Gamers
Purchase Process	Who	Age 18-45 Income High	Age 15-35 Income Mid-High	Age 10-30 Income Low	Age 25-50 Income Mid- High	Age 6-70 Income Mid
	What	They want the best of the best the video game industry has.	Loyal customers looking to play the exclusive games that you can only find on their platform of choice.	They are looking for a game (usually free) that they can use in free time.	They are interested in older games and have the opinion that they are much better than current games.	They look for a game where they can unite with friends and family.
	How much	They can make a huge investment in the game purchase	They may spend significant amount in games however normally stick to the same brand and games.	While the game may be free, they may still be willing to make in-app purchases.	It is very hard to sell something new to this segment.	Moderate investment in purchase as part of entertainment process with friends and family
Motivation for Purchase/ Consumption	For whom	Own self	Own self	Own self	Own self and family	Own self, family, children, friends
	Why	They are knowledgeable about game mechanics and passionately enjoy video games as an experience rather than passively enjoying it as entertainment	They want to keep the gaming tradition alive into the new era (mostly console). They are loyal to certain brands, and buyer readiness.	They play the game for the purpose of spending a free time and so no other specific motivation	They play games that give them a nostalgic feel when revisiting certain titles. They may spend their leisure time revisiting the games they have already played before or missed the chance to play	The value for this segment comes from the atmosphere of socializing with friends and family combined with the uniqueness of the gaming related activity
Setting of the Purchase/ Consumption	When	Consumption and purchase any time	As loyal customers, consumption and purchase is regular but limited to something exclusive	May play any time but purchase on promotional campaigns	Purchase and consumption not often, on special occasions	Consumption-regularly, Purchase on special occasions, festive season, may buy it as a gift
	Where (if not online)	Specialized stores, retail	Specialized stores, retail	Retail	Retail	Retail
	How	Online with user account, frequently	Offline, periodic if there is a new release of favourite brand	Online, low frequency	Online, rarely	Offline, occasionally

Figure 9 – Original customers segmentation (main focus on “Who” and “Why”)

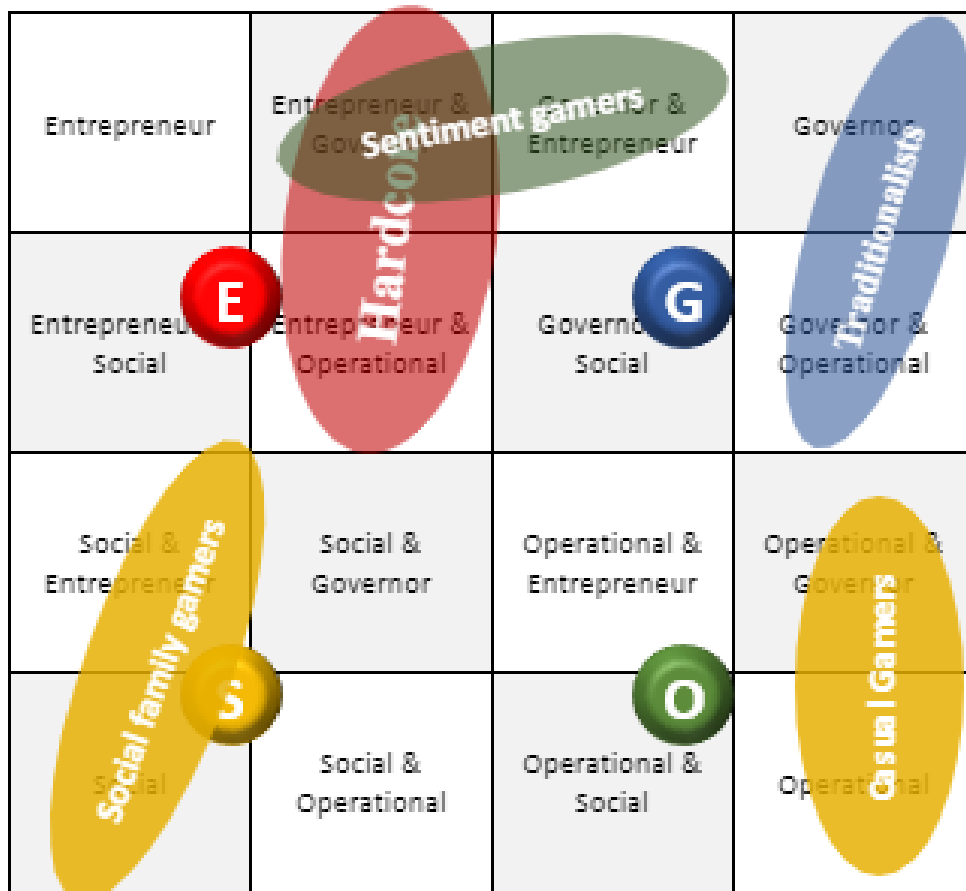


Figure 10 – Original customer segments: positioning in the EGOS map

The customers' segmentation shown above has the advantage of reflecting the assessment of multiple criteria, with special emphasis on "Who" the customers are (demographic perspective) and "Why" do they purchase certain products (behavioural dimension). Nevertheless, for the purpose of segment's sustainable value quantification, it has the important disadvantage of being very difficult to segregate indicators for each segment. Market studies and statistics found in multiple data sources typically aggregate results as a function of "what" customers purchase in the videogames industry (business segments):

- Consoles
- Videogames for consoles
- Videogames for mobiles
- Videogames for PCs

Therefore, in most parts of this report, we refer to these 4 business segments as being also the 4 main customer segments in the videogames industry.

Criteria		Consoles	Videogames for Consoles	Videogames for mobiles	Videogames for PCs
Purchase Process	Who	Age 18-70 Income Mid-High	Age 15-70 Income Mid-High	Age 10-30 Income Low-Mid	Age 18-50 Income Mid- High
	What	The consoles that grant access to the best portfolio of videogames, depending on customer preferences: Hardcore gamers and traditionalists: the most sophisticated games to be played alone/online. Social Gamers: simple games to be played with family and friends	Hardcore gamers and traditionalists: the most sophisticated games to be played alone/online. Social Gamers: simple games to be played with family and friends	They are looking for a game (usually free) that they can use in free time.	Hardcore gamers and traditionalists: the most sophisticated games to be played alone/online. Sentiment gamers: They are interested in older games and have the opinion that they are much better than current games.
	How much	Consoles' specified sale's price. But purchases spaced some years in time.	Hardcore gamers and traditionalists: significant annual investments. Social gamers: moderate investment	While the game may be free, they may still be willing to make in-app purchases.	Hardcore gamers and traditionalists: significant annual investments. Sentiment gamers: It is very hard to sell something new to this segment.
Motivation for Purchase/Consumption	For whom	Own self or family (children, grandchildren)	Own self or family (children, grandchildren)	Own self	Own self
	Why	Hardcore gamers and traditionalists: to passionately enjoy video games as an experience rather than passively enjoying it as entertainment. Social gamers: atmosphere of socializing with friends and family combined with the uniqueness of the gaming related activity.	Hardcore gamers and traditionalists: to passionately enjoy video games as an experience rather than passively enjoying it as entertainment. Social gamers: atmosphere of socializing with friends and family combined with the uniqueness of the gaming related activity.	They play the game for the purpose of spending a free time and so no other specific motivation	Hardcore gamers and traditionalists: to passionately enjoy video games as an experience rather than passively enjoying it as entertainment. Sentiment gamers: nostalgic feel when revisiting certain title
Setting of the Purchase/Consumption	When	Consumption-regularly, purchases spaced some years in time.	Hardcore gamers and traditionalists: Consumption and purchase at any time Social gamers: Consumption-regularly, Purchase on special occasions, festive season, may buy it as a gift	May play any time but purchase on promotional campaigns	Hardcore gamers: purchase any time Sentiment gamers: Purchase and consumption not often, on special occasions
	Where (if not online)	Specialized stores, retail	Specialized stores, retail	Not applicable	Specialized stores, retail
	How	Online and offline, rarely	Online and offline. Often for Hardcore gamers and occasionally for Social Gamers	Online, low frequency	Hardcore gamers: online with user account, frequently Sentiment gamers: offline, rarely

Figure 11 – Alternative customers segmentation

As we can see in Figure 12, all these segments (Consoles+Videogames for Consoles, Videogames for Mobiles and Videogames for PC) are growing, but especially the Videogames for Mobiles (mobile-gaming).

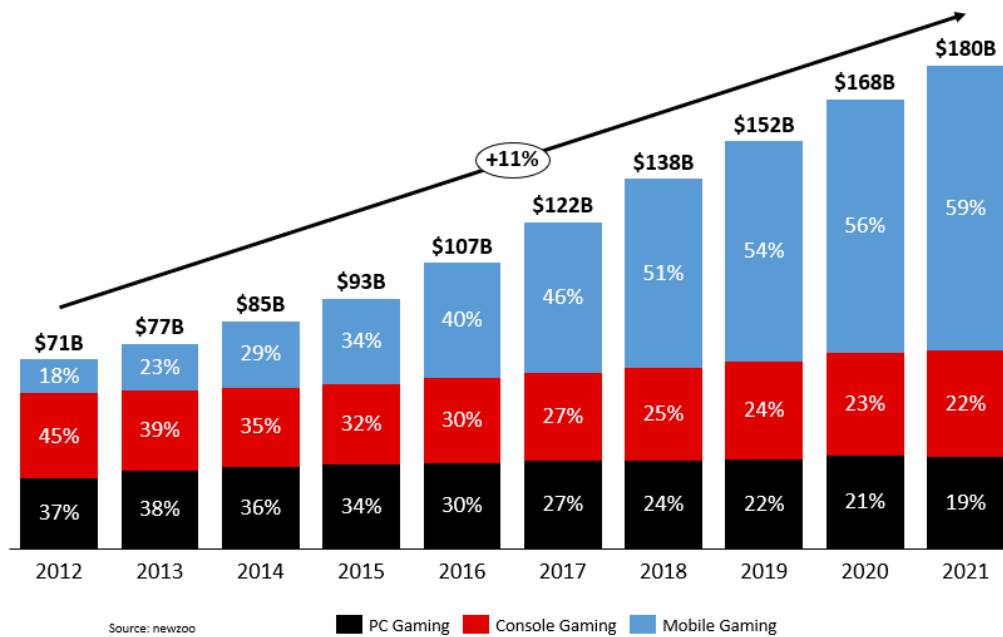


Figure 12 – Evolution of sales in the gaming industry (Newzoo, 2020)

As mentioned in (Freire, 2020) different segmentation criteria can be combined in a Segmentation Matrix that provides a systematized view of all segments (Figure 13):

Criteria		Alternative Segmentation focused on “What” (Products/Business Segments)			
		Consoles	Videogames for Consoles	Videogames for mobiles	Videogames for PCs
Original Segmentation focused on “Who” and “Why” (Demographics and Behaviour)	Hardcore Gamers	X	X		X
	Traditionalists	X	X		
	Casual Gamers			X	
	Sentiment Gamers			X	X
	Social Gamers	X	X		

Figure 13 – Segmentation Matrix: interconnection between original and alternative customers segmentation

Assessing how much sustainable value is generated, globally, by each of the different segments (consoles, videogames for consoles, videogames for mobiles and videogames for PC) is important for the players in the videogames industry to better understand the industry and direct their focus.

In addition to that, and as discussed in later sections of this report, Nintendo has been signaling the intention to leverage on its Intellectual Property to explore opportunities in new segments such as the Theme Parks and Toys businesses. Virtual/Augmented Reality is also a potential sector of activity. For that reason, we included those segments also in this sustainable value creation assessment (Figure 14). Market research (MarketLine, 2016, 2019a, 2019b, 2020a, 2020b, 2020c) allowed us to estimate the average growths and overall ESG performance of these businesses. Net margins resulted from the Porter 5 forces analysis performed in section 3.2.5. The detailed expression used in the sustainable value computation is presented in section 5.3.4.

Sustainable Value Creation per Segment/Industry							
Parameter	Customer Segments in Videogames Industry				Other Segments		
	Consoles	Video-games for Consoles	Mobile Games	PC Games	Toys	Virtual Reality	Leisure /Theme Parks
SL (\$Bn)	11.8	53.4	82.0	33.4	109.4	12.4	134.7
G	1.4%	4.6%	26.8%	5.5%	5.1%	25.9%	10.0%
M	25.5%	23.7%	20.5%	24.6%	3.9%	10.0%	13.0%
R	0.024	0.077	0.398	0.091	0.085	0.386	0.162
t	5	5	5	5	5	5	5
SU	0.40	0.90	0.90	0.90	0.40	0.65	0.65
Sustainable Value	54.01	185.8	124.4	105.7	25.8	6.6	113.0

Figure 14 – Sustainable value created in Nintendo-related segments globally

This simplified assessment suggests that videogames, mobile games and theme parks are the industries that generate more sustainable value globally. Nintendo has a strong financial position that could be used to further invest in these areas if Nintendo’s core competencies (current or future) fit their critical success factors. Such investment may include the acquisition of companies that add those core competencies to Nintendo that could otherwise take a long time to develop internally. While Nintendo is strongly focused on the Videogames sector, its presence in the mobile games has been very discrete so far. On the Theme parks, Nintendo is opening its only first park in 2021.

3.2.2 Competitors

The gaming industry has grown by leaps in the last decades, fostered by technological advancements. Since the era of Arcades and Atari, the creation of Snake for Nokia phones, the industry has permanently evolved. The market and industry are complex, with different relations types of relations between companies, and commonly companies are both competitors and collaborators, depending on the type of business they are operating.

When analyzing the market we must consider it through a hardware perspective and a content/software perspective.

Considering a **hardware** perspective, Nintendo is traditionally competing mostly with Sony’s Playstation and Microsoft’s Xbox. This console market has considerable entry barriers (for example, to launch a console, you must have developers available to develop content for the system, customer base/communities are also relevant, since it’s easier to convince customers if they have a community playing games, namely in online). However, by having focused on less “hard-core” gamers, they manage to address a different market being able to avoid fierce competition. PC as gaming hardware, for the same reason, is not addressing the same segment, which makes the competition residual.

On the other hand, **non-traditional platforms** (such as mobile phones), by addressing similar segments and being on the rise are becoming a closer substitute to the experience a customer will get in a Nintendo device. However, this is not a unidirectional relation and it would be misrepresented if considered competitors “only”.

Regarding **software**, Nintendo faces a diverse competitor’s context. In fact, Nintendo is a content creator and publisher using mostly its own platform to distribute its content, making it available also through other platforms, such as mobile – so in this case, mobile devices end up being potential collaborators rather than competitors.

But, in this publishing industry Nintendo face many other publishers which are in a way competitors (they compete for the same share of wallet as Nintendo), but at the same time, they operate as collaborators, since they are publishing their content in Nintendo’s platforms. Note that this is of uttermost importance for Nintendo, since the content is relevant to keep the console offer relevant – if it was exclusively selling Nintendo games it would be very limited, becoming less relevant for customers.

In a different layer, as pure competitors, it should be highlighted that publishers who are exclusively publishing for alternative platforms (since those are not, by any means, providing revenue to Nintendo neither making its offer more relevant). In this business, **Sony Interactive Entertainment** and **Microsoft** also compete with Nintendo – there are exclusive titles, which can steer market share for one vs another console maker. In Figure 15 we covered the most relevant players industries, offering an overview on their dimension and segments in which they operate.





	Gaming Revenue	Founded (holding)	Segments	Place (on/off)	Competitor				Comments
					HW/ Consoles	Games console	Games Mobile	Games/PC	
	\$12B	1889	3	Online & Offline	✓	✓	✓	✗	Competing in hW/consoles. Strong exclusive games policy, not collaborating with Others consoles/HW vendors (exception for Mobile).
	\$20B	1946	3	Online & Offline	✓	✓	✓	✓	Competing both in games and consoles.
	\$11B	1975	4	Online & Offline	✓	✓	✓	✓	Competing both in games and consoles.
	\$5,5B	1982	3	Online & Offline	✗	✓	✓	✓	Although competing in games, they are available in Nintendo (collaborator in some extent)
	\$6,5B	1991	2	Online & Offline	✗	✓	✗	✓	Although competing in games, they are available in Nintendo (collaborator in some extent)
	\$18B	1998	3	Online	✗	✓	✓	✓	Competing in games, but they have an alliance partnership (further explored)
	\$1,3B	2007	1	Online	✗	✗	✗	✓	Competitors (not making content for Nintendo)
	€0,3 B	2003	1	Online	✗	✗	✗	✓	Competitors (not making content for Nintendo)
	NA	NA	2	Online & Offline	✓	✗	✗	✓	Nintendo is publishing content in the stores.

Figure 15 – Most relevant gaming players

To understand the relation between the players, we've built two different strategic groups map. On the first map we illustrate the relation between the number of segments they are acting with their dimension (as a proxy we used revenue). Under this analysis we understood that Nintendo is below Microsoft and Sony in the number of segments but is one of the biggest players in the industry (by revenue). We also understood that companies like Rovio and Zynga are considerably smaller, focusing in one segment.

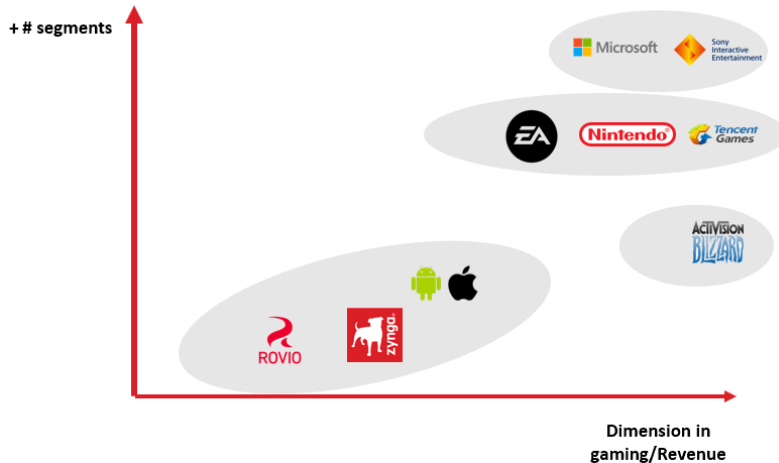


Figure 16 – Strategic groups map: number of segments vs. dimension/revenue in gaming

However, the previous strategic group analysis fail to offer an overview on wich player are more exposed to the segment which we found to be offering the growest rates, which is the mobile. To plot this conjunction, we assessed who are the companies which are more exposed to mobile (higher stake of revenue coming from mobile, or better prepared). With this alternative strategic group construction, we found Sony and Microsoft with a better position than Nintendo, but we also found companies like Zynga and Rovio (digital only), in a completely different zone vs Nintendo..

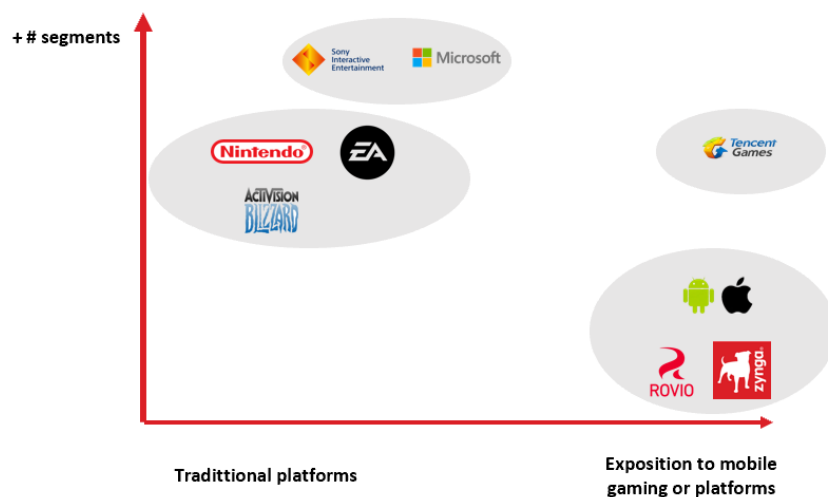


Figure 17 – Strategic groups map: number of segments vs. level of exposition to mobile gaming

Additionally, we are starting to see initiatives that will foster alternative **business models**, which will further disrupt the market, enhancing some competitors while dwarfing others. Although still in an early

stage, there are some “streaming” services that allow gamers to play games regardless of the device (benefiting from technological developments such as edge computing, 5G, ...). Among those services, worth to highlight Google Stadia, Apple Arcade, xCloud and Playstation Now. Strategic development on Nintendo, will enhance further competition or alternatively further cooperation regarding these new services. Companies better positioned in the mobile, will most probably be in a better position to navigate in this changing competitive environment.

3.2.3 Suppliers

In this industry, suppliers handle all the manufacturing of the gaming consoles and some of the big ones are Foxconn and Flextronics. The console brands provide the manufacturer with the design plan of the console and then manufacturers get them done according to the brand’s design. They also outsource for any hardware and software for the production of the consoles. The suppliers in this industry are relatively large. For instance, Foxconn has been a manufacturer for Sony, Microsoft, and Nintendo as well as Apple.

The suppliers are also very concentrated to ensure consistency with the manufacturing of the gaming console. This fact allows to foster relationship between the suppliers and the companies; however, having concentrated suppliers could potentially decrease future profits. This industry tries to maintain good relationships with fewer suppliers they need to have consistency in the production of the consoles. As mentioned before, the demand of these systems is huge which puts a lot of pressure on both the manufacturers and the big three.

The suppliers depend on the design offered by the big gaming companies like Sony, Microsoft and Nintendo. The suppliers then manufacture the gaming console and at the same time may provide feedback to be more efficient and cost effective. More about strategic alliances with suppliers will be mentioned in chapter about Corporate Development.

3.2.4 Industry

3.2.4.1 Life cycle

When discussing the game industry life cycle in general, it is very easy to predict that the latter is at the late stage of its growth and early stage of maturity the industry has been functioning for quite a long period. It can also be identified as a concentrated industry as we know that the market is mostly driven by three major competitors- Nintendo, Sony and Microsoft. We have also seen how this or that competitor, during different periods have tried either to participate in this concentration e.g. Sony entering the game industry in 1994 (when the industry didn’t even consider them a legitimate rival as compared to Nintendo and Atari) introducing PlayStation processing games stored on CD-ROMs and introducing 3D graphics to the industry or have tried to foster its fragmentation like Microsoft did by entering the game industry by introducing a new type of console Xbox and taking its place in this highly concentrated market.

However, having said the above, we should also note that due to the specifics of the industry that is related to technology and innovation, very often a certain industry at maturity or decline stage may be redefined by an emerging business or product that would give the industry “a second life”. This, of course, requires advanced innovations, new commercial practices etc. This is what happened to gaming industry when Nintendo entered the video game market in 1983, it managed to reinvent the industry that was almost at its decline stage.

In the below graph, we also demonstrate how Nintendo’s Wii re-invented videogaming, making it more social, more intuitive and surprisingly physically engaging. And in fact, the Wii was revolutionary, and it made videogaming widely enjoyed. Numbers on the growth could also prove this.

Video Game Industry Life Cycle (before Wii) Video Game Industry Life Cycle (after Wii)

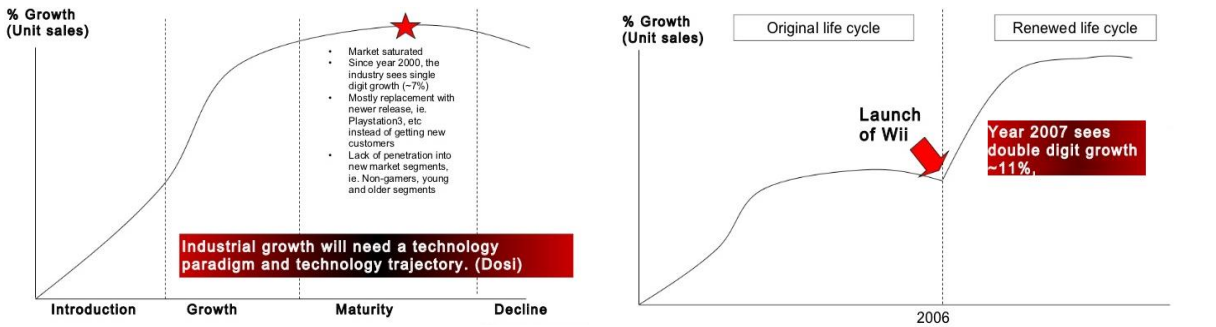


Figure 18 – Videogames Industry Life Cycle before and after Nintendo Wii (Ewalt, 2006)

It is another story when we review the life cycle of the game industry products.

Console Life cycle

For the purpose of this comparison, we will review the consoles created in 2000ies and early 2010s by major game developers: Nintendo, Sony and Microsoft.

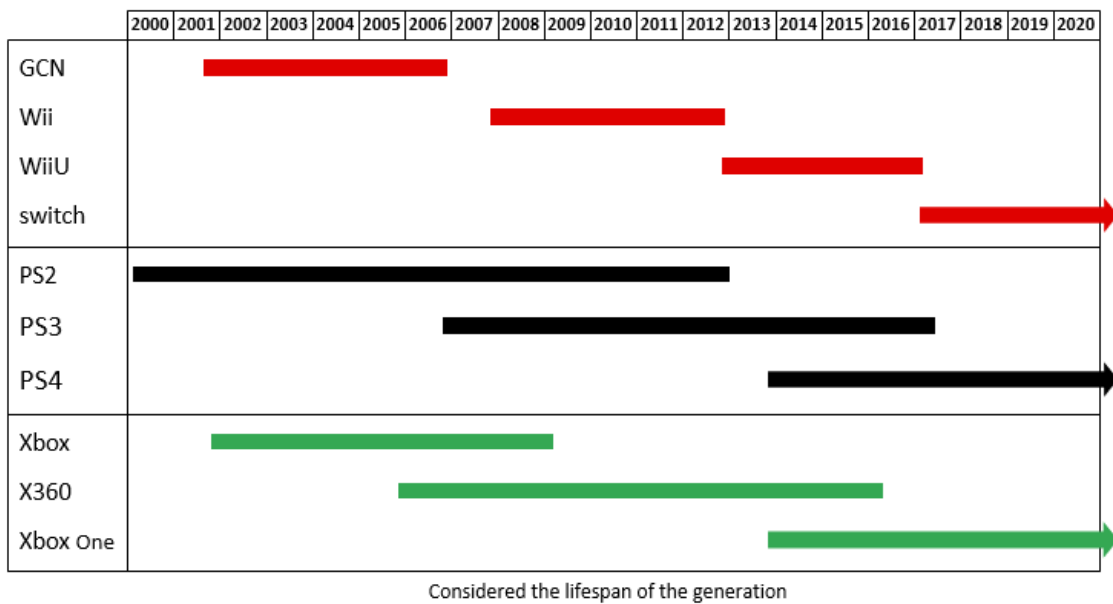


Figure 19 – Consoles Life Cycle

According to the data above, the average number of days in a console life cycle is different when comparing Nintendo with Xbox and Playstation. Nintendo has significantly shorter life cycles on their flagship consoles. Xbox and Playstation, as they are more competitive and targeting same audiences, had aligned their renewal of flagship console, in order to avoid losing customer to competitor. In order to leverage sales, during the life cycle, both companies launch enhancement for their systems (PS 4 pro, PS 3 slim, Xbox one S all-digital, ...) – such product life cycle management is not followed by Nintendo. Nintendo does not align the launches.

Mobile Games Life Cycle

It's said that normally a mobile game lives about 3 months. But this is not entirely true because majority of users drop the application within three days. It is because the mobile game market is rapidly growing at a very high pace. There are more and more games daily produced on the App Store. The competition is insane. Constant updates are needed to retain the users and keep them using the app. So how do mobile games like Angry Birds "live" for so long? There are two reasons for this: extending players' in-game experience and adding a real-life value.

Monetizr, an intelligent reward platform for game developers, offers something refreshingly new - a system of rewards for players' achievements, skills, and the time they spend in the game. Their game reward engine gives developers a way to reward their most loyal fans for their time and skill because as they play they earn and the longer they play, the more they earn. And at the end what makes the difference is the appreciation of the time spent on the game and the real-life value.

PC Games Life Cycle

Gaming PCs have significantly increased in dependability and they have generally simplified the game experience. But the question with any piece of technology is "How long will my tech last before I need to upgrade?" So we look at PCs longevity from two sides: quality and performance.

PC likely lasts anywhere from 7-10 years from a longevity standpoint and 4-5 years from a gaming standpoint. So, gamers have to upgrade their graphics card after about 5 years of initial purchase. The CPU and other components are less important in games compared to the graphics card.

3.2.4.2 Industry Value Chain

The model for the games industry was traditionally fairly simplistic - the console manufacturers were the main players who produced the games and provided the accessories. The market has been evolving significantly for the last two decades and still continues to do so due to very rapid technological advancements.

The traditional Game Industry Value Chain is made up of six connected but distinctive layers (*Figure 20*):

- Investment layer (Capital)
- Design and Creative layer (Developer)
- Production and Publisher layer (Publisher)
- Distribution layer (Distributor)
- Hardware and Software layer (Retailer)
- End user layer (Consumer)

Every step adds value to the final product. Hardware manufacturers are the ones who produce hardware components and devices that process video games, amongst them the top companies are Nintendo, Sony and Microsoft.

Developers are of course key players in this value chain analysis. They develop software for the video games for specific devices as indicated above. However, software developers may not always work in video game publisher companies. They may have their own software developer company that might sell software licenses or develop software for video game publishers.

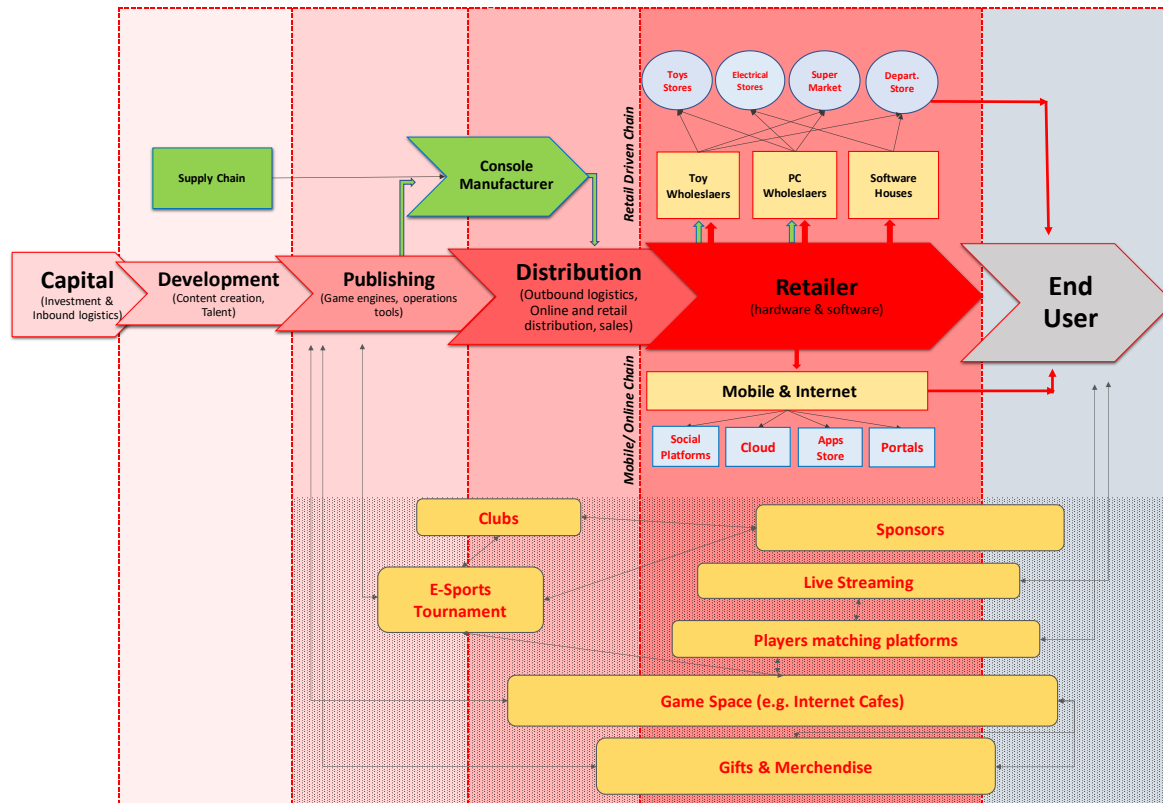


Figure 20 - Industry Value Chain

Video game publishers (Publishers) are software marketing companies that pay commissions (licensing fees) for rights to publish video games or contract and sub-hire developers to produce video games for them. So, they market the game titles and distribute them to retailers. Publishers are normally responsible for the product manufacturing, distribution and marketing. Distributors play an intermediary role between publishers and retailers. Most publishing companies own their special distribution channels through which they move their products to retailers. Retailers sell video games to end consumers.

As seen, the value chain is a concept of critical analysis where we see the important role of players in the video games industry. Also, all these participants are key players in the industry, adding value and turning the software into a successful video game.

The issue of funding and investment is a critical aspect in the traditional value chain is the video games funding and investment. Production of video games for console and PC has high initial development costs, which are generally assumed by publishers. When there is vertical integration, the publisher and developer are part of the same company and hence the company finances all processes. When there is no vertical integration, publishers finance the development of the game and obtain commercialization rights and a high percentage of sales.

3.2.4.3 Key success factors

Gaming, be it via a mobile phone or a video device, centers around end-user experience. Although the market is steadily growing, the competition is also becoming very fierce.

While exploring where and how critical success factors can be identified and applied, we take into account key purchasing factors i.e. the factors that create value for the customer, and competition factors, the

factors that differentiate them to be successful. For this purpose, we compare the 4 segments of game market defined in previous sections: Consoles, Videogames for Consoles, Videogames for Mobile and Videogames for PC. The assessment is summarized in *Figure 21*.



	Key purchasing factors (Value to customers)	Competition factors (Competition Variables)	Key Success Factors
Console/ Hardware	Console Price/Bundle with Games Portfolio of games (quantity and quality) Experience Quality graphics and audio Developer's brand awareness Backward compatibility Critical Mass/Installed customer base Presence in the distribution channels Online game feature	Price/Bundles with Games Performance/ Graphics System accessibility to other game developers Technology Innovation Exclusive games Modularity Reusability Warranty & Repairs	Price Portfolio of games (exclusivity, quality and quantity) Online game feature Technology Innovation
Games (Console)	Price Engaging theme/content Developer's reputation/brand awareness Timing Distribution Channels/convenience Replay value	Price/bundling with consoles Marketing Distribution Channels convenience and/or exclusivity Multi-platforms compatibility	Price Engaging theme/content Distribution channels convenience Replayability
Games (mobile)	(No) Upfront Cost/Price Accessibility Engaging theme/content Multi-player option Easy to carry	Budget/cost Support factors Marketing for traction/scale Monetization scheme	Monetization scheme Engaging theme/content Targeted marketing Replayability Timing
Games (PC)	Price Engaging theme/ content Quality graphics and audio Developer's brand awareness Online game feature	Price Online game features Technology Innovation (Graphics, sound, VR) Marketing	Price Engaging theme/ content Replayability Technology Innovation

Figure 21 – Key success factors in the videogames industry

Price

Pricing a game is usually hard because it mostly sets things in stone. Once the game releases, there will be very few occasions to change its price, and every time it is done, it will have an impact. If the competition wasn't a problem some decades back, nowadays there are more and more games every year. Competition becomes a real problem for game developers. So, a gaming company cannot set a price to a game and expect that nobody will look at other games of the same genre and their pricing. For people who follow a tight budget, it is a good reason to choose which game to buy.

In general, companies with good pricing strategies become more successful than those that treat pricing as an afterthought.

The games that have the most flexible pricing strategies are usually designed with pricing strategies well examined. Price drives design decisions now but a more sophisticated approach can influence design decisions that can make the pricing of a game more flexible or less flexible.

Replayability

What glues gamers to playing the same video game again? It is actually the "replay value" or "replayability" i.e. its potential for continuous play value even after completion of the game. There are main factors that can have an impact on replay value such as the game's extra characters, secrets or alternate endings. This ultimately provides immersive and engaging experience. Replay value doesn't come from the user, it comes from the design of the game itself so it is very important to consider this as key in developing games as with high replay value you can keep people hooked.

The replayability is also an important issue with multiplayer games. For some players, the games are only considered good when they can play with their friends. When their friends stop playing this game because they get bored, they'll probably stop too. That's the reason why building communities as game developers is very important. You want to ensure that your players don't feel lonely and quit the game!

Engaging theme/ Content

Having a theme that is substantially different from other themes currently on the market is already something that will appeal to game lovers. People are amazed by novelty and a game that goes for an original or unusual theme will definitely have a higher chance of being engaging than going with the same old.

Technology Innovation

Creative industries thrive on disruptive technology. Gaming, irrespective of its type, is all around end-user experience. If the quality of game development becomes static, outdated technology will continue. New releases wouldn't feature something different and exciting from prior versions, which results in the users' interest fading out as they move on to try other products. Due to the rapid involvement of new technologies, the video game industry should develop more and more innovative products to win in the race to success.

3.2.5 Porter 5 forces analysis

To better understand the competitive dimension of the industry, the Porter 5 Forces Analysis was performed for the 4 focused segments (Hardware/Consoles; Videogames for consoles; Videogames for Mobile; Videogames for PCs). Below we present a table with a high level assessment (*Figure 22*):

	Consoles	Videogames for Console	Videogames for Mobile	Videogames for PCs
Threat of new entrants	<ul style="list-style-type: none"> High switching costs for customers Protected by IP and high level of investment in R&D required New entrants would face games range issues. High distribution costs 	<ul style="list-style-type: none"> Barriers to enter limited Cost for development relatively high Scarce pool of talent to develop games limits new entrants 	<ul style="list-style-type: none"> Highly fragmented market with “inexistent” costs to entry Brand Loyalty is limited. Irrelevant switching costs 	<ul style="list-style-type: none"> Low barriers to enter. Development costs (and length) relatively long Market places (like Steam) make it easier to assess customers.
Bargaining power of suppliers	<ul style="list-style-type: none"> Costs in changing suppliers relatively high Quality issues risk can jeopardize manufacturer reputation 	<ul style="list-style-type: none"> Differentiated: large studios and publishers can strike exclusive deals/Exclusive Content. Indies with low bargaining power 	<ul style="list-style-type: none"> Vertical integration threat from entertainment groups (subscription business models) Suppliers can easily relocate resources. 	<ul style="list-style-type: none"> Relatively low for the production process For the creative content, relatively high, but diminishing (large portfolios available)
Bargaining power of customer	<ul style="list-style-type: none"> Not a wide range of solutions All alternatives are big “brands” with high customer awareness 	<ul style="list-style-type: none"> Abundance of buyers, but abundance of content available But, as a general, significant switching cost (dependence on console) 	<ul style="list-style-type: none"> Low-cost games with short life cycle Easy to switch from providers 	<ul style="list-style-type: none"> Abundance of buyers, but abundance of content available Brand loyalty low Dependence on critical reviews
Threat of substitute products	<ul style="list-style-type: none"> Mobile smartphones and tablets present an alternative for gaming. Device agnostic solutions (edge computing) Streaming platforms & subscriptions (OTT solutions) TV streaming services (Netflix, Hulu) 	<ul style="list-style-type: none"> Mobile games (apps stores) Streaming platforms and subscriptions (OTT solutions) TV streaming services (Netflix, Hulu, Amazon) 	<ul style="list-style-type: none"> Alternative forms of entertainment on smartphones: video streaming; Social network 	<ul style="list-style-type: none"> Mobile games (apps stores) Streaming platforms and subscriptions (OTT solutions) TV streaming services (Netflix, Hulu, Amazon)
Industry rivalry	<ul style="list-style-type: none"> Only 3 players with equivalent size and power 	<ul style="list-style-type: none"> High competition, with high repeated purchase for customers. Large players, able to steer shares + wide variety of small developers for different platforms 	<ul style="list-style-type: none"> Mobile applications market is overcrowded and fragmented by many players “low cost” and alternative business models, press margins 	<ul style="list-style-type: none"> High competition, with high repeated purchase for customers. Large players, able to steer shares + wide variety of small developers for different platforms

Low
 Medium
 High

Figure 22 – Porter 5 forces analysis - Summary

In a deeper analysis, we performed the 5 forces estimation in order to have a clear understanding of the industry segments (Figure 23):

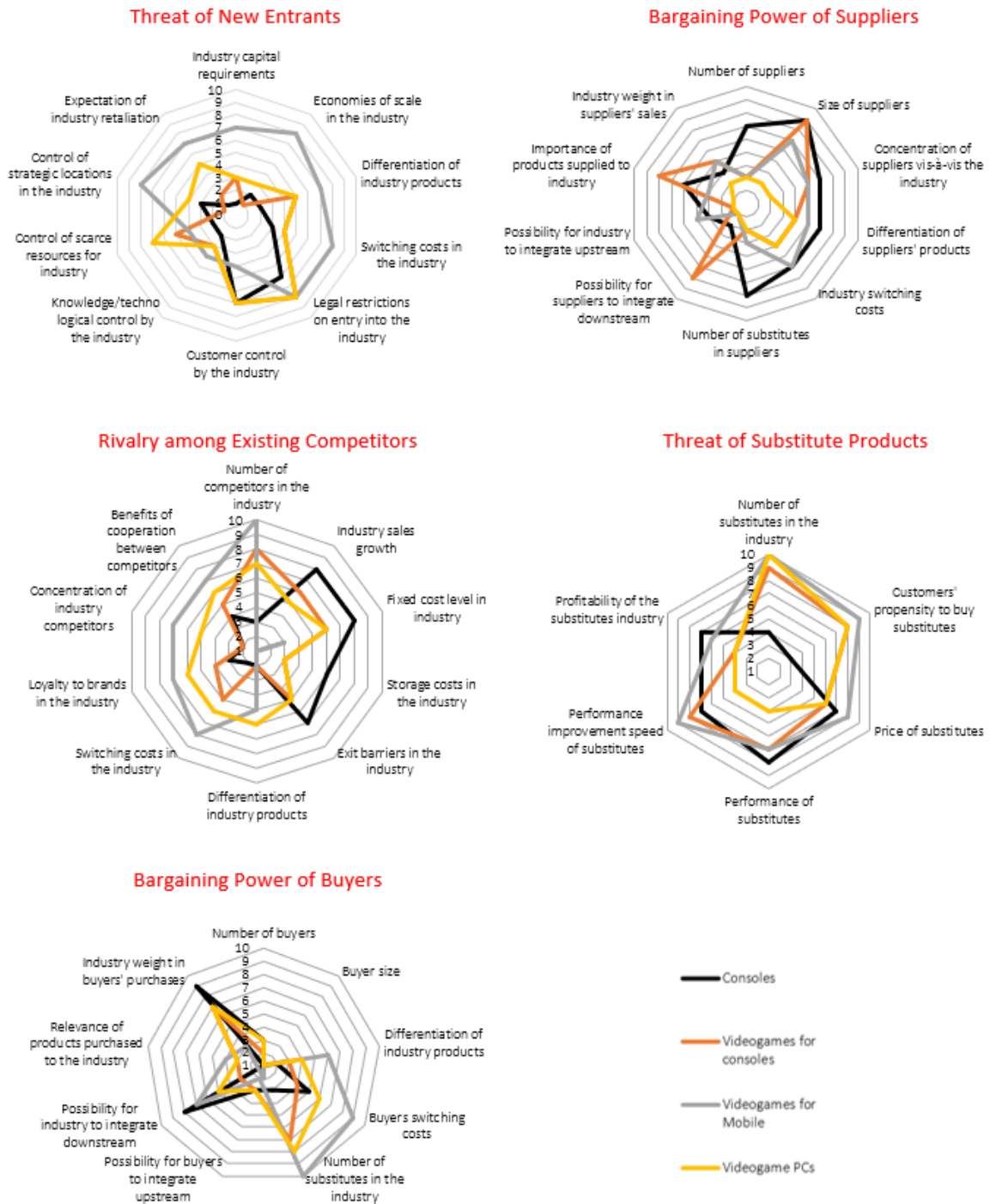


Figure 23 – Porter 5 forces analysis - Detail

With the assessment there are some specificities which we would like to highlight:

Threat of new entrants: Consoles have a very low threat of new entrants, especially due to the high-level investments required and the economies of scale. PCs and console games, despite easier than consoles,

also offer challenges, namely on the knowledge/talent required. On the other hand, video games for mobile are quite exposed to new entrants.

Bargaining power of suppliers: This is especially relevant for the consoles, which relies mostly in “fabless” models. Due to low dependence on suppliers, mobile is less exposed to this force. Again, we found videogames for PC and Consoles in the middle.

Rivalry among existing competitors: For different reasons, we found a balanced level of rivalry between different segments. On one hand, the reduced number of companies selling consoles (Sony, Microsoft and Nintendo), reduce the rivalry in the segment. On the other hand, the high growth of Mobile segment is pulling out some pressure from the competition. Again, video games for consoles and PCs have a similar exposure to competitive rivalry.

Threat of substitute products: Videogames for all platforms are significantly exposed to substitute products (from alternative entertainment offers, to different business models which promise to bring entertainment in different formats). By our assessment, consoles seem to be less exposed although there are some promising technologies (edge computing, cloud gaming), which offers outstanding performances, consoles customer bases are still loyal.

Bargaining power of Buyers (customers): Relatively high for videogames for mobile followed by PCs, but not very significative on the console gaming and consoles. Once a customer buys a console, he is locked in to buy the games for that platform. He still has some relevant power on choosing which game (within the portfolio), but he has a limitation on the platform. On the consoles, when upgrading/buying a new one, the previous model also plays a role (he will be more susceptible to buy a new console, which is compatible with his legacy games).

On average (Figure 24), we can confirm that by different reasons, the exposition of different segments to the 5 forces are close, but we found videogames for mobile as being more affected than the other segments. On the other hand, we found consoles less exposed (due to the high entrance costs, loyalty etc.).

When assessing the margin under the 5 forces analysis, we see the impact of the 5 forces on the lower margin in the mobile segment. Despite the suggested higher margin potential on the consoles, we realise that consoles vendors tend to sell consoles cheaper than what they could, in order to promote the maximum market penetration.

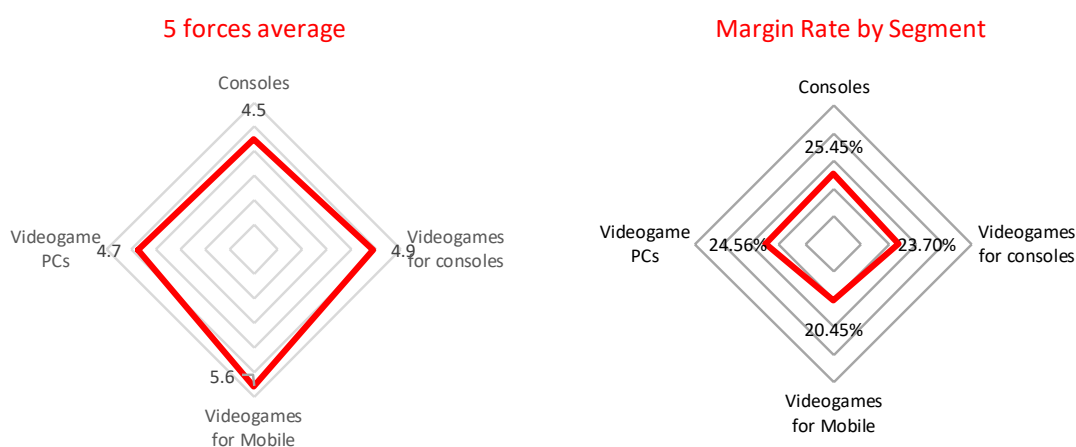


Figure 24 – Porter 5 forces analysis – Average score and Margin by Segment

4 Organizational Analysis

4.1 Resources

If two competitors in the same industry show structural differences in results, that usually results from different management skills when utilizing the company resources (Freire, 2020). There are four main categories of resources that companies use in their activities: financial resources, human resources, organizational resources and physical resources. In the following sections we briefly discuss Nintendo's resources categories.

4.1.1 Financial Resources

Nintendo has a very strong financial position. Its revenues, net income and net margin have increased significantly over the last 5 years and achieved, in 2020, the highest values in the last 10 years (Figure 25). The net income of \$2.4Bn achieved in the fiscal year of 2020 is even more impressive if we recall that the company was having negative net income in 2012 and 2014 fiscal years.

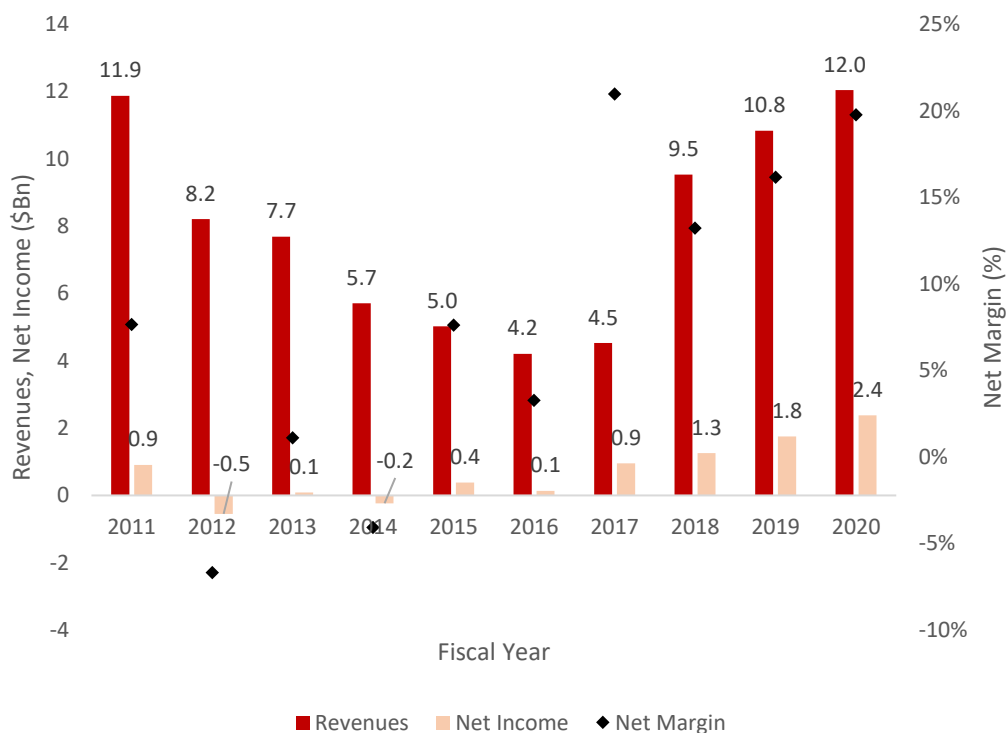


Figure 25 – Nintendo's Revenues, Net Income and Net Margin (source: Bloomberg)

The main reason for this improvement is the success of Nintendo Switch, launched in 2017. The years before the launch of Switch were seeing a decline in sales of previous consoles (Nintendo 3DS and Wii U) and associated games.

Until 2016, Nintendo reported its revenues by type of product: software for mobile consoles, software for stationary consoles, mobile consoles and stationary consoles. Following a restructuring that merged the mobile and the stationary console business units, from 2017 onwards the results started to be presented per platform. In any case, it is clear that historically there has been a balanced split in revenues between software and hardware and that from 2017 onwards most of the revenues (more than 95%) are associated with Nintendo Switch platform and corresponding videogames (Figure 26).

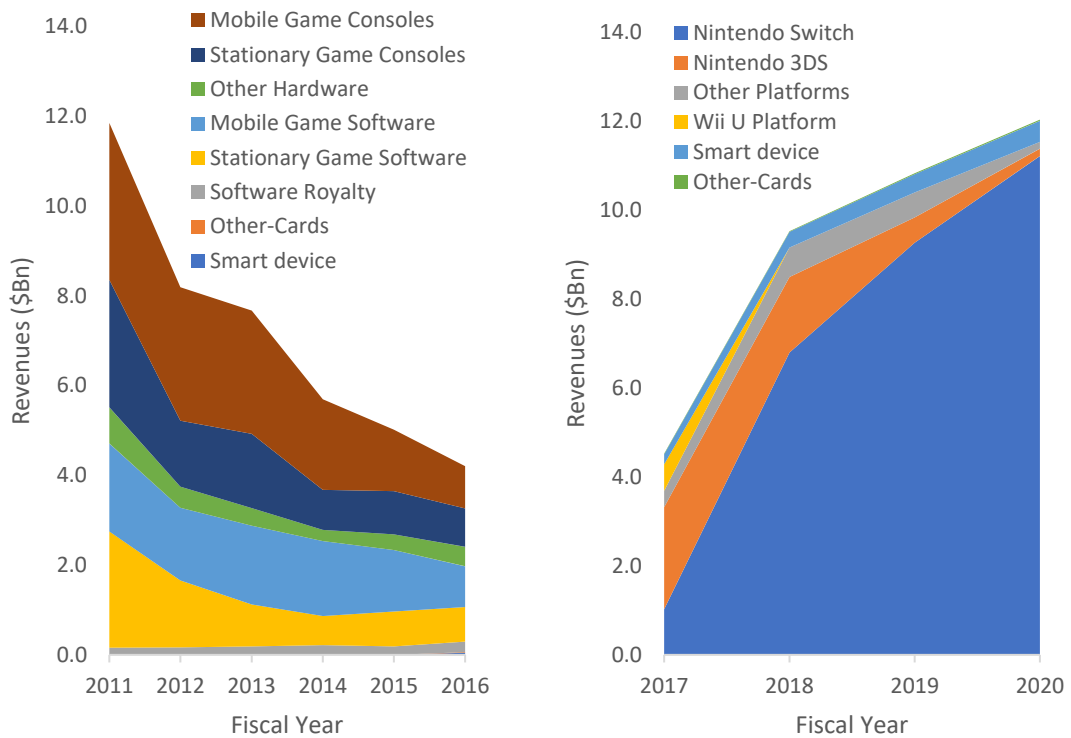


Figure 26 – Nintendo’s Revenues by Product/Platform (source: Bloomberg)

Cash generation has improved with the increase in results (Figure 27), from negative cash flows in 2012-2014 to cash flow from operations and free cash flow above \$3.0bn in 2020:

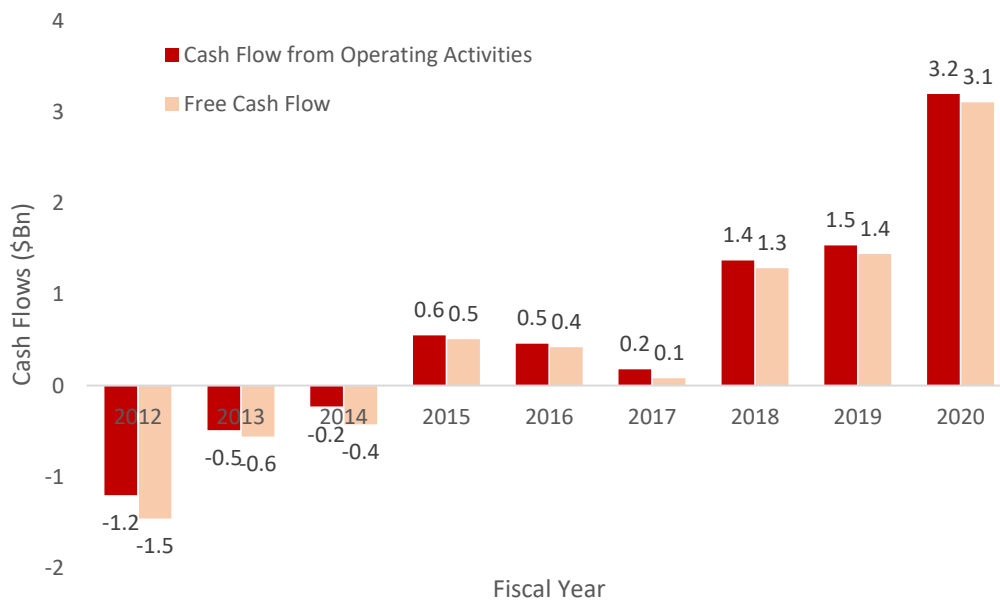


Figure 27 – Nintendo’s Cash Flows (source: Bloomberg)

Investors are aware of Company’s good performance and this reflected in an increase of almost 5 fold in its market capitalization over the last 7 years (Figure 28).

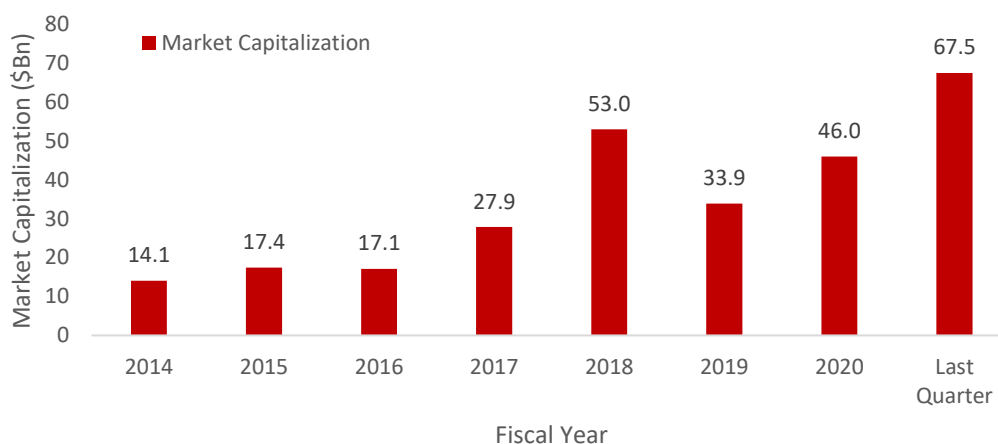


Figure 28 – Nintendo’s Market Capitalization (source: Bloomberg)

The company’s Balance sheet is also very robust, with most of the assets financed through equity (very low debt). At the end of 2020 fiscal year, the company had very high liquidity, with \$11.3Bn of cash and equivalents (cash, deposits and marketable securities) which represented c.81% of current assets and c.63% of total assets (Figure 29).

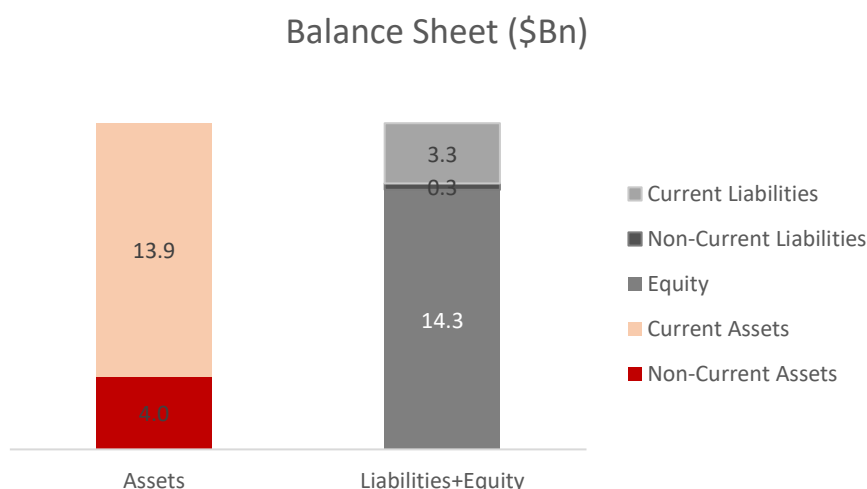


Figure 29 – Nintendo’s Balance Sheet at end of Fiscal Year of 2020 (source: Bloomberg)

Despite the financial robustness being a positive aspect, this excess cash also suggests the company is not being able to reinvest its results. For example, at a time when many technology companies are investing in cloud infrastructures to support their growing digitalization, Nintendo shows no significant investments in PP&E.

4.1.2 Physical Resources

Most of Nintendo’s Physical Resources refer to the company’s offices in the different geographies they are present in. No significant investments have been made on Physical Resources in the last 10 years (Figure 30). Concerning data centers and similar structures the company’s strategy so far is to outsource such infrastructure to Amazon’s AWS (Amazon, 2017).

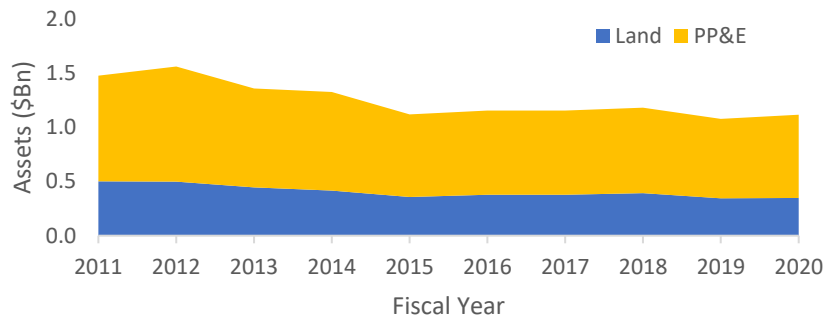


Figure 30 – Evolution of Nintendo’s PP&E and Land assets through time (source: Bloomberg)

4.1.3 Human Resources

As of March 31, 2020, Nintendo group counts with 6,200 employees. This number means the number of persons employed, excluding persons seconded from the Company group to outside the Company group, but including persons to the Company Group from outside the Company group. Also includes part-time workers hired on a regular basis.

As for Nintendo Corporation Ltd. considering the same time frame, count with 2,395 employees, with an average age of 39.2 years, an average length of service for the company of 13.9 years and an average annual salary of 9,350,972 yen, corresponding to USD 86,583.

4.1.4 Organizational Resources

Organizational Resources includes several dimensions like brands, reputation, patents, rights and Intellectual Property. It is usually difficult to quantify the value of such dimensions. This said, there is no doubt that for Nintendo a very big part of its value comes from its organizational resources.

Nintendo’s Intellectual Property includes characters like Mario and Luigi, Donkey Kong, Pokémon, The Legend of Zelda and also some of the worlds and scenarios where have their adventures. Any third party willing to use such have to pay royalties to Nintendo. Moreover, the global awareness about such characters means that every entertainment product launched featuring them has a high probability of success and receptivity from the customers. Until recently, Nintendo was the only company using its Intellectual Property. But the current strategy of the company includes expanding the number of people that can contact these characters. Nintendo wants to achieve this objective by allowing its Intellectual Property to be used in Theme Parks and in videogames for non-Nintendo platforms (Figure 31), such as mobile devices (Olenick, 2019).

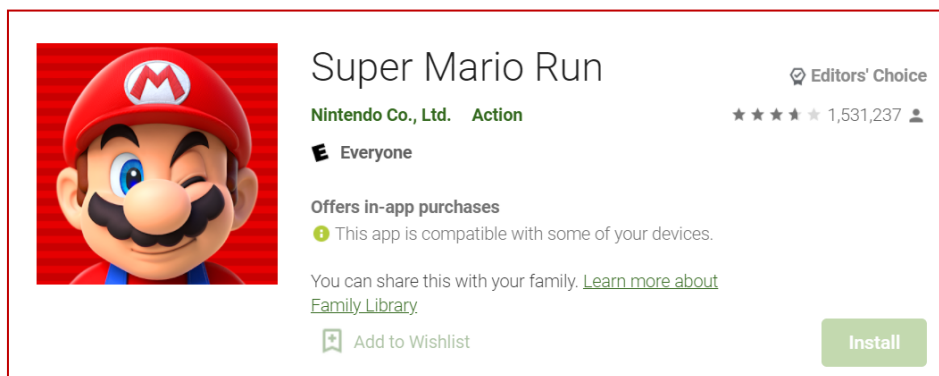


Figure 31 – Super Mario Run game for mobile (Android’s Operating System)

Nintendo's brand is considered one of the most valuable in the world, placed at the 76th global position of Interbrand's reputable Global Brand ranking (Interbrand, 2020), with an estimated value of c.\$7.3Bn (Figure 32).

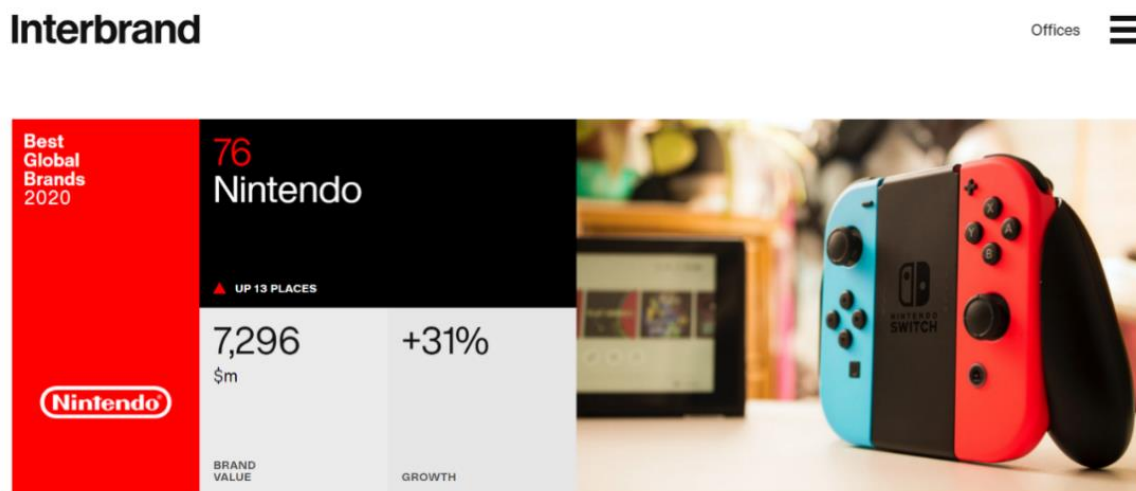


Figure 32 – Nintendo's Brand Reputation (Interbrand, 2020)

Looking into the Intangible Assets of the company at the end of 2020 fiscal year, we see it is below 1% of Total Assets. This is explained by the fact that most of the intellectual property was developed internally in the company, no significant technology breakthroughs were developed by Nintendo and no significant number of acquisitions were performed.

4.1.5 Economies of Scale, Experience and Scope

Another important concept is that companies competing in the same market may achieve different profitability depending on how well they explore eventual economies of scale, experience and scope.

In the case of Nintendo, the company's console Nintendo Switch has been selling more than PlayStation 4 and Xbox combined, which should have associated greater economies of scale (Srikant, 2019). That is one of the explanations for the company being able to place that console in the market at a much lower cost than the competitors. As a side note, a second (complementary) explanation for Nintendo Switch's lower costs is its lower technical specifications when compared with PS4 and Xbox.

The company also benefits strongly from its Economies of Experience. With a long history and legacy in the industry, Nintendo had many successes so far but had also already many failures, mistakes and inefficiencies. These experiences represent opportunities to improve the company's processes, ultimately leading to higher efficiency. The operational aspects of manufacturing of consoles are not easy to access. But at a macro level, for example, the company learned from experience that the games may be very successful without having the highest graphical standards. With that, the company was able to develop simpler and cheaper consoles but also cheaper and faster to develop videogames. These aspects may be considered important economies of experience.

This generates a virtuous circle, with cheaper consoles bringing more customers and more customers allowing more economies of scale.

Finally, on the economies of scope, the company conducted a recent internal restructuring precisely to better capture them. While in the past, the company had the mobile consoles and the stationary consoles

being handled by separate departments with no synergies, the company currently has one single hardware division being responsible for all devices, increasing the synergies and the economies of scope.

That decision also led to economies of scope (synergies) in the games development department because developers now create games already thinking about all commercially active hardware platforms, instead of making totally separate and independent developments for each platform.

4.2 Capabilities

The integration of the company resources results in the capabilities that the organization needs for the activities and the build-up of the culture (Freire, 2020). This development of capabilities relies on heterogeneity (different culture and management processes between competitors) and immobility (capabilities not imitable in time by the competitors). To be able to survive, companies need to develop dynamic capabilities and to conjugate the different company resources to reach distinctive capabilities, that can be measured indirectly (through means of awards obtained) or through business efficiency benchmarks (Freire, 2020).

The restructuring of the company's hardware division to focus on the development of the stationary and mobile consoles in the same division, and the same for the game division developing games for different platforms, led the company to an integration of resources resulting in the capability to develop an entertainment experience than can be pursued both in a 3rd party mobile platform as well as in a Nintendo platform. On the other hand, the integrated development of the console in a single department facilitates the integration of the technology of hardware stationary and mobile, resulting in the Nintendo Switch mixed unique console experience. This capability can be recognized from a hardware perspective considering the great sales success of Nintendo Switch in comparison to Playstation 4 and Xbox and the fact that is the only one that combines both mobile and stationary features. All this results from the human resources talent and creativity, to be able to envision the future while developing such solutions. Internal Nintendo employees, true legendary industry names such as Shigeru Miyamoto, Eiji Aonuma and Yoshio Sakamoto can influence younger generations of Nintendo collaborators, raising followers, motivated and inspired by the great knowledge and experience of such senior people.

All this can be further analyzed as dynamic capability resulted from previous research (Subramanian, Chai, & Mu, 2011), focusing in three commercial capabilities of Nintendo that help the company to reconfigure itself in an environment of constant change, such as the technological one. These commercial capabilities are dynamic marketing capabilities, collaborative capabilities and complementary capabilities. The dynamic marketing capabilities are the ability to gain unique insights into customer needs and apply innovative technologies, pursuing unique gaming experience instead of powerful processor and technological features for their consoles (Subramanian et al., 2011). The collaborative capabilities is based on the cooperation between Nintendo and component makers, peripheral makers and third-party developers, setting the way forward for online capability, connectivity and controller features, reducing Nintendo's costs and taking advantage of cutting edge technologies as seen in Nintendo Wii (Subramanian et al., 2011) but in Nintendo Switch as well. Ultimately, the complementary capabilities are based on the integration of hardware solutions based on the collaboration with game developers, finding the best and right controllers and ways to interact with games (Subramanian et al., 2011). While Microsoft and Sony augmented their differentiation in consoles looking for powerful capabilities and technological features for hard-gamers, Nintendo capabilities enabled to look for an open innovation path, with ideas emerging from distant technologies and effective integration of external knowledge with internal competencies, offering a unique gameplay experience to their players, and to a broader audience of gamers.

4.3 Core Competencies

The analysis of Nintendo strategy includes assessment of the core competencies of the company through the VRIO model framework. Below a diagram that briefly explains this framework.

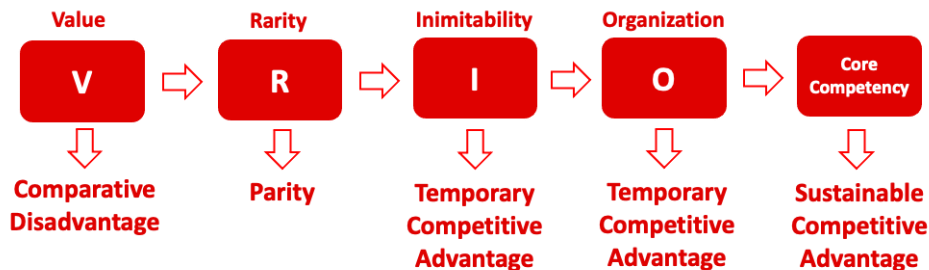


Figure 33 – VRIO model framework

Making use of the VRIO model framework for Nintendo we can identify 3 core competencies for the company.

Strong and unique characters/Intellectual property (e.g., Mario, Donkey Kong, Pokémon, The Legend of Zelda):

Nintendo gave birth to unique and strong characters in the different character series of Mario, The Legend of Zelda, Donkey Kong, Pokémon, Kirby and so on, as Disney gave birth to many of their characters. These characters are part of the different games and versions that were released, but also characters for comic shows, movies, toys, theme parks and merchandising.

Legacy in videogames industry:

Since the first Color-TV Game in 1977 and portable Game&Watch in 1980's *Ball*, Nintendo have been building a legacy of game consoles. Counting with Famicom in 1983 (rebranded as NES in 1985 for US market), Nintendo 64 in 1996, Nintendo GameCube in 2001 and Nintendo Wii in 2006, Nintendo has the biggest legacy among the videogame manufacturers. Interesting, November 2020 sees the launch of a reissue of the original Game Watch, now with color screen and USB-C charging features. An "oldie" brought back with 21st century technology! This legacy adds brand-awareness to Nintendo and creates a culture around them, with a critical mass of followers.

Entertainment experience for everyone:

With easy to setup consoles (Wii, Switch, etc.) and games designed and suitable for the whole family (from grandchildren to grandparents) or between friends, Nintendo entertainment systems provides a wider experience to occasional users/gamers in comparison to competitor systems shaped to more pro-gamers/advanced gamers. Includes interfaces based on movement and fitness that brings the experience to a more toy-like, joyful experience. Nintendo games can be played for short, occasional moments where the user wishes to raise a smile.

Resource	Value	Rarity	Inimitability	Organization	Core competency	Competitive Advantage
Online gaming features	No	No	No	No	No	Competitive Disadvantage
3 rd party game developers compatibility	No	No	No	No	No	Competitive Disadvantage
Capacity to deploy Nintendo games for mobile	Yes	No	No	No	No	Parity
Capacity to implement augmented reality technology	Yes	Yes	No	No	No	Temporary Competitive Advantage
Seamless integration between mobile and stationary TV consoles	Yes	Yes	No	No	No	Temporary Competitive Advantage
Creation of strong and unique characters (eg. SuperMario, Pokémon)	Yes	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Legacy in videogames industry	Yes	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Entertainment experience for everyone	Yes	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage

Figure 34 – VRIO model for Nintendo competencies

4.4 Strategic FIT

Assessing a company's strategic fit means understanding how the company's core competencies fit the critical success factors of the industry/segment where it operates. In the case of Nintendo, its core competencies were identified in the previous section. The critical success factors were also identified before for the following segments: consoles, videogames for consoles, videogames for mobile phones and videogames for PCs.

The strategic fit assessment confirms Nintendo's very good strategic fit with the consoles (hardware) and console videogames (software) industries (strategic fit of 4.5 out of 5).

Its exclusive characters enrich significantly company's game portfolio. The company's strong heritage and legacy provide it with strong brand awareness but also with extensive experience in pricing, distribution channels and technology innovation.

Finally, their permanent focus in providing entertainment experience for everyone translates in very engaging and high-quality games and in innovative technology that facilitates people to enjoy together.

Consoles (Hardware)	Critical Success Factors			
Core Competences	1. Pricing	2. Portfolio of games (exclusivity, quality and quantity)	3. Online Game Features	4. Technology Innovation
Strong and unique characters (Nintendo's intellectual property)	-	5	-	-
Experience, heritage and legacy in videogames industry	5	5	4	4
Entertainment experience for everyone	-	5	4	4
Strategic Fit (Average: 4.50)	5	5	4	4

Figure 35 – Strategic fit with consoles (hardware) industry

Console Videogames (Software)	Critical Success Factors			
Core Competences	1. Price	2. Game's engaging theme/content	3. Distribution channels convenience	4. Replayability
Strong and unique characters (Nintendo's intellectual property)	-	5	-	4
Experience, heritage and legacy in videogames industry	5	5	4	4
Entertainment experience for everyone	-	5	-	4
Strategic Fit (Average: 4.50)	5	5	4	4

Figure 36 – Strategic fit with consoles videogames (software) industry

On the mobile videogames market, the strategic fit is not so good, with company's core competencies not being of much use for the requirements of that industry (quick time to market, very intense targeted online marketing).

Mobile Videogames (Software)	Critical Success Factors				
Core Competences	1. Monetization scheme	2. Engaging theme/content	3. Targeted marketing	4. Replayability	5. Timing
Strong and unique characters (Nintendo's intellectual property)	-	5	-	4	-
Experience, heritage and legacy in videogames industry	5	5	3	4	3
Entertainment experience for everyone	-	5	-	4	-
Strategic Fit (Average: 4.00)	5	5	3	4	3

Figure 37 – Strategic fit with mobile's videogames (software) industry

Finally, on the videogames for PC, Nintendo has also a good strategic fit, despite not being the business the company targets the most:

PC Videogames (Software)	Critical Success Factors			
Core Competences	1. Pricing	2. Engaging theme/content	3. Technology Innovation	4. Replayability
Strong and unique characters (Nintendo's intellectual property)	-	5	-	4
Experience, heritage and legacy in videogames industry	5	5	4	4
Entertainment experience for everyone	-	5	4	4
Strategic Fit (Average: 4.50)	5	5	4	4

Figure 38 – Strategic fit with PC videogames (software) industry

4.5 Strategic Intent

The strategic intent is the dynamic view of the Strategic Fit, with constant update, reinforcement and creation of the core competencies needed to improve the performance in the Critical Success Factors (Freire, 2020).

Considering the fast evolution of the consoles and videogames industry, the continuous update of core competencies has been important for Nintendo through the years.

For example, in 1994, when Sony released the first edition of PlayStation, with high graphics and sound specifications, Nintendo tried to fight back with the release of Nintendo 64, but with little success (only c. 33 million units sold worldwide). In 2002 Sony launched PS2, even more powerful, and Nintendo counteracted with GameCube, which was also a flop. Clearly, Nintendo lacked the core competencies needed to battle in the field of High-Performance consoles with Sony and Microsoft. Nintendo had 2 options: to develop these core competencies and fight to increase its market share among the die-hard gamers or to develop its core competencies in providing entertainment experiences for everyone. The company opted for the second one, with huge success, launching Wii in 2006 and Nintendo Switch in 2017, both capturing the “blue ocean” market of non-gamers and occasional gamers (Olenick, 2019). Because the games targeting these customers were less demanding in terms of graphics and sound, both the console were cheaper, further improving Nintendo’s value proposition.

Another example of the strategic intent was the company’s decision of developing mobile games in reaction to the failure of Wii U, launched in 2012. The Wii U failed because tried to battle the emerging mobile games by fighting in the hardware technology field, this time with mobiles and tablets (Olenick, 2019). But Nintendo lacked expertise in the mobile/tablets technologies. In the aftermath of Wii U, the company decided to further develop its core competency of providing fun for everyone and started producing mobile games. It released Pokémon Go in July 2016 which was a tremendous success (more than \$2 billion revenue by 2018). In December of the same year, Nintendo released Super Mario Run, the first Mario game run on non-Nintendo computing hardware. Since then many other titles were launched by the company.

A third example of the company’s strategic intent is its decision to launch Nintendo Labo, in 2018. This product, which leverages on Switch’s controllers to build cardboard prototypes, represents an evolution on company’s core competency of providing fun for everyone, as it applies that competency to the Educational Toy’s industry (MacDonald, 2018). With this, they are targeting again new customers, non-gamers, children around 6 years old.



Figure 39 – Nintendo Labo

In summary, the strategic intent has been helping Nintendo to explore un-explored markets (the “Blue Ocean” strategy the company is proud to follow).

4.6 SWOT Analysis

Nintendo strategy was analysed in a SWOT Matrix perspective. The main purpose of a SWOT analysis is to identify the company's strengths and weaknesses – essentially based on internal resources, capabilities, and competencies, as well as to clarify the opportunities and threats around the business – based on external factors, industry trends and performance.

We tried afterwards, by deeper analysing the highlights of the SWOT, to bring some suggestions of initiatives and behaviours in which the company can take competitive differentiation:

1. To take advantages of the strengths that enhance exploitation of opportunities
2. To overcome weaknesses that limit exploitation of opportunities
3. To take advantages of the strengths that limit the impact of threats
4. To overcome weaknesses that enhance the impact of threats

	OPPORTUNITIES	THREATS
STRENGTHS	<ul style="list-style-type: none"> ▪ New games' acquisition models ▪ Ageing population ▪ Expansion of the digital business ▪ Geographical expansion 	<ul style="list-style-type: none"> ▪ Strong competitors ▪ Strong substitutes ▪ Growing trend of mobile gaming ▪ Piracy
WEAKNESSES	<ul style="list-style-type: none"> • Explore different pricing models: freemium, software as service, ... • Target different segments based on age, capitalizing exclusive IP • Cash availability to boost digital business presence and share • Replicate current partnership models to geographically expand the network 	<ul style="list-style-type: none"> • Invest in innovation as a way constantly exceed customer expectations • Strong acquisition to generate competitive advantages and boost mobile business • Common voice and partnership with other strong providers to reduce piracy activity
	<ul style="list-style-type: none"> • Diversification as part of the strategy – new businesses entrance to reduce dependency • New markets entrance mainly India (replicate China approach) • Digital business boost supported by online capabilities acquisition • Explore online segment for older people – the new users of technology 	<ul style="list-style-type: none"> • Diversify for other businesses to reduce potential impact from substitutes • Mitigate lack of online capabilities, through acquisition or partnerships. to be part of the mobile growing trend • Simplify property rights approach in some countries to avoid piracy • Joint actions against piracy

Figure 40 –Nintendo SWOT Traditional Analysis



Strengths:

Brand Reputation – Nintendo is a company with more than 130 years. Everyone knows Nintendo and the power of the brand is enormous. *Everyone* played a Nintendo console and Super Mario is everywhere. Nintendo is synonymous with gaming and has the experience to address the needs of different types of gamers by creating unique experiences and unforgettable moments.

Unique and Innovative products: Since the beginning of this journey, Nintendo was able to constantly innovate in their market approach and products available. From consoles to games and unique characters, the research and development team and the capacity they have to create in a Nintendo's factor of

differentiation. Nintendo switch is just the last example of the capacity they have to reinvent the market and create new commercial opportunities.

Exclusive Intellectual property – Potentiated by the internal research and development investment (and by building some strong partnerships delivering high sustainable value), Nintendo has some of the most famous and recognizable intellectual properties (IP) in gaming and in general. Nintendo keeps building momentum as it continues to use its intellectual property for increased monetization.

Distribution Network – In order to increase the presence in the main market they operate, Nintendo was able to create strong partnerships to easily penetrate on that countries. This global extensive distribution network reduces the business risk and enables Nintendo to increase sales and grow its global market share steadily.

High Liquidity position – The company presents a very healthy financial position. And growing... The current ratio of the company evolved to 5.5 in 2019 (versus 4.6 in 2018). This mean that business strategy is clearly delivering sustainable value and generating profits to the organization.



Weaknesses:

Overdependence on few titles: In term of games, there is an high dependence on few gaming titles – different from the main competitors. On another hand, currently, 85% of Nintendo’s annual revenue comes from Switch.

Presence in emerging markets: Brand did not establish themselves in some emerging countries or only very low impact and market share – mainly India and China – with more focus on developed countries and economies.

Use of Property rights in some regions: Nintendo experienced some limitations of enforcing intellectual property rights in some regions which led to growth of counterfeit products and so impact of brand revenues and profitability.

Online capabilities: As per the reduced presence on the online business, Nintendo is lacking some important capabilities in regards to the specificities and characteristics of the online segment. Locking at the growing trend of online, it should be something that Nintendo should consider in a strategic point of view.



Opportunities:

New games’ acquisition models: There is today new ways of consumptions which led to the need to simplify and adjust some procedures on the acquisition process. By the experience and catalogue they have available, Nintendo can eventually diversify its offering and explore new market trends – freemium, software as a service, ...

Ageing population: Increase the number of games published per year, by continuing launching new products – which could boost company topline – as well as expanding the demographics of Nintendo gaming consumers, mainly by focusing in an offer for the older population, aligning the strategy with the trend aging population.

Expansion of the digital business: Nintendo needs to consider the increasing popularity of mobile gaming. Nintendo can tap into this lucrative opportunity by offering mobile-friendly versions of its popular games and explore differently the company digital strategy and offer. R&D team can help and enhance diversification to related fields - paid on content and digital distribution of packaged software; Technological innovation set to improve gaming experience.

Geographical expansion: Nintendo has already an important market share and recognized positioning in the US, Europe, and Japan. There is an opportunity of expansion and so they can focus on expanding into China, India, and other emerging markets in Asia, Africa, and Latin America.



Threats:

Strong competitors: The competition is huge and from day to day, due to the expansion of gaming to more and different platform, the number of potential competitors is increasing. The pressure is high and everyone wants to get the big part of the cake.

Strong substitutes: There is an high threat of substitutes. The growing trend of mobile and online gaming can eventually impact Nintendo costumers' preferences. The lack of diversification for non-related businesses, increases the dependency of the company on the video game market, putting high pressure on research and development and innovation – requiring huge continuous investment and potentially reducing margins.

Growing trend of mobile business: The mobile gaming is currently in a fast-growing trend. This is clearly a threat for Nintendo and for the consoles' markets – also with a new way to explore and sell games differently.

Piracy: The company's products are subject to threat from piracy and unauthorized copying. Unauthorized copies could be illegally distributed or downloaded through the internet, causing significant damage to the entire video game development industry. Although legal protection exists to combat piracy, preventing and curbing infringement through enforcement of the company's intellectual property rights could be difficult, costly and time consuming.

Although it is important to recognize that there are some limitations in the traditional SWOT analysis, essentially based in two main factors: first, the traditional SWOT analysis does not provide any timeline perspective and so limiting the strategic vision around short, medium and long-term suggestions' focus. Second, the traditional analysis assumes the existence of environmental threats and, typically, approach those threats with the sense of minimizing the impact for the business, which is not strategically correct. Instead, this, it would be important to understand the environment and transform threats in opportunities that can be used for company's benefit, foreseeing the potential and position them in a timeline perspective.

To better understand how strengths and weakness should be considered in a business context and throughout the time, and to provide a timeline context and background to the initiatives, the new SWOT analysis will be performed as a conclusion of the report. The previously defined opportunities and threats will be rearranged and presented in a short to medium-term and medium to long-term perspective. Threats will be then considered as opportunities since every threat can be turned into an opportunity and sustained in the strengths and weaknesses identified.

4.7 Organizational Culture

The global consoles and videogames sector in which Nintendo operates is capital intensive in nature, with strong investment in technology, R&D and software development. In this context, companies that want to be successful should have an Entrepreneurial Organizational Culture.

Nintendo has some characteristics of an Entrepreneurial Organizational Culture such as valuing innovation, being open to change and having a strong strategic view.

This said, the company has also many traits of a Governor Organizational Culture like a very hierarchical culture, clear processes and a very centralized management. Some of these traits may be justified by the strong influence that the Japanese culture naturally has in the company (Gerhold, 2013).

Finally, cooperation with partners, such as retailers and suppliers, is also key for Nintendo and part of its culture. This is an example of Social Organizational Culture.

		Uncertainty of the Surrounding Environment	
		Unstable	Stable
Nature of the Sector	Capital Intensive	<p>Entrepreneurial Organizational Culture</p> <ul style="list-style-type: none"> - Values Innovation, Speed and Growth - People are Empowered and Risk Takers - Results driven, Internal Competition and Meritocracy - Continuous Change is key to guarantee strategic fit with sector - Leadership: Strong and Visionary/Strategic - Average centralization - LT view: reinforce competitiveness - Individualism may prevent cooperation - Communication: fast, formal+informal, vertical+horizontal 	<p>Governor Organizational Culture</p> <ul style="list-style-type: none"> - Values Consistency, Quality and Reliability - Clear processes - Hierarchical: well defined responsibility and accountability - Rigorous Planning - Gradual Changes to preserve stability - Very centralized - LT view: improve efficiency - Leadership: Technical and directive - Processes may limit innovation and risk taking - Communication: gradual, formal, vertical
	Labour Intensive	<p>Social Organizational Culture</p> <ul style="list-style-type: none"> - Values People Development and Synergies - Cooperation and team work internally and with partners - Change is accepted and quickly disseminated - Leadership: Shared and Inspiring - Driver: satisfaction of clients and employees - Excess humanism may affect capacity to manage people - Communication: spread organically, informal, vertical+horizontal 	<p>Operational Organizational Culture</p> <ul style="list-style-type: none"> - Values practical experience and adaptation to circumstances - Processes adopted with informality - People develop routine tasks with low level of involvement - Low competition but also low cooperation - Resistance to change. People averse to uncertainty and risk - Leadership: Delegates. Available to solve exceptional problems - ST Driver: accomplish tasks - High stability endangers efficiency and efficacy - Communication: gradual, formal+informal, horizontal

Nintendo's Organizational Culture traits are highlighted in red.

Figure 41 – Organizational Culture traits

When looking into the EGOS map, we can see that the company's positioning overlaps mostly the Entrepreneurial and Governor areas while slightly touching the Social and Operational areas:

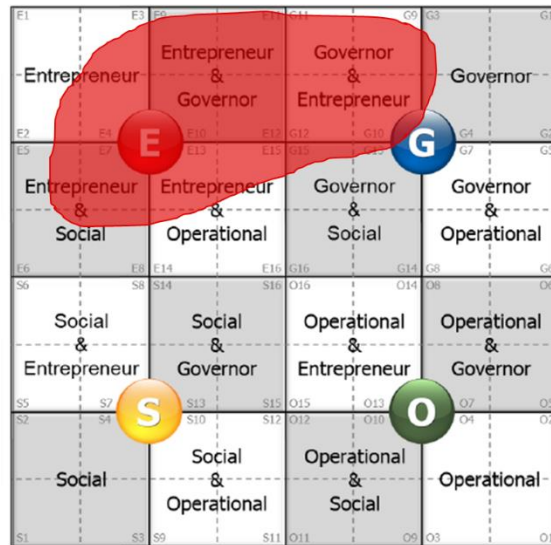


Figure 42 – Nintendo's Organizational Culture positioning in the EGOS map

5 Objectives and Strategy

5.1 Vision, Mission and Values

Nintendo's Vision Statement

A corporate vision statement basically gives a roadmap towards a future the company looks to achieve. Nintendo aims are synthesized in **"Putting Smiles on the Faces of Everyone Nintendo Touches"**.

In a way, Nintendo wants to change people's lives for the better.

Looking deeper into the sentence, there are two different blocks:

- **Putting smiles on the faces.** This first point, places Nintendo as a company that prioritizes the experiences of other people first, their customers mainly. In fact, the operations within Nintendo are organized in such a way that they respect personal satisfaction, which in turn makes individuals happy. This is one of the main forces behind Nintendo's continued success in the industry. It is also noticed that profit or return to shareholders is not mentioned in this vision statement.
- **Everyone it touches.** Nintendo by stating "Everyone" points all the stakeholders as a priority, that company values everyone. Customers for sure are among those taken as priority at any time concerning the quality of products and services created and offered by the company. Despite the obvious customer concern and focus, the employees and partners are also treated with similar worth as the customers at Nintendo. In fact, the company spares no expense to give its employees the best working environment as well as personal development opportunities.

To Nintendo, being accountable to their customers is one of the most important values. Their goal is to deliver entertainment and, ultimately, smiles to their many stakeholders, including business partners, customers, and employees.

The entire group, including their international subsidiaries, is actively engaged in these priority areas.¹

Nintendo's Mission

Nintendo's mission is to create "...new surprises for people across the world to enjoy together. Today, we're fortunate to be able to share our characters, ideas and worlds through the medium of video games and the entertainment industry." Therefore, Nintendo wants not only "... to provide products of the highest quality, but to treat every customer with attention, consideration and respect. By listening closely to our customers, we constantly improve our products and services." (Nintendo, 2020d)

Reflecting in the above mentioned mission, no priority or mention is made specifically to software or hardware, assuming that a seamless integration is unquestionable and that is pursued between these two most important areas of business development, defining them as the core of their operations.

An easier access to the Nintendo IP implies to be present in all platforms, from consoles to mobile, accessible anytime, anywhere. By increasing the "opportunities for consumers to get in contact with Nintendo characters and worlds within their daily lives" they intend to raise consumers interest, increase loyalty and ensuring business development.

Bringing more people to enjoy the Nintendo products and services, "regardless of their age, gender, or gaming experience" it is assumption that a wide variety of consumers will be served with a corresponding variety of products and services portfolio.

The heritage a "video game" company does not frame the offer to expand and to diversify based on a spirit of originality, on the contrary it is seen as a ground floor for "providing customers with a world of fun, which is both innovative and entertaining with creative elements that have never been experienced".

Nintendo's Values

"Flexibility, uniqueness, sincerity, and honesty." (Nintendo, 2020b)

- **Flexibility**

This value allows Nintendo to embrace new ideas while staying true to their commitment of delivering fun and unique experiences. Respond to changes in conditions and environment should be dynamic.

To ensure that an employee gives their best to the company, flexibility with their time schedule and attitudes is a critical skill. It is necessary for the person as an individual and for the company as a whole to succeed.

- **Uniqueness**

The goal of the company is to produce original goods and services that differentiate them from their competitors; hence, uniqueness is an essential core value.

The products and services provided should surprise the customers by being different in interesting ways.

- **Sincerity**

To succeed anywhere in life, a basic core skill that is required is sincerity. The goal of the company is to hire individuals that can be trusted and will always be sincere towards the organization.

The idea of accumulating trust is mentioned in several occasions. Along with this, Nintendo claims the need to be humble and to try to learn from their experience every day.

Nintendo has been criticized in the past for not competing with other companies like Sony head-on, the fact is that their core values don't include competition but instead foster uniqueness.

5.2 Objectives

According to its president, Nintendo's objectives are stated as follows:

- Expand the number of people who have access to Nintendo IP
- Achieve a sustainable future by bringing smiles to everyone Nintendo touches
- Bring smiles to all types of people through creative products and services

These objectives, as presented, miss most of the typical criteria that ideally should be followed when stating company's objectives: to be SMART (Specific, Measurable, Attainable, Relevant and Timely objective). It was not possible to obtain information regarding their quantification, nor about the time interval in which they should ideally be reached.

Even for ESG, which is typically a topic in which companies are unveiling ambitious short, medium and long-term targets, Nintendo did not disclose any significant and measurable objectives.

This said, based on information disclosed to the press (Mochizuki, 2020), one single SMART objective was obtained, the target number of Switch consoles to be produced in the fiscal year of 2021. That objective is presented in Figure 43 together with other illustrative objectives that could apply to the company. Only 3 of them can be considered SMART objectives:

Objectives	S Specific	M Measurable	A Attainable	R Relevant	T Timely
Expand the number of people who have access to Nintendo IP			X	X	
Become a carbon neutral company	X	X	X	X	
Achieve a cumulative of 1 billion downloads of Nintendo's mobile games by 2023	X	X	X	X	X
Achieve 4 million visitors per year to Super Nintendo World, Universal Studios, Japan, by 2025	X	X	X	X	X
Target for Switch production of around 25 million units in Fiscal Year 2021	X	X	X	X	X

Figure 43 – Nintendo's public SMART objectives (Mochizuki, 2020)

5.3 Strategy

5.3.1 Strategy, strategic thinking and emerging strategic thinking

A company's strategy can be described as the set of decisions and actions, taken by that company, that provide customers with more value than the competition, in a sustainable way. Through the creation of sustainable value, a company should be able to conquer and control its target markets (Freire, 2020).

The essence of Nintendo's strategy is to create best-in-class toys (games, consoles and others), starred by charismatic characters (such as Mario, Luigi, Yoshi and Pikachu), that allow people from all generations to have fun together.

Therefore, Nintendo's target customers are people from all generations that like to have fun with family and/or friends, mostly occasional users.

Nintendo differs from the competition precisely because its games and devices are created to provide this group entertainment experience. In this dimension, Nintendo adds more value to its customers than the competition does.

It is important to stress, at this point, that Nintendo's strategy is very well aligned with its mission: "...to put smiles on the faces of everyone we touch" (Nintendo, 2020d).

But to be sustainable, strategy must satisfy not only customers but also the remaining stakeholders such as shareholders, employees, suppliers, governmental entities, partners, and others. Nintendo's strategy goes in that direction, with the company working to extend the smiles from customers to its supply chain and to its employees:

"Smiles for our supply chain: We strive to create an environment that provides our consumers with better products, and therefore we create beneficial relationship with our production partners, development partners, and sales partners" (Nintendo, 2020f).



Figure 44 – Nintendo's focus on partnership (Nintendo, 2020f)

"Smiles for our employees: We are committed to creating and maintaining an environment where every employee can take advantage of their strengths and realize their maximum potential" (Nintendo, 2020f).



Figure 45 – Nintendo’s focus on the employees (Nintendo, 2020f)

To create sustainable value, a company like Nintendo needs to integrate Strategy Formulation and Strategy Execution. The more dynamic the sector where the company operates, the more critical this integration becomes.

Within the Strategy Formulation and before the Strategic Planning, it is very important the Strategic Thinking. And in highly dynamic markets like the gaming industry it is gaining importance the emerging strategic thinking. Nintendo has shown, in recent years, both strategic thinking and emerging strategic thinking, as we discuss next.

In the early 2000s, Nintendo was losing the console war, risking exiting the consoles market. But with a strong Strategic Thinking, it redefined its market boundaries (Blue Ocean Strategy), creating one of the best-selling video-game consoles ever, the Nintendo Wii, with 102 million units sold to date. Launched in 2006 it targeted new customers, the non-customers, those that did not use to play videogames. In the following years, Wii outsold Sony's PlayStation and Microsoft's Xbox combined (Olenick, 2019).

But Nintendo showed also Emerging Strategic Thinking. After the launch of Nintendo Switch in 2017, the company was able to identify an emerging opportunity in the augmented reality arena. It understood that the Nintendo Switch controllers, the Joy-Cons, had a set of sensors that could be used to create an enjoyable, pedagogical augmented reality experience (Sakaguchi, Kawamoto, & Ogasawara, 2019). That was how the idea of Nintendo Labo started and it reflects a constant focus on exploiting emerging opportunities.

5.3.2 Digitalization

Despite Nintendo’s start in the playing cards sector, it had a very important role in the creation of the video game industry, which started as a Secondary Sector industry (production of electronic equipment such as arcades and consoles). But over the last decades, the industry had become more and more a Quaternary Sector industry: production of videogames, its distribution (more and more through simple download from the internet to devices that may be consoles, laptops or mobiles/tablets), marketing and interaction with customers is becoming absolutely digital, as it is normal in the Quaternary Sector (Figure 46).

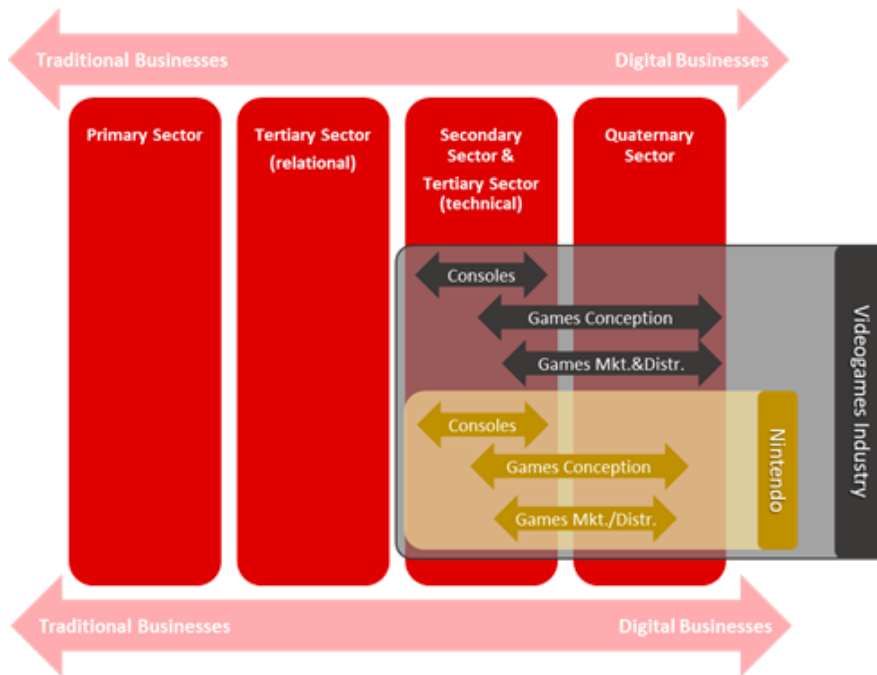


Figure 46 – Nintendo versus Economy Sectors

The company has been making its transition to the digital era. Compared to its peers in the videogames industry, Nintendo likely started that transition later but was able to accelerate and recover. It is now a company well prepared to operate in the digital business that videogames industry has become (Figure 47).

	Traditional Businesses	Digital Businesses	Nintendo
Strategic Cycle			
Formulation	Conservative	Disruptive	Disruptive: strong strategic thinking, strategies differ from competitors
Execution	Rigid	Agile	Relatively Agile. Improving significantly after internal rearrangement made in 2013
Adequacy	Stability	Change	Strategy adequate to highly dynamic and competitive market
Commercial Performance			
Customers	National Seniors	International Youth	International, multi-generational
Communication	Multichannel	Omnichannel	Omnichannel
Convenience	Average	High	High
Operational Performance			
Assets	Variable	Reduced	Reduced % of Non-Current Assets (PP&E) in Total Assets
Scalability	Variable	High	High for games, average for devices.
Data	Dispersed	Integrated	Integrated

Figure 47 – Nintendo’s fit for digital business

5.3.3 Sustainability

Customers, shareholders, and remaining stakeholders are putting pressure in companies towards sustainability. Customers and shareholders are benefiting brands with good reputation for sustainable practices.

Therefore, the Strategic Cycle of companies needs to have a holistic approach, accounting for the four main types of sustainability: Economic, Environmental, Social and Governance sustainability. The performance of a Company on these sustainability types needs to be measured with concrete sustainability factors.

A set of Nintendo’s sustainability factors is presented in table below:

Economic Sustainability		Environmental Sustainability	
Sustainability Factor	Performance	Sustainability Factor	Performance
Positive financial results	Profit CAGR=37.4% (in 2018-20) ROE=17.5% (2019)	Adoption of Renewable Energy	Renewable Energy represented <2% of Total Energy Consumption in 2019.
Fair remuneration of employees	Average Annual Salary: \$87k (2019)	Recycle of Waste	In 2019, ~80% of waste was recycled
Investment in R&D	R&D investment: \$778m (2019)	Adoption of Sustainable Packaging	Yes
Rigorous risk management	Low leverage ratios. Annual Report formally identifies risks and mitigation measures.	Reduction in CO2 emissions	Total CO2 emissions reduced 36% in 3 years.
Social Sustainability		Governance Sustainability	
Sustainability Factor	Performance	Sustainability Factor	Performance
Implementation of Consumer Data Protection Policy	Data Protection Policy not available (source: Bloomberg)	Diversification of Corporate Leadership	Low diversity
Prevention of Children & Forced Labour in the Supply Chain	Performs Social Supply Chain Management (source: Bloomberg)	Transparency and supervision of Directive Structure	Low classification in ESG Disclosure ranking (Bloomberg). Recent split of decision making and supervisory functions.
Attention to quality of life of employees	Implementation of mandatory break period after each work day	Compliance with local and international laws	Compliant
Community development	Sporadic measures	Absence of corruption, bribery and fraud practices	No Anti-Bribery ethics policy in place

Figure 48 – Nintendo’s Sustainability Factors

Nintendo is not immune to stakeholders’ pressure but, based on the above, we consider the company is currently still at Phase 2 of Sustainable Strategy integration (Figure 49): the company tries to achieve better operational efficiency through sporadic sustainability measures.

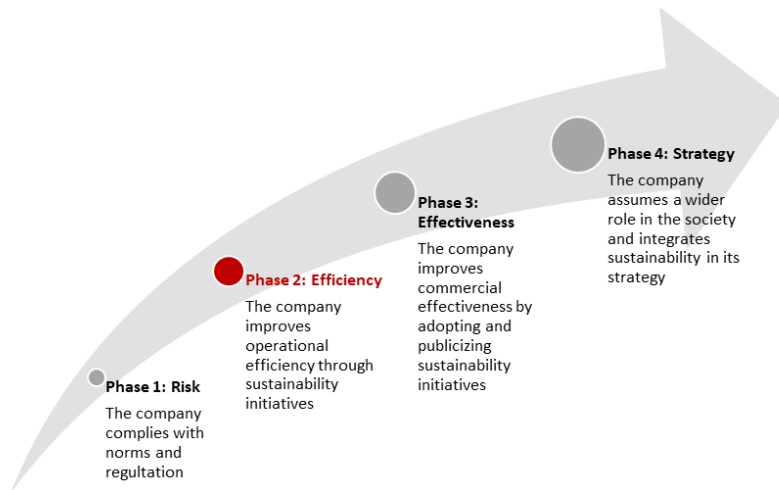


Figure 49 – Sustainable Strategy Development Phases (Freire, 2020)

5.3.4 Sustainable value creation

Clients are the priority stakeholders for value creation, as a company that does not have enough sales (for a long period of time) will not be able to deliver sustainable value to the other stakeholders (Freire 2020). The value creation for Nintendo’s stakeholders can be assessed, through the evolution of its Value Creation Indicators. The indicators of Value Creation for customers should cover the 3 relevant periods: before purchase; during purchase; after purchase. Several indicators can be used. The table below (Figure 50) presents some of them, based on publicly available information. From the observation of the table, it can be concluded that Nintendo has been increasing the value added to its customers: the brand value, number of sales, site visits and “likes” at social networks have been increasing in recent years.

Value Creation for Customers		
Indicator	Indicator Description	Nintendo
Before the Purchase		
Internet	Evolution of # and duration of visits to firm’s website	Visits to nintendo.com ¹⁾ : - 1 million/day in 2H2016 - 2.5 million/day in 1H2020
Titles	Evolution of # of new titles released and made available for customers choice	Software Titles Released (Europe) ²⁾ : - 109 new titles from 3/2015 to 3/2016 - 338 new titles from 3/2019 to 3/2020
During the Purchase		
Products	Evolution of the amount of consoles/games sold to customers	Hardware & software units sold ²⁾ : - 10 & 84 millions from 3/2015 to 3/2016 - 22 & 175 millions from 3/2019 to 3/2020
Prices	Evolution of average unitary purchase price of products	Sales/(Hardware+Software Units Sold) ²⁾ : - 49 \$/unit from 3/2015 to 3/2016 - 71 \$/unit from 3/2019 to 3/2020
After the Purchase		
Support	Evolution of the number of Likes in Facebook	Likes in Facebook ¹⁾ : - 2 k/day in 2H2016 - 20 k/day in 1H2020
Brand	Evolution of company’s brand valuation	Interbrand Global Brands Ranking/Brand Value ³⁾ : - #99 / \$4,696million in 2018 - #76 / \$7,296million in 2020

Sources:
 1) <https://www.trackalytics.com/website/nintendo.com/>
 2) <https://www.nintendo.co.jp>
 3) <https://www.interbrand.com/best-global-brands/nintendo/>

Figure 50 – Indicators of Value Creation for Customers

On the value creation for shareholders, Nintendo improved significantly in the last 5 years. Net Income and ROE increased by more than 17 times. This reflected in 3.5 times increase in Market Value in the same period. This was mostly due to the success of Nintendo Switch. This success was even amplified by the COVID-19 lockdown measures, which boosted stuck-at-home consumers spend in home gaming.

Nintendo is delivering the highest ROE among the biggest Global peers in the Videogames Industry (pure Videogames players only, Microsoft and Sony excluded) and clearly above the Median (Figure 51).

Value Creation for Shareholders		
Indicator	Indicator Description	Nintendo
Economic and Financial Indicators		
Net Income	Evolution of net income	Nintendo's net income ¹⁾ : - \$138 million in FY 3/2016 - \$2,379 million in FY 3/2020
Return on Equity	Evolution of the ration between the net income and equity	Nintendo's Return on Equity ²⁾ : - 1.42% in FY 3/2016 - 17.5% in FY 3/2020 - 26.7% at 11/9/2020
Market Indicators		
Market Value	Evolution of the company's stock market capitalization	Nintendo's Market Capitalization ²⁾ : - \$20,148 million in FY 3/2016 - \$50,833 million in FY 3/2020 - \$70,604 million at 11/9/2020
Price-Earnings Ratio	Evolution of the ratio between the market value and net income	Nintendo's Price-Earnings Ratio ²⁾ : - 146.0x in FY 3/2016 - 21.4x in FY 3/2020 - 16.4x at 11/9/2020

Sources:

- 1) Company's Annual Reports
- 2) Bloomberg

Figure 51 – Value Creation for Shareholders

As a complement to the several indicators assessed above, it is useful to use a sustainable value creation aggregate indicator that combines the value to clients, to shareholders and to remaining stakeholders (environment, social and governance):

$$\text{Sustainable Value} = SL \times (1 + G)^t \times \frac{M}{R} \times SU$$

Where:

- $SL \times (1 + G)^t$ is the value for customers (current sales and sales growth);
- $\frac{M}{R}$ is the value for shareholders (return-risk ratio);
- SU is the value for the remaining stakeholders (environmental, social and governance).

Such aggregate indicator allows comparing the value generated by different strategies, different companies or different industries. Looking at Nintendo, considering that the products life cycle of the videogames industry is relatively short, we consider 5 years forecast, based on the financial performance over the past 5 years:

Sustainable Value Creation – Sales and Net Income			
Year	History or Forecast	Sales (\$m)	Net Income (\$m)
2015	History	5,026.2	382.5
2016	History	4,205.5	137.6
2017	History	4,524.4	948.9
2018	History	9,528.4	1,259.9
2019	History	10,829.3	1,750.0
2020 (current)	History	12,036.8	2,379.2
2021	Forecast	13,528.7	2,216.4
2022	Forecast	15,205.5	2,491.1
2023	Forecast	17,090.2	2,799.9
2024	Forecast	19,208.5	3,146.9
2025	Forecast	21,589.3	3,536.9
Total (2020-2025)		86,622.3	14,191.2

Figure 52 – Sales and Net Income: Recent History and Forecast

This information allows computing the value for customers (based on SL, G and t), the value for shareholders (based on M and R) but provides no information on the value for the remaining shareholders (SU). In order to compute SU a multifactorial assessment can be performed, based on the significant amount of data available for each company and industry.

Nevertheless, in this assessment, we consider the score of RobecoSAM sustainability index, because it is one of the most respected scores in the world and it is precisely a multifactorial score covering all the ESG dimensions. Nintendo’s score in that index is 15 out of 100, which can be considered a very poor score. The company recognizes, in its annual report, that changes need to be made (and are being made) to improve its Governance. But no material actions/improvements can be observed in the Environmental and Social areas. As mentioned before, the company remains at Stage 2 of Sustainable Strategy Integration.

Based on the above, the aggregate indicator can be computed:

Sustainable Value Creation: Short-Medium Term Valuation		
Parameter	Value	Description
SL	12,036.8	Sales in 2020 (\$m)
G	12.4%	Sales Annual Growth in 2018-2020
M	16.4%	Net Margin average in 2018-2020
R	0.1841	(NI's Standard Dev.) / (NI's Average)
t	5	5 years forecast considered (2021-25)
SU	0.15	Score of 15/100 in Robeco Sam Sustainability Index
Value	2,881.8	Sustainable Value creation by the company

Figure 53 – Sustainable Value Creation for Nintendo

The reference value above can be used to compare with alternative scenarios and strategies for the future. For example, it confirms that Nintendo could strongly increase its sustainable value creation if it focused in improving its ESG performance:

Parameter	Scenario 0	Scenario 1 ESG
SL	12,036.8	12,036.8
G	12.4%	12.4%
M	16.4%	16.4%
R	0.1841	0.1841
t	5	5
SU	0.15	0.5
Sustainable Value	2,881.8	9,605.9

Figure 54 – Sustainable Value Creation: Scenarios Comparison

5.4 Business Model

Nintendo’s Business Model is assessed based on a Business Model Canvas (Figure 55):

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
Production partners Development partners Sales partners Mobile companies	Research & Development Selling Product Building Community Marketing campaigns Key Resources Shigery Miyamoto (game developer) Suppliers: - Hardware manufacturers - Software developers Outsourcing	Unique & innovative Gaming experience Hardware & software integration	Direct sales Distributors Web-based portal (my.nintendo.com) Self-service Channels Website Retail distribution	Children Casual gamers Families Aging population
Cost Structure			Revenue Streams	
Research & development costs Production costs Marketing costs			Asset sales: - Consoles - Games - Accessories Royalties from game developers	

Figure 55 – Business Model Canvas

Per strategic formulation of Nintendo, the wide customer segments from children to the elderly, covering the whole family and occasional gamers are the target for their growth. To reach them it’s crucial the digitalization, the omnichannel approach in marketing campaigns in order to build a community of followers and fans, around consoles, games, accessories and the royalties they earn from game

developers, all of such as revenue streams. To be considered as well the need for the company to expand to the mobile segment and empower their customer relationship through the internet website.

6 Business Strategy: Products-Markets

6.1 Ansoff Matrix

The positioning into the four distinct quadrants resulting from the combination of new/existing markets with new/existing products, will be discuss according to the current portfolio/markets positioning.



Figure 56 – Nintendo’s Ansoff Matrix

6.1.1 Market penetration (1983 - up to date)

Market penetration strategy covers the development of already presented products into the same existent industry.

Considering the game console market, Nintendo is struggling with competitors like Sony and Microsoft in order to increase market penetration. Nintendo is placing its console at a cheaper price to face the intense competitive rivalry engendered by Microsoft and Sony.

Famicom/NES and Gameboy were two important examples of market penetration. They were the 2 first flagship products (for home and handheld consoles), which enabled Nintendo to start building the brand equity they have today and to capture large market share.

To follow the trend toward a more intensive use of smartphones as game platforms, Nintendo established a partnership with Apple to offer its games through mobile phones. Nintendo is providing software for games based on its characters to become available in Apple iPhones, increasing the market share of the company.

Following the huge acceptance of Nintendo Switch – further explaining below – and in order to boost sales and thus market penetration, Nintendo shaped the concept and launched a new version, Nintendo Switch Lite. With this, they intended to create a cheaper version within the same concept and targeting the same segment in order to sell more of an existing product in the same market.

6.1.2 Product development (1996 – up to date)

Product development strategy is usually associated to the capacity of the company to invent and launch new products, generating new sources of revenues, in existing markets.

In 1996, Nintendo unveiled N64 or Nintendo 64, which was pioneer in the use of many technologies, allowing for instance four players at a time, without significant slowdown. N64 had a similar power to the Pentium processors found in desktop computers.

The launch of Nintendo Labo, a new product introduction in existing markets, was an innovative way of product development, introducing a Do-It-Yourself concept for Nintendo Switch users.

Nintendo Arcade was also a way to explore existing markets using an adjusted concept to sustain the market and increase revenues.

Wii U was a new product created – that revealed to not have the desired success – with a different concept as well, in order to compete with the fast-growing tablets' trend and so to try to retain the market share, by avoiding to lose those customers.

6.1.3 Market development (2006 – up to date)

Currently, some of the Nintendo's products are being marketed for different demographic targets like older people and female, in order to conquer new markets.

The Wii, namely the motion plus technology assisted Nintendo to regain some of the market share conceded to the competitors like Sony (Playstation) and Microsoft (Xbox) and improved its competitiveness. With a lot of growth potential in the gaming industry and in order for Nintendo to continue to be competitive, there was a need to continue to develop new markets and explore new potential customer targets. Wii sports, the whole concept more than the game specifically, became very famous among old games users, gained massive popularity with the older demographic segment through the simulation of familiar and well-known sports, like golf and tennis – enhancing higher market share through existing products in new markets and segments.

6.1.4 Range Diversification (2011 – up to date)

Range diversification is the riskier strategy for the company as typically a strong effort is required as the company tries to introduce new products in new market segments.

Nintendo historically has a number hand-held consoles - like the Nintendo 3DS, Nintendo 2DS and Nintendo XL – in which they appealed to consumers who are not able to play games at home due to time

constraints (exploring different segment). Nintendo Switch product development was launched with this intent, massively exploring a new market segment with a different product by introducing a brand-new concept and way of playing. Nintendo Switch is still currently a huge success with very notorious sales and to boost even more market penetration and sales, as explained in Market Penetration part, a cheaper version of Switch (with less capabilities) was created.

Another kind of diversification used by Nintendo to create new sources of revenue, different products in new markets, was the use of the popularity of characters like Super Mario, Zelda and others, to convert it into merchandising products like T-shirts, shoes, caps and other accessories. These products are appealing to none-gamers and marketed internationally to penetrate into new geographical markets.

6.2 Products-Markets Matrix

The 70s transformed the history of Nintendo. It was the time when the company started to produce videogames: arcades and Color TV games. Apart from those products, Nintendo found a way to keep legacy product ranges. More modern times showed that this firm was able to further enlarge those traditional games and toys with the new product, which development was boosted by the IP (mainly characters).

For a deeper understanding of Nintendo's Products-Markets its relevant to define the criteria for which we should perform the analysis.

In the previous chapters, we have defined two different segmentations, under which the analysis has been performed. For this analysis, we will focus mainly on the customer behavioural segmentation (original segmentation, which was described in chapter 4), which will be crossed with the products which answer the need of alternative segmentation based upon what customers buy.

On the horizontal axis, it will be represented markets of:

1. Hardcore Gamers
2. Traditionalists
3. Casual gamers
4. Sentiment gamers
5. Social gamers

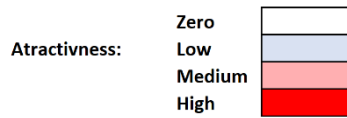
On the Vertical Axis, the most representative products from Nintendo will be presented, in line with the segmentation of what customers buy:

1. Hardware/Consoles
 - a) Nintendo Switch lite
 - b) Nintendo lite
 - c) Nintendo Games and Watch

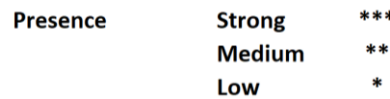
2. Console games
 - a) Mario Games Franchise
 - b) Zelda Games Franchise
 - c) Standard offline games
 - d) Online multiplayer games
 - e) Indie Games

3. Mobile Games (Mario series)
4. PC games (which Nintendo doesn't produce but are part of Videogames industry)
5. Toys
 - a) Printable, Quizzes, Puzzle
 - b) Amiibo

By the colour scale we will indicate attractiveness of a market for Nintendo taking under consideration such variables as: margins, growth, sustainability. Where:



The purpose of the product-market matrix is to indicate the possibility for a company to grow in each segment. To find out that we need to introduce a second variable which is indication how present (popular in sales and for example media) the company is among target clients. For this purpose, we will use "stars coding", where:



The Product-market mix

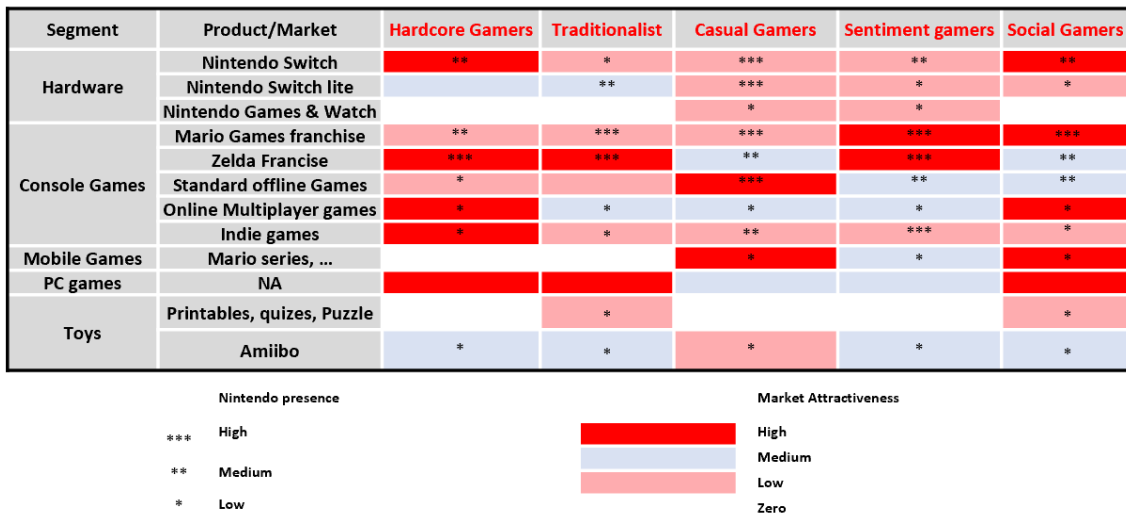


Figure 57 - The Product-Market Matrix

Let us start with Nintendo Switch –a hardware that overcame the barrier between traditional consoles and handhelds. Primarily the target of Switch were **Casual Gamers**. In this category there would be people who are having limited time for gaming. Critiques were sceptical if such audience would be interested in the product as it carried higher price tags – and as we know this segment likes freebies. Additionally, at

the beginning there was a limited range of games available. This came from the obvious reason that in the beginning of console life cycle it's normal, and the reason that Nintendo wanted to involve only high quality games producers. Therefore Nintendo offered only relevant highly recognizable games with Mario Franchise and Pokemon.

On the other hand, **Hardcore Gamers** wouldn't also find the top notch specs for Switch that they would look for. Although the console had benefited from the fact that both competitors were in a later stage of the life cycle, making Nintendo Switch specs more comparable. Because of that and because Nintendo increased the number of available games with the time, the company could win more of those customers which represent one of the most lucrative segments. However, with the recent launches of new PlayStation and Xbox console generations, this segment will be under pressure cutting growth perspectives. It's why we see an opportunity still to grow in this segment, but under stronger competition. Additionally, more recent studies-, suggest also increasing interest in Switch by Younger Audience and Families (Kathryn, Alice, & Kathy, 2017; Thier, 2017). Therefore, it's expected that Nintendo would be able to further increase its presence in this large segment - **Social gamers**.

Nintendo Switch Lite (a successor of Nintendo Game Boy, or more recently Nintendo 3DS), has presence on **Casual Gamers** and **Traditionalists**. However, when Nintendo decided to launch the hybrid Nintendo Switch (which is a principal system and a handheld), it was initiated an "organic destruction" of the handheld segment. Nintendo is slowing down the process, via price management (Nintendo Switch Lite is priced ~30% lower than Nintendo Switch). From this reason we refrain ourselves from further recommendation.

Nintendo is aware of the rising opportunities of the **Sentiment** (nostalgia) market. For that, they have been launching consoles, limited in features, with similar experiences than older versions. Presence is low and punctual (now with Nintendo Watch), but they are clearly monitoring the market and see opportunity to grow.

On console games, it's important to highlight Mario Games franchise and Zelda franchise. Being legacy IP, with new products being launched, they address different segments, with a considerable presence mostly supported by their customer awareness and loyalist. Mario franchise as a strong presence within most segments except for Hardcore Gamers. Zelda is strong in the Hardcore Gamers, Traditionalists and Sentiment Gamers. Both franchises, being exclusive for Nintendo platform, are relevant leverages for enhancing Nintendo console sales.

Online multiplayer gaming has high attractiveness for Hardcore Gamers and social gamers (for example the first wants to be playing for competition, the latter play with friends/family). However, Nintendo is falling short in the online experience as well as online community (compared with PlayStation and Xbox). The fact that the communities are mostly closed per platform, will probably leave a lasting effect on the online feature development (probably preventing content developers and publishers to launch with Nintendo). On the other hand, they have been quite successful with Standard (and mainly) offline games (games which do not rely mostly on online features to enhance the experience).

On the Indie games, Nintendo has been taking benefiting from its online store, to ensure a large catalogue of games. On the other, realising the need to increase the portfolio of games. Nevertheless, after the launch of Switch, Nintendo realised that Indies developers struggled to cope with the specificities to develop for the console, so they decide to create benefits for those who create exclusive games for them (again, focusing on exclusive content). Because of those delays in development, there is still room to grow in almost all segments of customers.

Mobile games, despite attempts with some good initial penetration results, Nintendo was not able to turn “presence” into revenue. Nintendo should increase its presence (turning it in revenues and profits) specially among Casual Gamers and Social Gamers (more relevant for this type of games). However, the Company has decided to halt its bet by not launching many new mobile games in the future, as reported by Bloomberg on June 21, 2020⁸.

Nintendo still keeps offer of printables, quizzes and puzzles, which are especially interesting for segments: Traditionalists and Social Gamers. However, because it is a heavily fragmented market the impact of Nintendo brings neglectable results. The firm has also a history in the development of electronic toys, from which we would highlight the current Amiibo offer. At the beginning, these toys were seen as promising, but felt short – probably due to the lack of fit with the identified relevant segments. We suspect that those toys could be a great offering for Social Gamers segment, which include children.



Figure 58 – Nintendo amiibos

To conclude our analysis we still see for Nintendo some room to improve with targeting segments with its products. In general the company is strongly present in market for Casual Gamers and Sentiment Gamers. However, there are still two lucrative and promising markets to grow: Hardcore Gamers and Social Gamers. Despite strong presence in Social Gamers market wit games like Mario, it has possibility to grow there with Switch console. It’s maybe why Nintendo is working to improve this hardware to be more suitable for Families (Robertson, 2017) which are a big part of Social Gamers market.

Additionally, the market for mobile games is growing. Therefore, we think that Nintendo should be not discouraged by initial low financial performance in this segment and pursue development of the games for mobile phones. If Nintendo would add variety and focus more on this industry, we believe that it can win presence in all mentioned by us segments.

6.3 Competitive Advantage - Generic Strategies Model

Competitive advantage is when you create above market average sustainable value over a long period of time. According to the products-markets view, is a result of industry conditions and three generic strategies: Cost leadership, differentiation, and focus.

In the 1980’s the gaming industry was targeting essentially kids, and Nintendo was on the lead. Between 1990 and 2000, the gaming industry started to target young adults (previously the kids that grew up gaming) when Sony entered the market in 1994 with PlayStation, followed by Microsoft in 2001 with Xbox (Rusetski, 2012).

Nintendo, holding several valuable strong gaming brands such as Mario, Donkey Kong and Pokémon, was able to differentiate it business model from competition - Brands are the basis of Nintendo Business Model. But Nintendo also had a low-cost focus positioning itself at a lower price than its main competitors.

In 2006 Nintendo was seriously losing the home consoles competition against Sony and Microsoft, in the segment of young adult's hard-core gamers, and it had to change its strategy, so decided to make the use of consoles and interaction with video games simpler and intuitive (UKEssays, 2018).

By doing this, Nintendo started targeting a market that was neglected, the casual gamers, kids, women, older people and the whole family, strategically positioning itself in a Broader Market as a cost leader and differentiating itself from its competitors by targeting the casual gamers and by launching an innovative product, simpler and intuitive, Nintendo Wii.

The Wii Remote had features speaker, a pack that made the device shake, a microphone jack and, between others, a chip that measured movement in three dimensions. The primary advantage of this strategy was that was hard to be copied by its main competitors since both Microsoft and Sony, to address the hard-core market, were competing on the hardware performance and features, and to reduce costs enough to compete with Nintendo, they would need to abandon this strategy and target.




		Competitive Advantage	
		Low Cost	Differentiation
Competitive Scope	Broad	Cost Leadership	Differentiation  
	Narrow	Low Cost Focus	Differentiation Focus 

Figure 59– Nintendo generic strategies model

By applying the generic adapted strategies model in each market segment, we clearly see the different position of Nintendo and its main competitors.


		Broad Market Segment	
		Low	High
Differentiation	High	Pure Differentiation 	Differentiation with Cost Leadership
	Low	Indistinction	Pure Cost Leadership

Figure 60 – Nintendo generic adapted strategies model

Looking forward, Nintendo should look at innovation in new markets, such as mobile gaming and VR, and developing its Next Generation system.

6.4 Innovation Strategy

We will focus this innovation strategy analysis in the era of the video games. To properly frame Nintendo's strategy towards innovation, it is useful to briefly review its history in handheld consoles, home video consoles, and video games development.

First and foremost, Nintendo was not the 1st mover in neither the handheld and home video game consoles market segments.

Concerning the handheld segment, the first handheld electronic console was launch back in 1976 by Mattel company (Mattel Handheld Games). At the time it was a very simple dedicated console, with only one game included and without the possibility to add new games. Nintendo later followed the trend and released the Game & Watch games series in 1980, which was able to capture a significant market. Likewise, the concept of a handheld game console with interchangeable cartridges was firstly developed and marketed by Milton Bradly Company in 1979, with the Microvision. Some years later, in 1989, Nintendo launched its version of a handheld game console with GameBoy (bundled with a built-in Tetris game), which leapfrogged all competition and became one of the all-time best seller consoles (over 118 million units sold). Nintendo has been able to stay atop of the handheld game console segment ever since, initially riding the success of GameBoy through its several incremental evolutions and later moving toward a new Nintendo DS and 3DS platform, once again outperforming by far all competitors. More recently, Nintendo decided to discontinue the DS platform and invested in its innovative hybrid concept Nintendo Switch, which can be used both as a handheld and home video game console.

Similarly, the Magnavox Odyssey was the first video game console launched in 1972, at that time including only a few pre-built games. Soon after, the market moved toward consoles with the ability to use external game cartridges with first movers "Fairchild Semiconductor" (releasing "Fairchild Channel F" in 1976) and "Atari, Inc" (releasing "Atari 2600" in 1977), with the latter capturing 30 million units sold during its lifetime. Nintendo only entered the Japanese market in 1983 with the "Famicom", which was later (1985) renamed as Nintendo Entertainment System (NES) for the external market with improved 8-bit graphics, colors, sound and gameplay over previous consoles, and soon outperformed the competition and obtained a leading position in the market with roughly 62 million units sold worldwide. Nintendo led the market with NES and its evolution SNES (which sold a total of 49 million units) until the launch of Playstation by Sony in 1994. During the following decade, Nintendo released both Nintendo 64 and GameCube consoles but was unable to effectively compete with the more technically prepared competitors Sony (with Playstation) and Microsoft (with Xbox).

In 2006, however, Nintendo had a much-needed breakthrough with the launch of "Wii". Realizing that was not able to compete in technical specifications with Sony and Microsoft in the heavy gamers segment, Nintendo applied a "Blue Ocean" strategy to capture other neglected segments as casual gamers, families, women, and children. Through customer-driven innovation, Nintendo included radically new and interactive features such as motion controllers. As a result, Wii sold over 101 million units before being discontinued in 2017 and Nintendo was able to retake the top position in the market. The competition acknowledged the merits of such interactivity and reacted to introduce similar features. In 2013 Sony and Microsoft launched their new generation consoles, Playstation 4 and Xbox One respectively. Nintendo replied with Wii U, an upgrade from the previous Wii platform, in an attempt to keep pace with the new technology features introduced by the competition. However, the project turned out to be a major commercial failure.

Once again, Nintendo applied a “Blue Ocean” strategy to find a product that could be used by everyone, everywhere, at any time. The result was the new Nintendo Switch, an innovative hybrid concept that can be used both as a handheld and home video game console.

Along the way, Nintendo has used its hardware platforms to deploy and sell its original legendary games and numerous sequels, such as Donkey Kong, Super Mario, The Legend of Zelda or Pokémon.

To be able to innovate successfully, the company needs to distinguish between its core and marginal technologies. Core technologies are those which can contribute significantly to strengthening the company’s core competencies in the key success factors of its business. In Nintendo’s case, we identified the following core technologies:

- **Games development:** Software development, namely game creation has long been the main strength of Nintendo, using its creativity and entertainment-focused innovation to develop stories, characters, and game concepts which can meet the latent demand of a wide audience, often before the rest of the competition is even aware these needs exist.
- **Intellectual property – Nintendo’s characters:** During its long history as a game developer, Nintendo was able to create some legendary games and characters that have been living through several generations. Characters such as Mario, Legend of Zelda, and Pokémon are Nintendo’s intellectual property assets and an important source of recurrent revenues.
- **Toymaker DNA:** Unlike its main competitors, Nintendo has been in the entertainment and toy business since its foundation. This toymaker DNA is embedded in the company, which enables Nintendo to meet and often anticipate the actual play patterns of gamers, delivering game experiences that people really want (as happened with GameBoy, Nintendo DS, Wii, Switch, Labo and Amiibo).
- **Hardware development:** The video game industry is a typical example of a “razor and razor-blade” business model, where hardware platforms (consoles) are essential vehicles to sell games, with a significant part of margins coming from game sales. Therefore, the greater the market share in hardware consoles sales, the bigger the opportunity to sell games and royalties. Nintendo has not been able to compete in hardware specifications after the entrance of technological giants Sony and Microsoft in the market, having failed mightily whenever they tried to do so (Nintendo 64, GameCube and Wii U). However, it has successfully created systems that sacrifice power and screen quality for new innovative features able to improve user experience and meet casual gamers' practical needs, as is the case of more interactive controls (Wii) and home/portable hybrid approach (Switch). Shinya Takahashi, a senior manager at Nintendo, addressed the company’s strategy towards technology as follows (Stuart & MacDonald, 2018): *“We want to make new and surprising things, so we always keep an eye on new technology. That said, in order for us to create surprising things, we also look at older technologies to see if we can leverage them in new ways. New technologies tend to be a bit too advanced – we try to find ways to make technology more approachable.”*

A company’s innovation strategy should not be static, but rather evolutive according to the industry lifecycle, trends and context. That is exactly what we can observe in Nintendo’s case. We can argue that Nintendo was initially an innovation follower that quickly overtook incumbent companies to assume leadership in both market segments (handheld and home consoles), therefore embracing the role of innovation leader until the entrance in the market of Sony and Microsoft. Nowadays, Nintendo has less expertise in hardware technology than its two main competitors. However, due to its creative and user-centric approach, Nintendo has proved that is able to disrupt the market through innovative and interactive hardware products, while fostering its ability to develop unmatched stories and characters in first-party games. Therefore, Nintendo may arguably be positioned as an innovation leader.

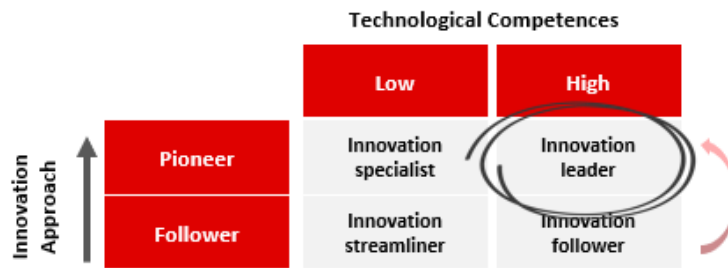


Figure 61 – Nintendo Innovation strategy matrix

By expanding this innovation matrix to the industry maturity stage, we should consider the fierce competition from Sony and Microsoft, as well as from the uprising competition of tablets and smartphones, particularly in the handheld console segment which Nintendo has dominated for decades. In this complex and fast changing context, one can consider Nintendo to have medium technological competences and competitive strength in hardware development, but to still retain high competences and competitive strength in its other core technologies. As such, Nintendo is likely to remain an innovation leader in game development and interactive entertainment. Conversely, in the hardware segment Nintendo may be an innovation specialist for disruptive and interactive products to address casual-gamers, family and kids, but will not be able to be more than a weak follower in products to target the heavy-gamers.

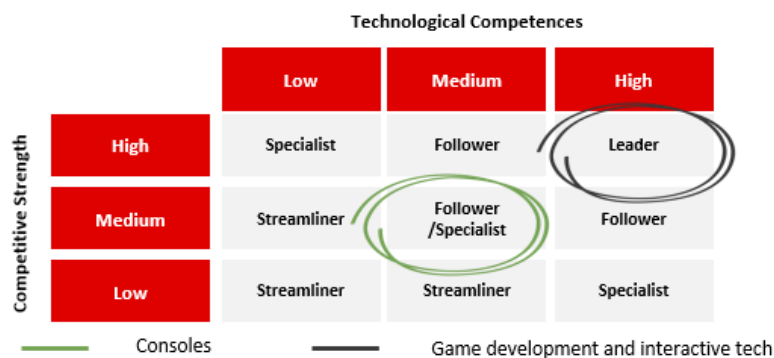


Figure 62– Nintendo Innovation strategy matrix applied to maturity stage

Innovation Model

The innovation model followed by Nintendo has evolved across time, taking into consideration the market and segments context, trends, and Nintendo’s relative power – as illustrated in the Figure 64 below.

As mentioned above, Nintendo was not the first mover but sooner achieved a dominant position in the industry with some blockbuster products such as Game & Watch, GameBoy, and Nintendo Entertainment System (NES), which were cost-effective but robust products, that provided great user experience through a diversity of legendary games and characters. We may consider that, in this stage, Nintendo applied a reorganization model of innovation, enhancing the offer provided by the first movers, something that was particularly evident (and needed) in NES case. In the early 1980s many experts considered that the video game industry was doomed, particularly in the US after the home console market crash in 1983 as a consequence of increasing competition from home computers and the proliferation of non-controlled third-party development games, which significantly diluted the market and introduced quality control issues (sales were impacted by the lack of video game quality, as customers progressively lost trust in the industry). Nintendo, who wanted to bring its new home console to the US market, used innovation to

have full control over the quality and quantity of games published for NES platform. Nintendo developed and included a lockdown control system (using a specific chip, see Figure 63 below) that prevented unlicensed and pirate game cartridges from running on NES platform (GameSpy, 2010).

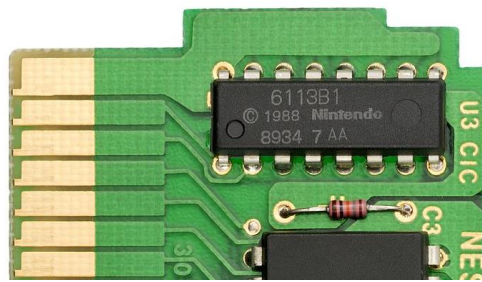


Figure 63 – Nintendo NES10 lockout chip

At the same time, Nintendo advertised the NES as being a toy rather than simply a video game console, to avoid the then-bad label stigma. As a result, the launch of NES was an absolute success and helped NES revitalize the video game market.

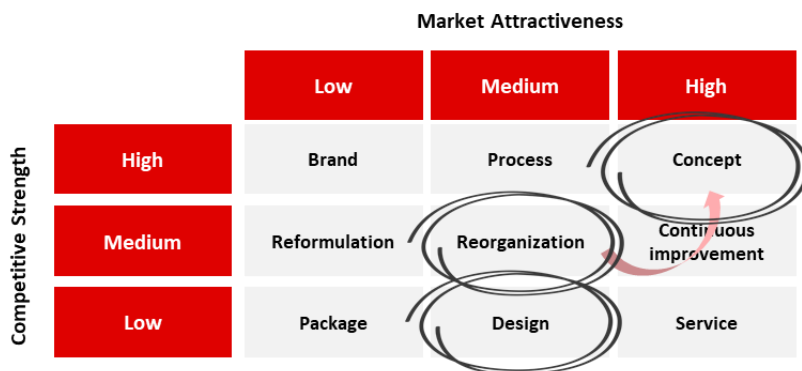


Figure 64 – Nintendo innovation model evolution

Later, after the entry in the market of stronger technological competitors like Sony and Microsoft, Nintendo has used more often a design and concept innovation model, introducing radically new products in the market such as Nintendo DS, Wii, Switch, Labo and Amiibo. Likewise, this concept approach has been followed in its game development business with the creation of several original and iconic games and characters. When reflecting on Nintendo’s innovations, Nintendo director Shigeru Miyamoto said (Blake, 2020): *“It’s not about the market or the current trends [...] If you try making something that sells, it eventually ends up becoming like something that’s already out there. If what you make looks like something that might already be out there, then it won’t sell well. That’s why Nintendo makes things that have yet to be seen. The most important thing is to make something you believe is fun, rather than something that would sell.”*

Likewise, Nintendo has applied design and concept innovation to create high-quality first-party video game franchises and iconic characters, with which the company has conquered the hearts and preferences of gamers across multiple generations and positioned itself as a game developer leader.

Blue Ocean Strategies

In a Blue Ocean Strategy (BOS) a company should follow the “Eliminate–Reduce–Raise–Create” framework to create a new value curve (Kim & Mauborgne, 2020):

“Which factors that the industry has long competed on should be eliminated?”;

“Which factors should be reduced well below the industry’s standard?”

“Which factors should be raised well above the industry’s standard?”

“Which factors should be created that the industry has never offered?”

For over a decade Nintendo struggled to effectively compete with the better technologically prepared Sony and Microsoft in the war of performance and technical features, such as CPU speed and graphics support. As a result, Nintendo 64 and GameCube consoles were outperformed by the competition and Nintendo lost significant market share to its 2 main competitors. Nintendo realized that it needed to change the rules of the game in order to survive. In 2006 they disrupted the market with the launch of “Wii”, using a “Blue Ocean” strategy to redefine the market boundaries and capture neglected customer segments such as causal gamers, families and children. The new value curve for Nintendo Wii is presented in the figure below.

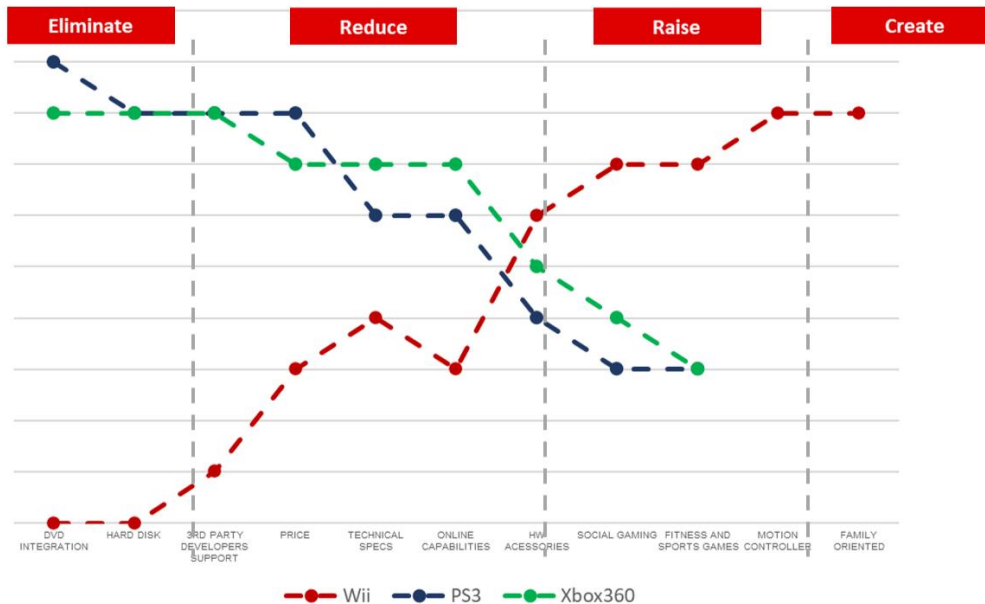


Figure 65 – New Value Curve for Nintendo Wii

Nintendo eliminated from its offer features not related with gaming, namely the integration of DVD and/or Blu-ray player in the same hardware platform. Likewise, it chose not to include a significant Hard Disk drive.

Since it was not able to effectively compete in technical features and to be more cost-effective, Nintendo Wii had below market standard technical specifications (CPU speed, memory, graphics, etc.) and online capabilities. This below market technical capability along with the historical difficult relationship with third party game developers, forced Nintendo to follow a strategy that heavily relied on first-party games (i.e. developed by Nintendo) and some independent developers. By contrast, Sony and Microsoft heavily relied on the main third-party developer powerhouses.

In contrast, Nintendo Wii offered increased interactivity with the players and fostered social gaming, taking advantage of new HW accessories that could be used to improve the user experience to play sports and fitness games.

More importantly, Nintendo Wii value curve included a radically new feature that the industry had never seen before, namely the wireless motion controllers that mimicked players movements and transported players into the video game, which significantly improved the user experience and appealed to games that previously were very difficult to play on a console (tennis, golf, sword fights, etc.). Likewise, it targeted all the family (not only the user experience, but also the type of games) and not only the traditional heavy-gamers segment.

As mentioned before, this Blue Ocean strategy proved to be very successful and allowed Nintendo to outperform its competition for some years. However, innovation is not a static process and being an innovation leader always imply risk, namely when some ideas cannot be protected by intellectual property patents. Sony and Microsoft understood the merits of the approach and developed some additional HW accessories to include the motion controller flavor in their offers (Playstation Move and Kinect, respectively), therefore decreasing the appeal for a less performant Nintendo Wii.

The later Nintendo Switch is another clear example of “Blue Ocean” strategy innovation. After falling behind in market share (since the release of Playstation 4 and Xbox One) and the dreadful results of Wii U, which failed to keep the pace technology-wise with the competition, Nintendo needed another major breakthrough. Once again, Nintendo successfully applied a Blue Ocean strategy to create a new value curve for its product and disrupt the video game market, as depicted in the figure below.

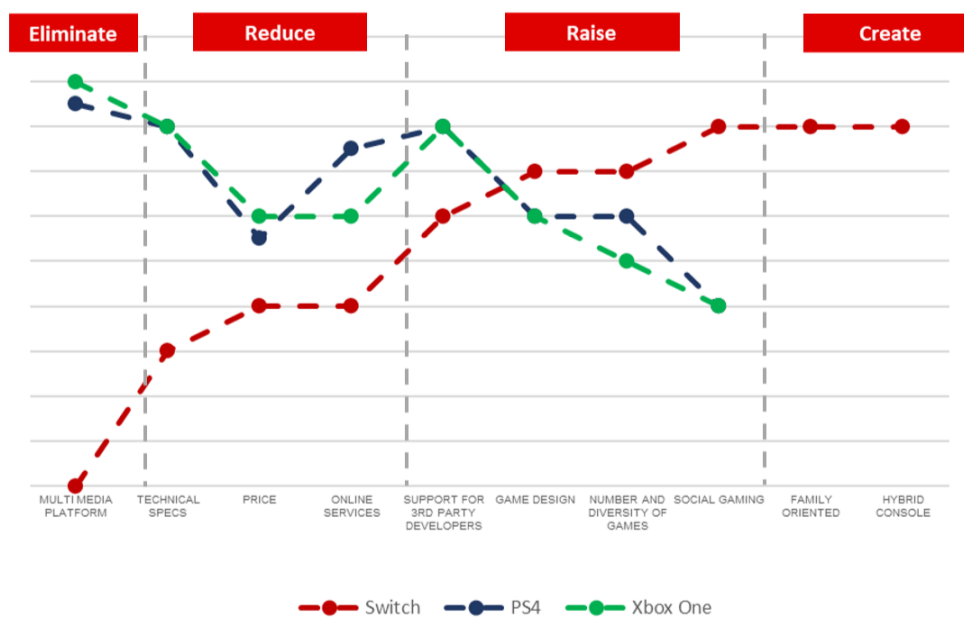


Figure 66 – New Value Curve for Nintendo Switch

Nintendo decided to keep faithful to its long-lasting strategy to focus on exclusively on gaming, eliminating from Nintendo Switch value curve the trend to use the console as a multimedia platform (internet browser, DVD/Blu-Ray player, streaming platform such as Netflix and Hulu).

Just as described above for “Wii” case, Nintendo was not able to effectively compete with technology performance needed for the heavy gamers segment. Therefore, Nintendo Switch value curve uses below market specifications that make it more cost-effective, with direct impact on its market price. A new online platform was put in place (Nintendo Switch Online) at a relatively low cost (around 20\$/year), however still very limited when compared with those of the competition.

One relevant improvement in Nintendo Switch strategy was the increased support from third-party game developers such as Ubisoft, Blizzard and Bethesda, among others. It was, in fact, a win-win situation where Nintendo could enlarge the number and diversity of games available in this new platform, particularly some major hits that in the recent past only available for competition, whereas the third-party game developers could take advantage of the hybrid flavor of Switch to penetrate the handheld segment. Leveraging its expertise as game developer and using a user experience mentality, Nintendo raised the game design and usability above the industry standard. Likewise, Nintendo Switch provides above competition social and group gaming experience.

However, the real distinctive and disruptive aspect of Nintendo Switch value curve is its ability to be played by everyone, everywhere. The hybrid architecture enables “Switch” to be used both as a home video and handheld console, attracting once again gamers of all ages.

Risks and opportunities of innovation in the near future:

Nintendo has dominated the handheld console segment for decades. However, the emergence of new multimedia portable platforms such as smartphones and tablets has started a shift in gaming habits and shrank the game console market. Smartphones, Tablets, and online gaming are threats to Nintendo's existence as a console developer and manufacturer.

Nintendo has consistently opted not to directly compete in technical specifications with Sony and Microsoft, sticking with its different and sometimes unorthodox approach to hardware development. The unique architecture and subpar capabilities of Nintendo's consoles have been limiting the integration of games from third-party developers, particularly high-end powerhouse developers and publishers. Since PlayStation 4 and Xbox One use similar architectures and technical features, producers can develop games compatible with both platforms with only small adaptations. However, due to the significant differences in hardware, the adaptation for Nintendo's platforms does not come without a larger effort. And sometimes cannot even be done, or is done at a cost of significant limitations in games' quality, usability, and appeal. Both Sony and Microsoft are launching a new generation of consoles late this 2020 year, which will only aggravate this situation as game developers will want to take full advantage of the new platforms' technological capabilities (SSD, faster CPU, more memory, etc.). If Nintendo does not upgrade its platform capabilities, the game library for its home consoles will once again be limited to first-party games (will still capture the Nintendo fan base), and games from smaller indie and third-party developers.

If the penetration of Nintendo consoles decreases significantly, it might be important (and mandatory) to open Nintendo exclusive games (those games which nowadays can only be played in Nintendo hardware platforms) to other platforms. If Nintendo cannot continue to innovate, it will eventually be kicked out of the hardware market and become a game developer company only.

7 Vertical Integration

In the video game value chain, several different types of organizations are involved in the process of manufacturing the latest console or video game.

One of the consequences of the rapid sales growth and competition in this industry is that publishers or hardware owners tend to acquire an increasing amount of both publishers and developers in pursuit of the next success, and as a way to control and retain creative talent and ensure a steady supply of content, creating more sustainable value.

Nintendo develops internally and publishes many of its popular games, it is one of its competitive advantage and as a result has high profits from doing so. But this can also represent a big loss when a game fail, and that might not be the case for their competitors that rely more on third parties at this level.

This creation of value resulted till today, for Nintendo, in an excellent record of producing games for their consoles. Three of the most recent top ten games were exclusively published on the Switch and by Nintendo.

Nintendo's strategy, based on internalizing as much as possible in order to better control and influence the final products, also allowed the company to outsource activities where they have low level of core competencies or transactions costs are high and there are disadvantages in internalizing.

Nintendo follows a fables production model, meaning that all production processes were outsourced to third parties being Nintendo responsible for assembly in its own factories, safety, and quality control (Nintendo, 2020g).

By outsourcing the manufacturing, Nintendo reduce their transaction costs and still manage to maintain lower retail prices than competitors.

7.1 Nintendo's Value Chain

There are five primary activities in Nintendo's value chain namely, developing, publishing, manufacturing, distribution and selling (Nerdster, 2019).



Figure 67 – Nintendo value chain

The **Developer** creates the content, in this case the game. It is frequent and key to use both third party and independent developers, to ensure a wide range of innovation and creativity. They receive a fee from the publisher to cover development costs.

The **Publisher** possesses the rights of the game and is responsible for financing, managing, and marketing the video games. They pay a license fee to the console manufacturer, an initial payment to the game developer to fund development and license fees for brands and characters.

The **Manufacturers** are the console and video game makers and have the right to approve titles and manufacture copies of the games. Since the consoles are generally sold at a loss, they make profits with royalties received from the publishers. In Nintendo, the manufacturers include in-house research & development of new console technology and software applications and assembly and quality control of the consoles since production is outsourced.

The **Distributors** buy the games and consoles from the publisher (Nintendo or third party) and sell them to retailers.

Finally, the **Retailers** sell the consoles and games to final customers and are companies such as Wall-Mart, Amazon, Best Buy, Costco, Toys R Us, Staples, and other gaming stores.

Like in every company, Nintendo's main activities are supported by others such as Firm Infrastructure and Human resource management.

7.2 Modes of vertical integration

Nintendo focuses in internalizing areas for which it has core competencies, outsourcing activities for which it has no core competencies and where transaction costs are high. This is especially true for the extraction and processing of raw materials and production as the company completely outsources those areas. When it comes to quality control, rigorous testing procedures and the overseeing of partners' operations Nintendo ensures the highest quality control.

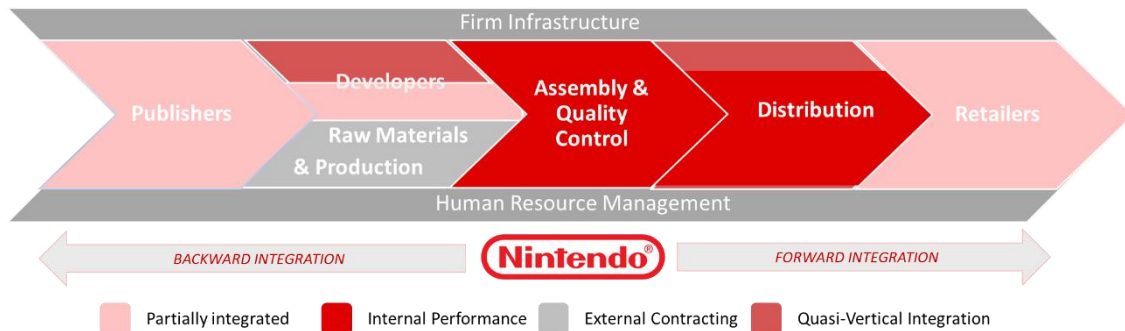


Figure 68 – Nintendo Forward (Downstream) and Backward (Upstream) Integration

Backward Integration

Nintendo, as its competitors, need to have the cooperation of numerous publishers. There are several publishers releasing games for Nintendo systems and even historical examples of publishers that are also competitors like Sega with Sonic the Hedgehog and Super Monkey Ball, or even Sony (Fandom, 2015).

On the other hand, there is a strategic advantage to integrate at this level since they can control and prevent production of the game to other consoles, creating more value to the customer. This also create efficiencies to the company by enabling other games for the same platform to benefit from this strategy.

In Nintendo value chain, both publishers and developers are partially integrated. In fact, we can consider some quasi-vertical integration of some developers. Many of Nintendo's popular games are developed in house but having third party developers working with Nintendo also ensures that a wide range of creativity and innovations are being captured.

Some of the developers working for Nintendo can be considered strategic partners since there is an interest in keeping their services for the future. This is the case of DeNa, a partner that helped Nintendo when moving to mobile gaming, to establish a network in the industry with its vast expertise of developing games for mobile. Also, Alphadream, a company that produced Mario and Luigi titles on behalf of Nintendo, starting with the Superstar Saga in 2003, a series that became a critical success within the Mario fanbase (Gil & Warzynski, 2013).

On the operational activities, with technology changing at the release of each console generation, hardware suppliers are critical to ensure the delivery to Nintendo partner plants.

There is a vertical disintegration of all production processes since they are all outsourced to third party supplier. This is called a fables production model and result in several outsourced production factories that manufacture and send the products to Nintendo to be assembled.

Assembly and Quality control is therefore Nintendo's core competency and is completely vertically integrated. There is also a design safety committee which goal is to screen product design during the development stage.

Human Resources management is also vertically integrated. Like stated on its corporate mission, the company commit toward its employees by maintain an atmosphere in which talented individuals can work together as a team.

Forward integration

In the past, Nintendo's Distribution had a serious impact in the company not being able to forecast and respond to the increased demand. Since then, Nintendo is looking to further integrate distribution to allow for rapid decision-making and improvement in sales services. Still, there are some countries relying on external parties for distribution like Sweden with Bergsala, China with Tencent and Israel with Tor Gaming (Wikipedia, 2020b). The transportation to actual stores and wholesalers is also done by Nintendo.

The company has its own stores however, also relies on other channels (such as Wall-Mart, Amazon, Best Buy, Costco, Toys R Us, Staples, and other gaming stores) to ensure the sell-out of its products.

7.3 Strategic Outsourcing

As we have seen before, Nintendo strategy to vertically integrate as much as possible also allows the company to outsource the activities that either have high transactional costs, where they have low core competencies, or that have clear disadvantages of integrating them (Nintendo, 2020g).

This is the case of the production. Nintendo employs a fables production model, meaning not a single factory is owned by Nintendo. Although the extension of the outsourcing done with production may not seem appropriate to be considered a strategic outsourcing, we can identify both situations in this partnership. There is normal outsourcing and strategic outsourcing here. The production partners in Japan and rest of the world are first-tier suppliers and suppliers of components parts and materials, and work collaboratively with Nintendo to improve the quality, technical capability, safety, and efficiency of the products. By allowing strategic outsourcing partnerships, Nintendo was able to reduce their transaction costs, increase operational flexibility, technological cooperation and still deliver lower retail prices than its competitors.

Nintendo also has a strategic partnership with Tencent, the world's largest video game vendor and one of the most financially valuable companies (Wikipedia, 2020d). Tencent is Nintendo distributor in China, opening the path to Nintendo to reach the world's largest game market by better positioning it to navigate the cultural and bureaucratic barrier, and to push Nintendo's titles to Chinese consumers. As per Tencent, it also allows it to strategically capture more gamer segments, in this case, the family segment, that is poorly covered by video game companies in China and to better position the company to publish its own titles on the Switch globally.

Finally, there are also strategic partnerships with some external developers. Although internal development has a highly competitive advantage, having a wide offer of developers allows creativity, innovation, design attractiveness and expertise to be found outside the company. There are some developers that Nintendo has a good relationship with and is on its best interest to keep fostering the professional relationship. On the other hand, the developers also have the chance of working for one of the top three video game companies in the world. These are companies like DeNa, the main Nintendo partner for development on mobile applications (Wikipedia, 2020a).

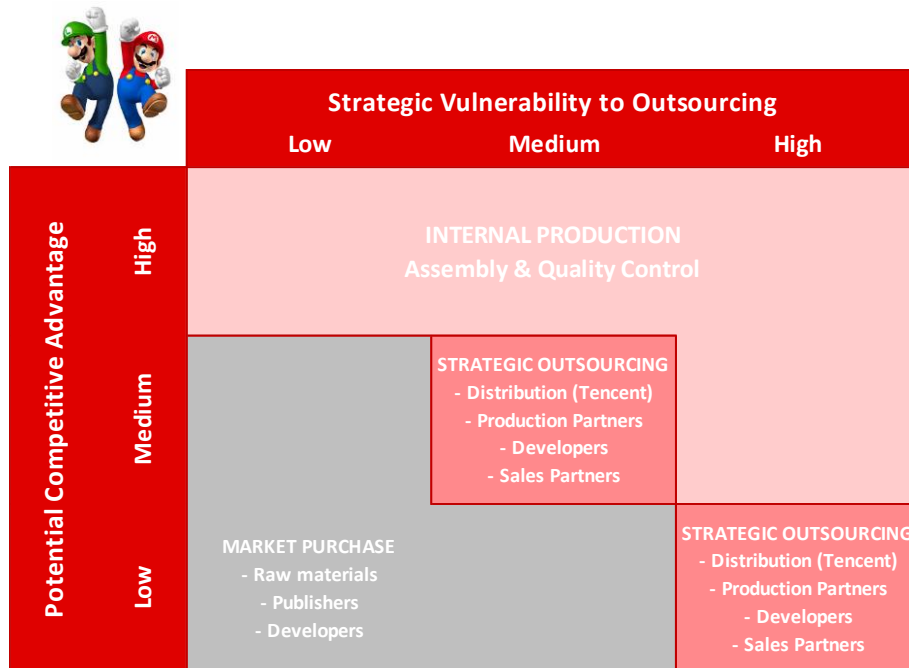


Figure 69 – Vulnerability to Strategic Outsourcing

8 Internationalization

In 1959 due to a licensing agreement with Walt Disney, Nintendo made its first move outside of Japan, to U.S.A. to stamp Walt Disney's characters like Mickey Mouse on Nintendo's playing cards and sell them in both Japan and U.S.A.

This contract proved to be decisive for Nintendo in the long run since it launched the company to the world and to entertainment market. In 1977 Nintendo created its first video game system called "TV Game 6" and "TV Game 15"!

In 1979, Nintendo inaugurated its first international branch in New York "Nintendo of America" which started to build arcade machines, followed by the introduction of a new console, "Game and Watch". Nintendo started shipping all around the world.

After being a success in Japan and after the release of "Donkey Kong" and "Mario" games, in 1987 Nintendo released its *Famicom system (NES)* in the US Market. In 1990 Nintendo controlled 80% of the US market and in 1991, 90%.

Since the introduction of "Game & Watch" (Figure 70) Nintendo had distributors in Scandinavian countries and Germany, and Mattel also distributed the NES in the UK, Italy, Australia and New Zealand. Launched throughout all Europe, NES had to struggle to find its position against Sega system that had the first mover advantage in this market.

Although Mattel operations in Australia and New Zealand proved to be successful in introducing NES to these markets, Mattel lacked a long-term vision for Europe, and failed to launch effectively, reinforcing how important distribution was to the company expansion. After that, Nintendo decided to open "Nintendo of Europe" to allow autonomy for Nintendo distributors.

Nintendo ultimately was able to succeed in Europe and outsold other consoles, but with a smaller margin than in the US and Japan, starting first by Western Europe and moving to Eastern Europe with the help of an Austrian distributor who started selling NES in Hungary in 1991. With the introduction of Game Boy, Nintendo started gaining the European market, specially France and, until today, Nintendo remains the leader in the handheld market.

In the decade of 80's, Toyota and Honda were the Japan's number-one corporations. In 1989 Nintendo surpassed them becoming the most successful Japanese company and, as a result of internationalization, surpassed also American giant companies such as IBM or Apple Computers (Arriola, 2012).

Today Nintendo operates in 41 countries and Nintendo Switch is the top-selling console in 2020 surpassing Playstation4 and Xbox.



Figure 70 – “Game&Watch”

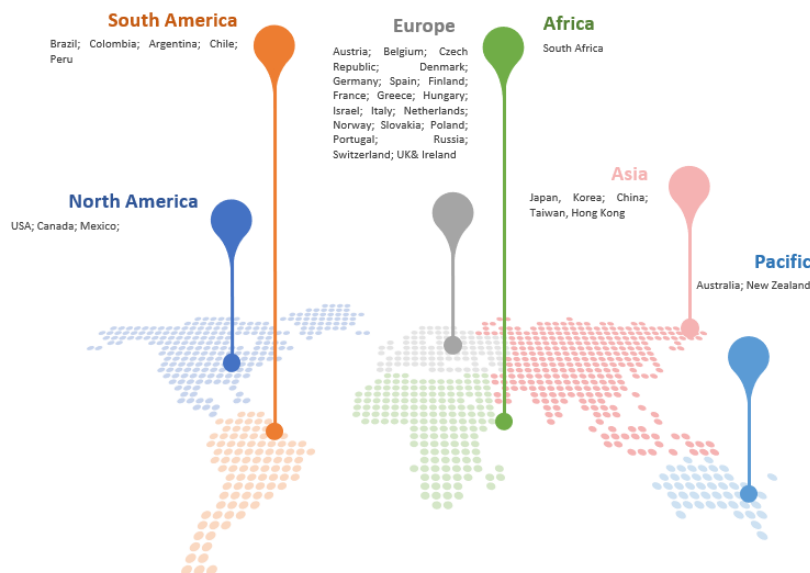


Figure 71 – Nintendo Global Operations


8.1 Country Attractiveness

Nintendo operates and reports its numbers in regions rather than countries. The locations where Nintendo chose to expand were strategically thought to cover those regional markets.

By opening “Nintendo of Europe” in Germany, Nintendo is positioning its distribution centre to serve all Europe and enter Israel. Similar way “Nintendo of Australia” is covering all Australia and New Zealand.

In the following evaluation model, we will consider the separate countries instead of the regional markets since the size of the regional markets and the differences between them are very wide but, as an exception, we will consider European Union for comparison purposes with large markets such as USA, China and Australia.

We will look strategically at some countries where Nintendo have chosen to build its operations, in order to assess its attractiveness, at China, a very attractive market that has it barriers to entry and so was a late entry for Nintendo, and we will also include India, a large market where Nintendo had some small presence in the past but now has not.








			USA	EU	China	Australia	India
							
Sales	Market Size in Volume	10%	8	3	9	2	9
	Average Price Level	8%	5	7	6	7	6
	Access to the Distribution Network	9%	9	7	5	6	2
	Cultural Proximity	2%	6	5	7	4	2
	Sales Assessment	29%	2,13	1,59	1,97	1,38	1,6
Growth	GDP Growth Rate	9%	3	2	8	3	2
	Population Growth Rate	5%	3	2	3	7	6
	Market Growth Rate	10%	0	4	8	3	5
	Openness to International Trends	2%	3	6	4	5	7
	Growth Assessment	26%	0,48	0,80	1,75	1,02	1,12
Margin	Access and Cost of Labor	9%	6	4	9	6	8
	Cost of Land, Materials and Equipment	6%	7	4	3	4	5
	Distribution Margin	4%	5	3	7	5	3
	Financial Costs	2%	7	8	5	3	5
	Legal Regulation / Bureaucracy	2%	4	8	1	6	4
Margin Assessment	23%	1,38	1,04	1,39	1,16	1,32	
Risk	Foreign Exchange Risk	6%	4	5	3	4	3
	Political Risk	4%	6	7	1	6	6
	Competitive Risk	3%	4	2	2	2	2
	Other Risk Factors	1%	3	5	1	4	2
	Risk Assessment	14%	0,63	0,69	0,29	0,58	0,5
Sustainability	Environmental Sustainability	3%	5	7	2	3	1
	Social Sustainability	3%	5	6	3	4	2
	Governing Sustainability	2%	4	5	3	5	2
	Sustainability Assessment	8%	0,38	0,49	0,21	0,31	0,13
Global Assessment		100%	5,00	4,61	5,61	4,45	4,67

Figure 72 – Country attractiveness global assessment

Looking at the global assessment scores we can clearly see the competitive attractiveness of China, driven essentially by the Market size and the Market Growth Rate. This is clearly a Market where Nintendo and its competitors want to be.

This is followed by U.S. market where Nintendo is extraordinarily strong but where the level of risk assessment is lower, Market Share is high, and the distribution network was already there since the card business.

As per India, although the market size is very large, the GDP and Market growth rate are not that high, nevertheless it seems logic that Nintendo would like to mark presence in such a large market but that seems not to be the case with no barriers to enter or no clear specific reason for that.

8.2 Competitive Advantage of Nations

Figure 70 represents the National Diamond model. A further detailed analysis of the four main conditions will help us understand the role of each in the Japan competitiveness, within the video game industry.

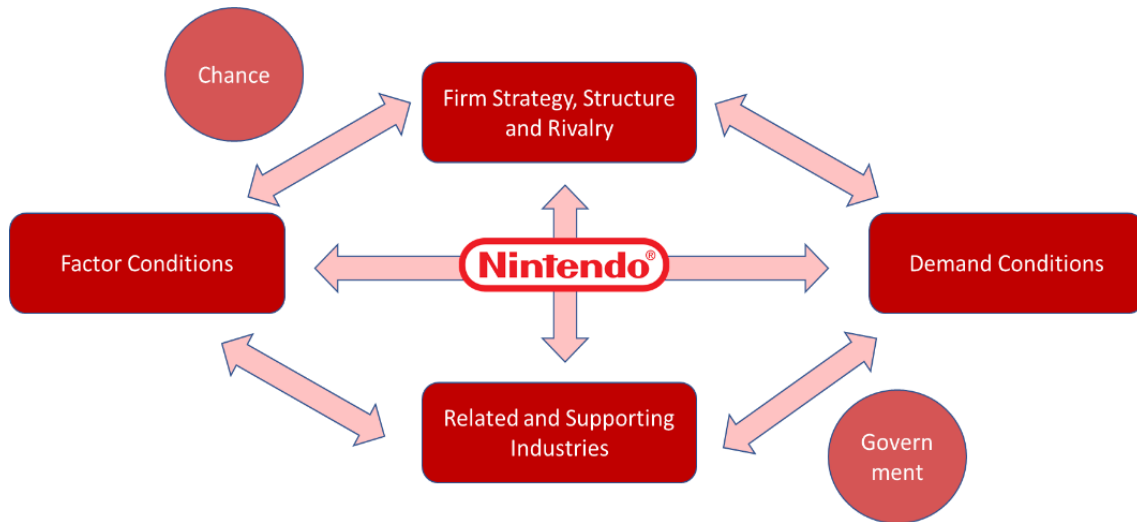


Figure 73 – National Diamond Model

Firm Strategy, Structure and Rivalry

Before the entrance of Microsoft in 2004, console makers like Nintendo and Sony dominated the global market with a market share of more than 95%. The intense rivalry between the three main players led to rapid cycle of product development and the launch of several innovative new products every year. Software developers and hardware manufacturers have strong relationships. Nintendo protected itself by not disclosing the specificities of its games and by all software developers having to have a license agreement and specific development tools from Nintendo to be approved for launch. The proximity and close relationship with hardware manufacturers was beneficial for software developers but, Japanese developers also face issues due to their slow adaptation to global taste. Because of such a huge market they tend to ignore other countries' tastes but this leads to a loss in global competitiveness. In addition, since the development of a game is expensive, small Japanese companies cannot survive and consolidation of game developers has accelerated.

Demand Conditions

Japan is the second largest market for gaming and has the highest consumption per gamer in the world. Japanese are very sophisticated gaming consumers and willing to play the latest releases.

Related and Supporting Industries

The Japanese **electronics cluster** had a number one market share in semiconductors, electronic components, and crystal display panels. Console manufacturers benefit with the proximity to these leading players with access to the most tailored electronic components quickly and cheaply. Nintendo, with the outsourcing of the manufacturing to Japanese external suppliers could focus on research and development and keep having high profits. The Japanese **animation and comic clusters** are also globally

competitive and with a huge domestic demand. Examples are, the market size of comics (“Manga”) and “Hello Kitty” with their goods sold in more than 70 countries. The synergy between these clusters and the gaming industry is so strong that many games are created from anime or manga characters and vice versa. Pokémon is an example of it. Game makers could also identify opportunities in the **Video arcade cluster**, a market with more than 20,000 video arcades in Japan and turned them into home video games. Taito’s arcade game “Space invader” can be said as one of the catalysts to Japan’s console gaming boom.

Factor Conditions

In Japan there are more than 200 game related schools like Tokyo Animation Game College. There is a sophisticated higher education and a large population of engineering graduates. A considerable number of talented people joined the gaming industry and have become well known globally. Most of the Japanese video game companies are large established companies using as main source of financing, bank loans. Nintendo, like other large gaming companies, had tight connection with Japanese local banks, facilitating the access to capital.

8.3 Internationalization Modes

Nintendo internationalization is made through investment mode rather than transactions or projects modes. Nintendo through its expansion had open several subsidiaries to run its operations in different regions, and distribution and marketing subsidiaries. Although in China the investment mode is made through joint venture with Tencent also for both distribution and marketing.

At this stage Nintendo is a multinational company with a vision to expand globally.

8.4 Internationalization Integration and Responsiveness

Nintendo success in internationalization has been built with the focus they have to adapt to local markets.

There has been no change to the product itself, but Nintendo adapted the distribution, marketing and to the culture, habits, and language of each region.

One good example is that each country has its own eShop and that depends on the country setting on the console.

Other example of this is the joint venture with Tencent to facilitate the penetration with distribution and marketing in the Chinese market, using Tencent experience and means to meet the population tastes and overcome the political and regulatory barriers.

And a final example is the commercials taking different approaches in US, UK and Japan to fit the local culture. For instance, a commercial for Mario Kart in Japan casted with two celebrities playing games and talking with each other with a collective approach. The same commercial in UK had non-celebrities playing games and talking with each other at home in a more competitive mode. In the US there was a more direct method of advertising, with a cowboy talking about the fun of Mario Kart in a more informative and persuasive manner.

Nintendo has the same brand all over and the portfolio is partially adapted positioning itself as a transnational company.

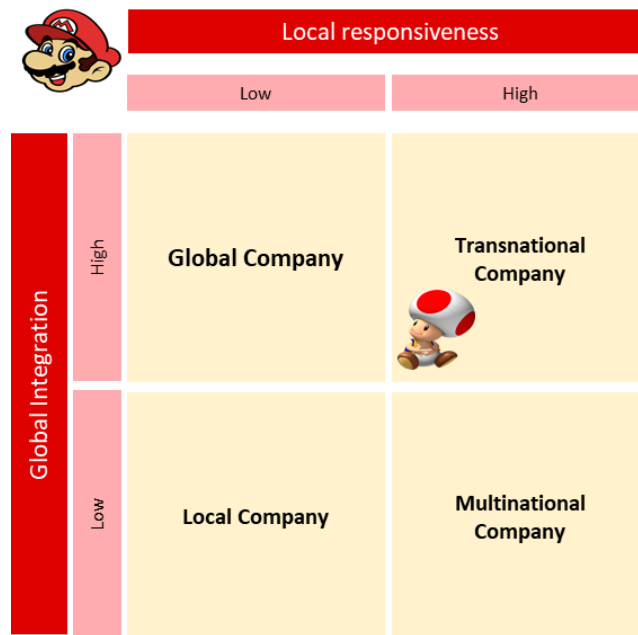


Figure 74 – Nintendo International Integration and Responsiveness

9 Diversification

Nintendo first started out their business as a playing card company in the late 19th Century. The playing card business was successful, and the company explored the segment quite well adopting mainly a product diversification strategy with some versions launched throughout the time, targeting both children and adult segments. An important moment on this business, happened when Nintendo entered into an agreement with Walt Disney – late 50's - to incorporate his company's animated characters into the cards. This strategical move revealed to be a success with more than 1.5 million card packs and leading Nintendo to an important global market share.

This dependency on the Disney paying cards associated to a decline in global sales and the de-focused in adults' cards, led the company to change the approach and to put in place a non-related diversification Strategy in mid 60's. For this, Nintendo invested in several business lines that were far from its traditional market – with neither technological nor direct commercial synergies in place. Among these ventures were packages of instant rice, a chain of love hotels, and a taxi service named Daiya (the one that was able to be explored with success even during a limited time).

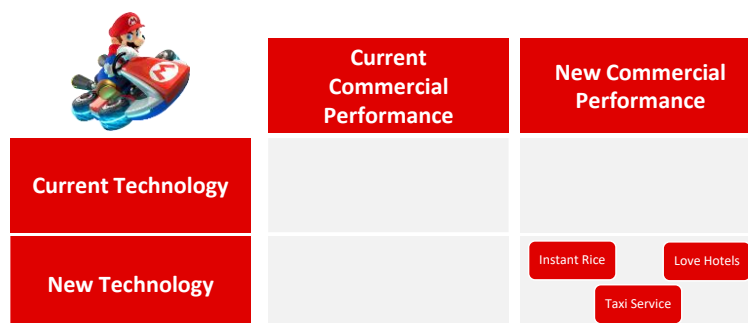


Figure 75 – Nintendo non-related diversification strategy

Nintendo understood that this was not the way to go. After this move into some non-related businesses with no success, and after some relevant investments in Research and Development associated to

important corporate strategic decisions, the company managed to strategically evolve the product portfolio from their initial core business (playing cards) and so remaining within the wider Toys and Games industry. In the 70's, Nintendo envision to join the classic and electronic toys industry, launching some table games and started manufacturing electronic devices, and software and games. In a business strategy perspective, a brand-new life just started for Nintendo by launching its first video game console in late 70's.

The classic table games were part of the evolving business strategy, and were important on the shift performed to the company in that moment. Although, after some years, the company effectively positioned the Electronic business as the Core business, and so the major efforts were mainly applied to electronic games. At the end of the 70's, Nintendo decided to launch a remote-control vacuum cleaner (Chiritori) and an electronic drums' machine (Ele-Conga), taking advantages from the technological synergies coming from electronics.

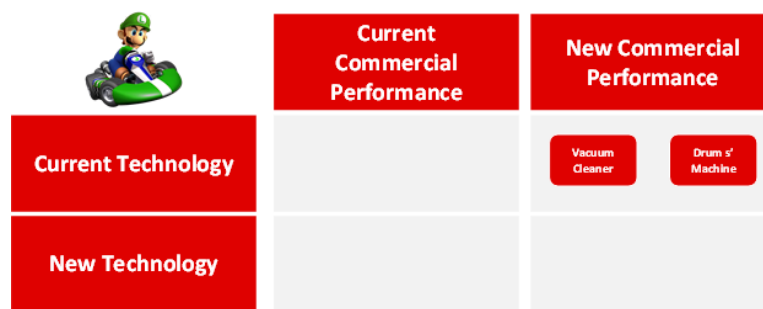


Figure 76 – Nintendo related diversification strategy with technological synergies

Since then, Nintendo evolution was essentially on the gaming market segment, and operating both the software and hardware industry, through exploring new consumer trends and taking advantage of the evolution of technology, both on devices and games, and reinventing new market strategies and products. Creativity was always present (as it is still today...) in the core competences, as well as research and development, both driving innovation and so future products (both devices and games). This led to the creation of exclusive and very successful devices as well as the development of differentiated games – all this enhanced the exclusivity on these games as well as some of the most recognized characters – owned by Nintendo - that could be explored in many different ways.

Besides the multiple successful devices launched throughout the years, some did not succeed. Recently, as an example, after the great success of Wii (2006) – actually Nintendo most sold device that was considered a major breakthrough innovation - and Nintendo 3DS, Nintendo tried to launch a new gaming device – Wii U (2012). The main idea was to try to compete with tablets, understanding the acceptance of this kind of device globally. Despite the context around the use of tablets (and the threat around possible growth of gaming in these devices), they decided to do differently, trying to innovate through the use of new technology and to differentiate from the tablet's devices in the market with different look and feel.

In 2016, in order to boost the diversification strategy, Nintendo formalized agreements with Universal Parks & Resorts to extend its presence to amusement parks. The theme park area Super Nintendo World is set to open at Universal Studios Japan at the end of 2020.

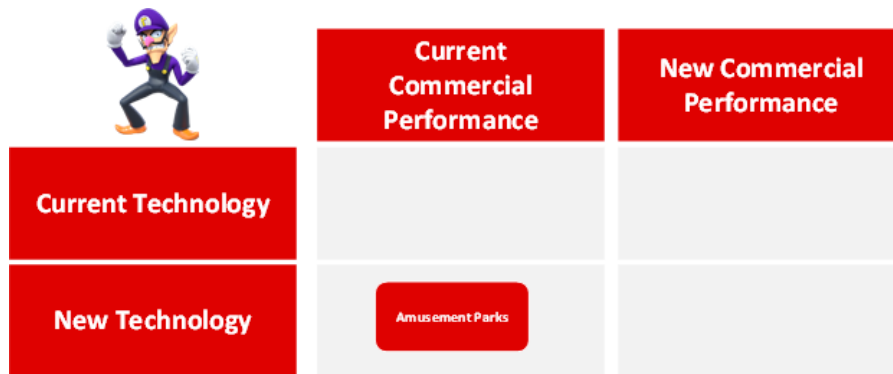


Figure 77 – Nintendo related diversification strategy with commercial synergies

9.1 BCG Matrix

The BCG Model is a famous conceptual model that is frequently used and applied to business strategy. This matrix tried to combine market growth and market share to provide insightful information about positioning and strategy, and so helping the company building-up important conclusion that can shape strategic recommendations and actions. The matrix presented below was developed in order to reflect Nintendo position inside the Model. As Nintendo is not a very diversified company, it was only possible to explore the BCG Matrix in a products-markets perspective, as today Nintendo is only operating in the Toys and Games industry – all the other tries in different businesses, didn't were successful enough to be further explored by the company.



Figure 78 – BCG Matrix for Nintendo

Cash Cows

Pokemon Go: Pokemon Go was created in 2016, in a partnership with Niantic, and became a huge success. Once a viral sensation all over the globe, it hasn't fallen of the map. After the big momentum in 2016, with the capacity to generate big returns for Nintendo and the partners, it started losing some players. Nintendo continued investment in the platform to improve the experience, lead them to increase satisfaction of the customers and so to conquer more and more market share. The investment made lead

the company to maintain the leader position and translate this into a long-term monetary success for Nintendo.

Pokémon Go had a record year in 2019, taking in an estimated \$900 million through in-app purchases. That means Pokémon Go has surpassed its launch year in revenue – when the viral sensation was at peak.

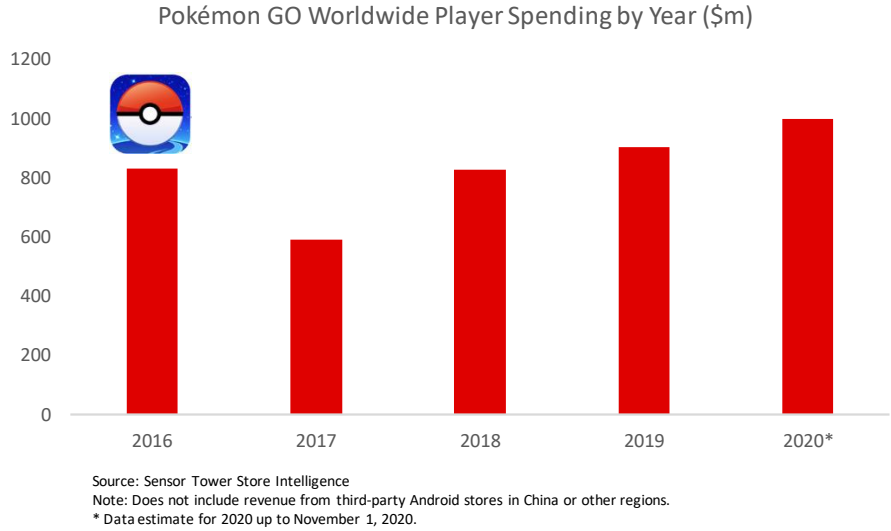


Figure 79 – Pokemon Go worldwide user spending

Nintendo 3DS: Nintendo 3DS was a huge success at after being launched by Nintendo. Between 2011 and 2014 the console sold more than 40 million units. After that period and reaching a very high market share, they continued to deliver important revenues even with low investment – Nintendo was able to potentiate the console and maximize the revenue through the capacity to launch specific games (also from some of the most relevant characters) for that device, turning them a cash cow.

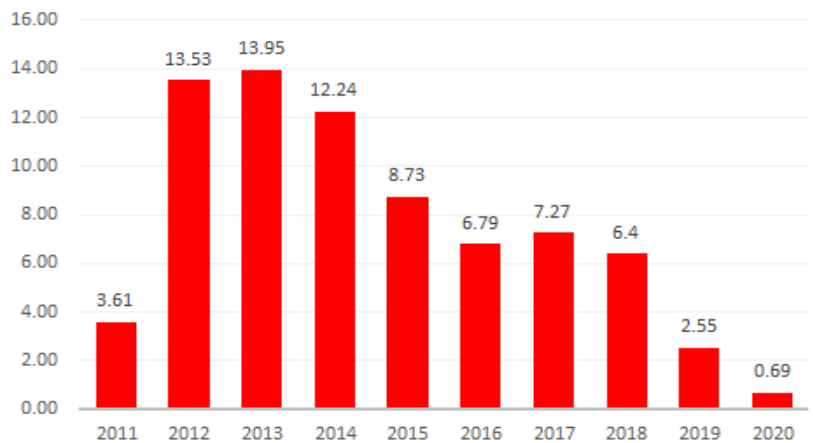


Figure 80 – Nintendo 3DS sales (million units) over the last years

The Legend of Zelda: The Legend of Zelda was launched in 1986 and, since then, 19 different titles were released. This title is one of the most prominent and successful franchises, becoming a cash cow for the company – the market share for this type of games is high with no relevant growth, and delivering a very important revenue throughout the time, with Nintendo maximizing the profits around by launching several different games for the different available platforms.

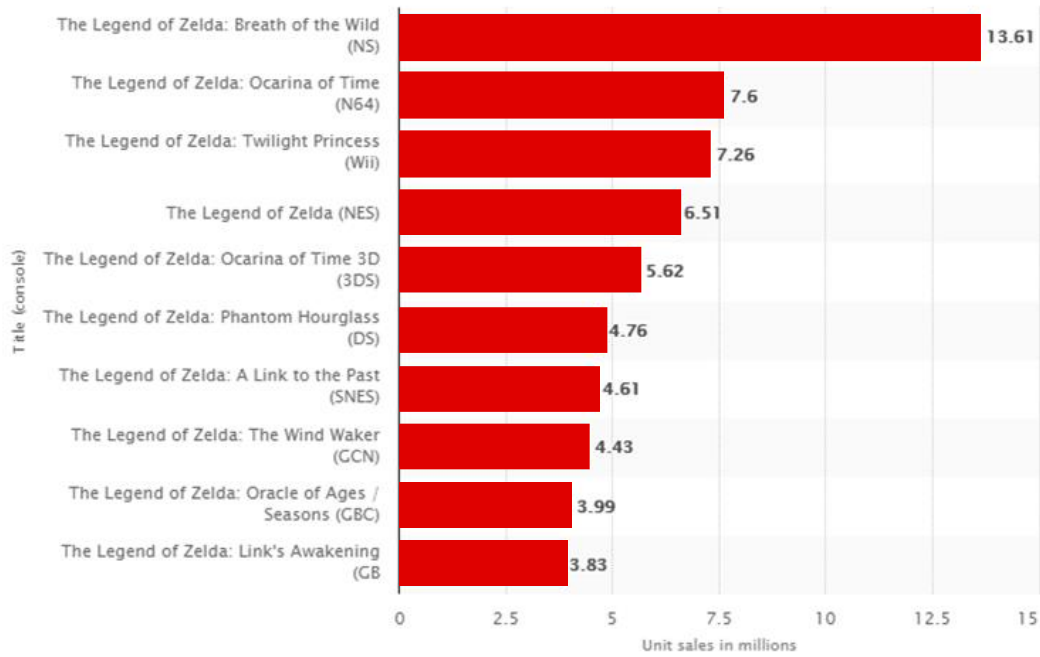


Figure 81 – The Legend of Zelda Unit Sales

Stars

Mario: Mario is a fictional character in the Mario video game franchise and owned by Nintendo. Mario character is *responsible* for the creation of more than 200 video games and it is the best-selling video game franchise globally, with more than 600 million units sold everywhere. Mario is being constantly *reinvented* and associated to brand new games. This fact led to the capacity to expand the business related with this specific character and so have a high market grow – as well as market share. It is a very important source of income not only in Video games but also per the capacity to explore the intellectual property in merchandising and toys.



Figure 82 – Mario videogames sales ranking

Nintendo Switch: Nintendo switch is the most recent innovation from Nintendo – they were actually able to create a new market innovation and to respond to the mobile game business growth. Nintendo switch

had an huge acceptance from the customers and it is continuously gaining market share. The company is still investing in this platform – which is actually representing an important part of the company global revenues – and could soon be considered a cash cow for the company (even co-existing with mobile offer)

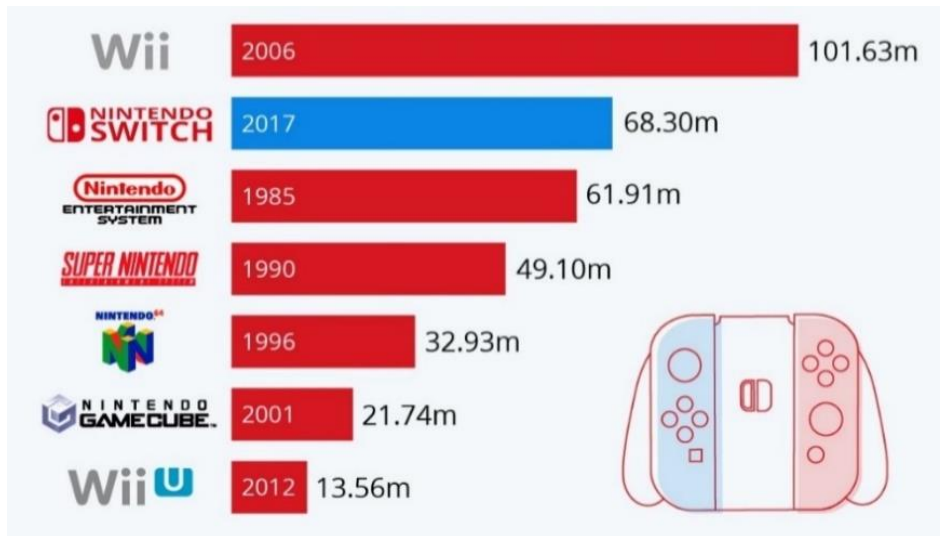


Figure 83 – Nintendo consoles sales overview

Splatoon: Splatoon is a series game owned by Nintendo, which sold globally more than 15 million copies. Launched in 2015, the title was very well accepted and sold more copies than Mario Kart 8 (one of the big references at the time). Despite this, the titles didn’t have the capacity to growth to a dominant position in terms of market share.



Figure 84 – Splatoon sales comparison

Question Marks

Metroid: Metroid is a series game created and owned by Nintendo in the 80’s. The series is constituted by 8 franchise games and has seen a release in almost each Nintendo console. Despite being an important game for Nintendo, they never had extraordinary sales and never conquered the market share expected. The game needs a brand new life, maybe with Switch, in order to be able to increase customer’s acceptance and so the market share, in order to move to another quadrant of the matrix

Rank	Game	Platform	Release	Total Units (m)
1	Metroid Prime	GC	2002	2.82
2	Metroid	NES	1986	2.73
3	Metroid II: Return of Samus	GB	1991	1.76
4	Metroid Fusion	GBA	2002	1.68
5	Metroid Prime 3: Corruption	Wii	2007	1.63
6	Super Metroid	SNES	1994	1.42
7	Metroid Prime 2: Echoes	GC	2004	1.33
8	Metroid: Other M	Wii	2010	1.11
9	Metroid: Zero Mission	GBA	2004	0.84
10	Metroid Prime Hunters	DS	2006	0.72
11	Metroid Prime: Trilogy	Wii	2009	0.65
				16.69

Figure 85 – Metroid Games series sales

Dogs

Wii U: Nintendo Wii U was a big failure for Nintendo. Despite the huge investment in this console the sales achieved and the market share were both disappointing. The number of games produced and sold were also reduced in no major success to highlight. The better part was that this failure, opened the door for Nintendo to reinvent (again) and launch Nintendo switch.

Nintendo is used to deal with dogs during its own history – not always their products (consoles and/or games) had the success expected but Nintendo is used to look at it as an opportunity and uses to come just after with a successful product.






Console	Rank	Share
 Xbox One	#1	53%
 PlayStation 4	#2	31%
 Xbox 360	#3	9%
 Nintendo Wii U	#4	6%
 PlayStation 3	#5	1%

Figure 86 – Nintendo Wii U – Market share (2016)

Code Name STEAM: Another example of a disappointing launch for a Nintendo game. The game failed to gain any relevant market share, after the big expectation around the game – even in the first week missed the Top 20. As there were no growth foreseen or positive signs from the customers, Nintendo didn't progress with the series.

9.2 Key Insights

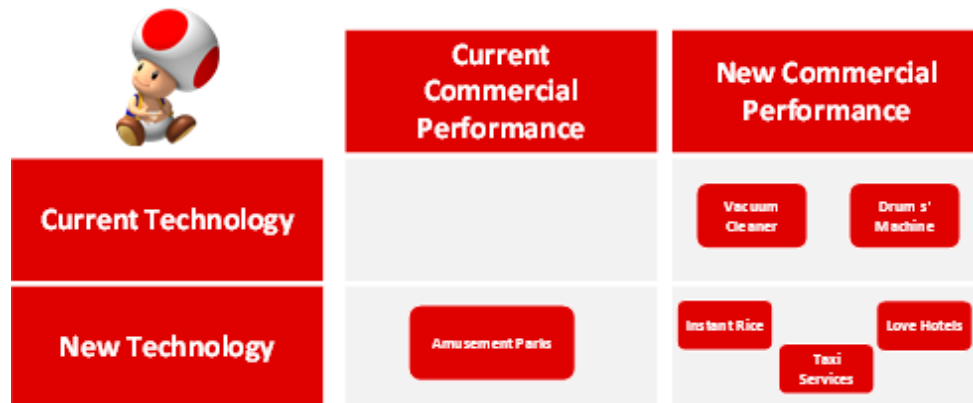


Figure 87 – Summary of the Diversification Strategy applied by Nintendo throughout the years

Summarizing the diversification strategy applied by Nintendo throughout the time, we can highlight that they applied both related and non-related diversification strategies, with successful and unsuccessful stories that were detailed above.

Nintendo evolved from a playing card company to a multinational consumer electronics and video game company. During this journey, they tried first to diversify to non-related businesses – Rice, Hotels and Taxis – with no success, as it diverged completely from the core competences of the company and the lack of know-how to drive those businesses forward were limited. After that, they decided to step back, removing these businesses from the portfolio, and decided to concentrate again on the Toys and Games industry exploring different products and segment – classic and electronic games. It revealed to be then a successful story.

They were able to position themselves as a leading player in the electronic games, always innovating both in devices and games development. The exclusive characters created were a way to secure the exclusivity in the market, enhancing the possibility to drive new streams of revenue based on that (mainly merchandise).

With all the success in the Electronic Games, Nintendo is currently planning to launch Amusement Parks – a new try on the related diversification strategy, enhancing a new way of revenues through the capacity to explore even further all the exclusive games and characters created throughout the time.

10 Corporate Development

Corporate development concerns to a set of actions and decision at a corporate level, to pursue opportunities to acquire different businesses and/or strengthen own competencies and enlarge market as well as strategic alliances which help company for to enter some markets and broaden product offering. In this chapter we will offer a review on Nintendo's main strategic alliances, acquisitions, and potential mergers. However, as the company has almost a century of history of corporate development this analysis will be presented in non-exhaustive way, covering the most representative examples.



Figure 88 – Sampling of Nintendo Switch Partners

10.1 External Development: Strategic Alliances

From our analysis we can conclude that Nintendo's one of the main contributors to success were (and are) strategic alliances. And this statement stands true even though many of the cooperation backfired. From strategic point of view, we can see a clear preference of Nintendo to invest rather in alliances than acquisitions. Therefore, in this analysis we will focus mostly on the alliances which changed the history of the company and had a significant impact on its existence in electronic entertainment industry.

It is common that during the growth and maturity evolution stage of a company internal development is sufficient, and the firm develops alliances only in later stages: during growth and maturity. This pattern we see also in Nintendo's business development case – in the first decades after establishment in 1889 it had no major partners. We need to remember that the first product of Nintendo were card games, and it was also its main offering almost until the 60s of the next century. Despite unique offering of designed cards, Nintendo was set with own resources. Until the time it started planning of developing further into different markets and products.

Let us have a broader look how those alliances were developing for Nintendo and what benefits or risks they brought. After this initial analysis we will be able to categorize them based on alliances' purpose and see deeper what lessons they brought to this gaming giant. (Fandom, 2016)

Disney

In 1959 Nintendo signed licensing agreement to manufacture theme cards with Disney's characters. The main **benefit** was that Nintendo could tap to international market thanks to this partnership. Back in 60s Nintendo received not only rights to publish cards, but also game boards and Disney themed rice seasoning. This last product supported Nintendo's pursue of diversification. Another **benefit** of this huge success of the Disney products was that Nintendo could enter Kyoto Stock Exchange and the Osaka Stock Exchange (Fandom, 2016).

Since beginnings of the computer games Nintendo developed numerous games based on Disney characters. However, despite the decades of cooperation, Nintendo's plan of developing business based on their IP might start direct competition with Disney in theme parks (Kidd, 2020).

Potential risks: If Disney would like to retaliate, it could give the rights to the games produced by them only to main competitors, like for example Sony.



Figure 89 – Mitsubishi Electric and other electronic suppliers

Mitsubishi Electric

The next major alliance for Nintendo on its history timeline was agreement with Mitsubishi Electric. **Main benefit:** Nintendo was able to enter the market of video games, where it would stay for decades to go (Fandom, 2020). Together with Mitsubishi Electric in 1975 Nintendo developed a video game system which would use an electronic video recording (EVR) and introduce microprocessor into video games. In 1977 thanks to fruitful cooperation of both firms Nintendo developed home-use video games in colour.

Potential risks: the risks in this case were limited – Mitsubishi was not planning entering the same market of gaming, but it was interested in contract for developing electronic elements for trending consoles.

Ricoh and other electronic suppliers

Nintendo was in growth stage at early 2000 and with exploration of new market of video games it started to rely more on strategic alliances with electronic suppliers. The firm's network had extended to around thirty companies, like for example Ricoh (Nintendo's main source for semiconductors) and the Sharp Corporation. The first cooperation was a breakthrough for Nintendo in producing Famicom consoles. When the project was only an idea Nintendo's manager Masayuki Uemura was searching for alliance with a firm which would manufacture CPUs and PPUs needed for the system. Most of electronic companies refused cooperation viewing project as too risky. The only company which took the challenge was Ricoh. And Ricoh agreed only because Nintendo declared that in 3 years it will purchase 3 million chips for Famicom. This was a bold statement of Uemura, but eventually it convinced management of the future supplier (Wikipedia, 2020b).

Benefit for Nintendo: outsourcing R&D for chips.

Potential risks: Ricoh could cancel cooperation if Nintendo would not keep its promise to order 3 million of chips. Which would be leaving company with unfinished consoles.

Atari

The formation of the modern video industry in the US is often attributed to Atari. The first incarnation of this company developed first game console (Fandom, 2017). Therefore, strategic alliance with Atari would mean broad reach for Nintendo's games, especially in the US. As a result of this Nintendo's strategic planning, in 80s Atari ported Nintendo's games: Donkey Kong, Donkey Kong Jr., and Mario Bros. However, Atari's consoles were of poor quality and were lacking quality control. When the company went bankrupt, Nintendo would cite this fiasco as a reason for their strict third-party licensing policies in 80s and 90s.

When after bankruptcy in 1984 Atari split and create subsidiary Tengen Inc. Nintendo decided to give one more chance for cooperation with Atari. Nintendo had bought 3 games from Tengen to be adapted to NES. As a result of Nintendo's strict licensing policies cooperation finished in series of legal battles which finished with ban of distributing games over NES (Fandom, 2020).

Benefits: Porting Nintendo's games, especially in US market. Internationalization.

Risks/costs: loss of fanbase, because failing hardware of Atari. Which influenced brand's perception for Nintendo.

Elektronorgtechnica

This rather transactional alliance of Nintendo was highly influenced by political global climate of 80s. Elektronorgtechnica (ELORG) was a Soviet agency which was later privatized and as Russian company produced software for private sector. The company developed a game which name is known to many: Tetris. In a matter-of-fact firm would be re-named later to "The **Tetris** Company". After tough negotiations Nintendo was able to obtain copyrights to the game (also for the US market). Tetris was first developed in 1988 for Famicom and few months later it was released on the Game Boy (Weisberger, 2016). Success of Game Boy was immense, and Tetris was credited as device's killer app.

Benefits: Winning new customers by unique game

Costs: Costs of acquiring copyrights for the game

Sony and Phillips

In 80s Nintendo was searching for strategic alliance with electronic supplier which would develop Super Famicom CD-ROM Adapter. The best candidate seemed to be at this time Sony. The deal which was made between those two companies in 1989 was supposed to result in creating super NES with an in-built CD Drive. The "Nintendo Playstation" with this hardware was announced by Sony at conference in 1991. However, at the same day Nintendo announce that it is dropping the deal with Sony and will work with Sony's rival – Phillips. The main reason of this "betrayal" was that Nintendo was worried that Sony uses this cooperation as jump into gaming industry. This fear was not unjustified and soon Sony released "Playstation" - a console that married the two biggest technological developments for video games in the 1990s: CD storage and state-of-the-art 3D graphics (Donovan, 2018). As a result of this failed alliance Nintendo and Sony became fierce competitors for decades to come.

Benefits: Experiences partner developing hardware

Risks/cost: Sony copied the technology and released own PlayStation

Alliances for Nintendo 64 console

In middle of 1993 Nintendo announced development of new console Nintendo 64. This would be possible thanks to strategic alliance with among others with Silicon Graphics. Readiness to cooperate announces aswell NEC, Toshiba and. Those alliances were necessary for Nintendo to obtain technology and manufacture the new console, however they proved also to be a reason for production delays. The initial release of Nintendo was planned for 1995, but in reality, it was released only in June and September 1996 in Japan and the US. In Europe new console was available for sale only in 1997. Despite delays technological advances of new consoles built with partners cause that Nintendo 64 became one of the most recognizable consoles in the world (Wikipedia, 2020b).

Benefits: innovative technology for the console (product development)

Costs: Costs of the hardware. Risks of delays.

The Pokémon Company



Figure 90 – Pokémon's Nintendo Joint Venture

A common misconception about the Pokémon Company is that Nintendo owns it. The fact is that Nintendo created joint venture with Game Freak (a game developers who programmed most of the Pokémon games) and Creatures (a game developer who programmed few other Pokémon games), but it does not own those publishers (Gilbert, 2017). This cooperation started in 1996 and lasts until today. This common misconception comes from the fact that most of the Pokémon games were published exclusively for Nintendo consoles. The close cooperation between companies and restricting the rights of distribution proved to be successful. Nintendo was able to sell 31.37 million units, with the video game series exceeding a total of 300 million units in sales as of 2017 (Wikipedia, 2020c).

Benefits: Diversified product (games). Sales enhanced by exclusivity of the contract.

Costs and potential risks: minimal risk of Pokémon being produced for other Nintendo's competitors

IBM

In 1999, just before Sony released its new PlayStation II, on press conference Nintendo announced its alliance with IBM. The contract was worth \$1 billion and gave IBM rights to manufacture the state-of-the-art copper chip which would give new Nintendo's console superior performance. The chip was though only part of the multi-layer technology which IBM would deliver to Nintendo. As a result of cooperation

Nintendo Cube was released in 2001. 21.74 million GameCube units were sold worldwide before the console was discontinued in 2007 (Forbes, 1999).

Benefits: technological knowledge of the partner to develop chips with above average performance

Risks and costs: \$1 billion for chips. Potential risk was that IBM would sell the chips also to competitors.

DeNA Co., Ltd.

DeNA is a Japanese company producing mobile phone games. In 2015 Nintendo announce its partnership with the firm in order to tap to mobile games market. Under the agreement DeNA produced mobile games using Nintendo IPs and helped creating a membership program that substitutes for Club Nintendo. To strengthen the relationship Nintendo swapped 1% of shares creating a capital alliance with this firm (Fandom, 2019). As we know though from previous analysis, despite growing market of mobile games, the financial results for Nintendo were unsatisfactory in this industry. As a result of that Nintendo abandoned further development of this kind of games and loosen cooperation in this matter with DeNa. Despite this pivot in games development, as recent Nintendo's annual financial report from 2020 states, the company invested further in this strategical partner. In total Nintendo owns over 15 million shares of DeNa worth \$165 million (Strickland, 2020).

Benefits: possibility of entering mobile games market without having own expertise

Risks and costs: monetary cost was the cost of swapping shares. Not so obvious cost was that Nintendo did not have so much influence on how the introduction of the mobile games happened. In the end the financial results forced Nintendo to exit this industry.

Distribution partners

Naturally, Nintendo would not be able to have such a wide reach for its consoles and games if not the right distribution network. Apart from own distribution abilities, online shop and branded stores Nintendo is tapping into demand for games through various distributors. In US those would be currently for example VAST INC and Alliance Entertainment. In Latin America Nintendo reached an agreement with NC Games to distribute its products in Brazil. Major recent alliance was established with Tencent to distribute the Nintendo Switch in China starting in December 2019.

Benefits: internationalisation and broader distribution of own products

Risks and costs: delays in deliveries. Monetary costs of cooperation

Indie Games publishers

Before release of Nintendo Switch the company announced that it will put emphasis rather on quality than quantity of games accepted – this was due to negative experience with games published for Wii. Only one year after releasing Switch, Nintendo started to admit more “IndieGames”. Nintendo's senior manager for publisher and developer relations Damon Baker said about the Indie content creators for new console: "I think the best way to explain it is, over the last year we have been evolving past what was initially more of a curated content position to now a curated partnership position" (Kerr, 2018). For the previous consoles, the independent games would be rather purchased, whilst for the new Switch Nintendo would bound the publishers more to core business and create strategic alliances. With this strategy, Nintendo only accepts high-quality content created by experienced developers who can cope with creating flawless games for Switch. This strategy allows also to develop long lasting relationships with

game providers. Among those publishers would be: Forever Entertainment, Modus Games, QubicGames among others.

Benefits: Product differentiation

Costs: Loosing fans because of poor quality of the games



Figure 91 – Indie Games produced by Strategic alliances publishers

As mentioned in the beginning of this chapter the alliances of Nintendo could be categorized based on the company’s purpose of developing them. This table is providing a short sum up of those partnerships:

Purpose	Example	Benefits	(Potential) risks and costs	Remedies
Taping foreign markets	Disney	Accessing global market of card games Acquiring games for own consoles with Disney characters	Disney could provide games exclusively to Nintendo’s competitors	Nothing clearly communicated by Nintendo
	Atari	Gaining clients for own games especially in the U.S.	Lost of credibility as quality games producer because of faulty Atari consoles	New more strict contracts with the game’s partners
Targeting different customer segment	DeNA	Entering mobile game market	Lost of financial resources which were put into developing cooperation and games	Exiting mobile game market
	Indie Games Publishers	Offering broader range of games	Low quality games	Working only with big publishers who can cope technically with Nintendo’s consoles
Technological Innovation	Sony/Panasonic	Producing cutting edge new consoles (full product)	Sony learned from Nintendo and copied their technology to create own console	Not entering such cooperation again
Technological Development	Mitsubishi Electronics and IBM, NIC, Toshiba	To outsource own R&D for hardware parts development and production of them	Delays in production	Working with only trusted partners

Figure 92 – Costs, Benefits and Potential Risks of Nintendo’s Strategic alliances

Taking under consideration above mentioned examples we can sum up the benefits which each cooperation provided to Nintendo. But this summary points also the main risks of those past (or still current) alliances. Nevertheless, looking on the actions of Nintendo after each cooperation's issues we can see that they learned on their mistakes and introduced certain "remedies" - methods of coping with problems with working together for future cooperation.

10.2 Mergers and Acquisitions

A peculiarity of Nintendo is its reluctance to mergers and acquisitions. As former Nintendo's president Satoru Iwata said in one of the interviews in 2014: "the company's focus is on building strong relationships with external developers and working closely with them rather than acquiring them outright" (Fahey, 2004). The reasoning behind this strategy is that investment in a company carried no guarantee of favourable results. Analysing the acquisitions of Nintendo, we can confirm, that this is not a strategy pattern and if an acquisition happens it's rather shares investment. Nonetheless, it is worth to mention few examples:

Mobiclip

In 2012 Nintendo has announced acquisition of French video codec company Mobiclip (Yoon, 2012). Mobiclip was offering its technology already to Nintendo's Game Boy Advance and Nintendo DS. The acquisition was supposed to improve company's offering of high-quality video with low battery consumption. This technology was employed in games for 3DS and Wii U.

Benefits: Acquiring technology and skills of Mobiclip for further own product development

Risks: Incompatibilities in company culture

Pux Corporation

On September 2013 Nintendo acquired 28% of stake in PUX Corporation – a subsidiary of Panasonic. With this acquisition Nintendo wanted to acquire technology for software engine. This software would allow face, voice, and text recognition. The PUX software package has been used for Wii U and Nintendo 3DS games (Siliconera, 2013). Nintendo would combine own expertise in games programming with given technology to develop own consoles.

Benefits: technology for software engine

Costs: 28% of stake in PUX Corporation

Bandai Namco

As latest 2020 Nintendo's annual report shows, Nintendo made proportionally the biggest investment into this principal game development partner. Nintendo owns already over 3.8 million shares of Bandai Namco which are worth \$186 million. As the financial report states: "The Company holds investment

shares for the purpose of maintaining and developing business alliances and business relationships if it is deemed to contribute to improving corporate value over the medium- to long-term.”(Strickland, 2020).

Benefits: maintaining and developing business alliances and business relationships

Costs: costs of Bandai’s shares

To sum up again, from strategical point of view we can conclude that if Nintendo acquires company it is rather for purpose of obtaining a technology. However only in one of the mentioned examples Nintendo bough completely company. If we analyse investments of this company very soon, we can understand that the biggest shares acquisitions happened to support strategic alliances.

Possible Mergers

Nintendo’s reluctance to fully acquire other companies is somewhat reflected in unwillingness for mergers. As critiques were writing already in 2014, Nintendo had billions of dollars in the bank account, but was hesitating to spend it in anything (Grubb, 2014). Other critiques were saying that merger with another company would be a great solution for Nintendo to overcome financial troubles after fiasco with Wii console. Indeed, the president Satoru Iwata announced this year a possible merger with another company (Futter, 2014). At that time, some investment experts were expecting Nintendo to merge with Disney or Sony. Other sceptics were saying that Nintendo would rather cut costs and make executive changes until their financial situation improves. As history showed that the sceptics were right and Nintendo operates as an independent company pursuing it’s way with new Nintendo Switch.

Nintendo’s Alliances and acquisitions vary according to the flexibility and resources involved in the relationship. Those relationship could be depicted as in presented graphic:

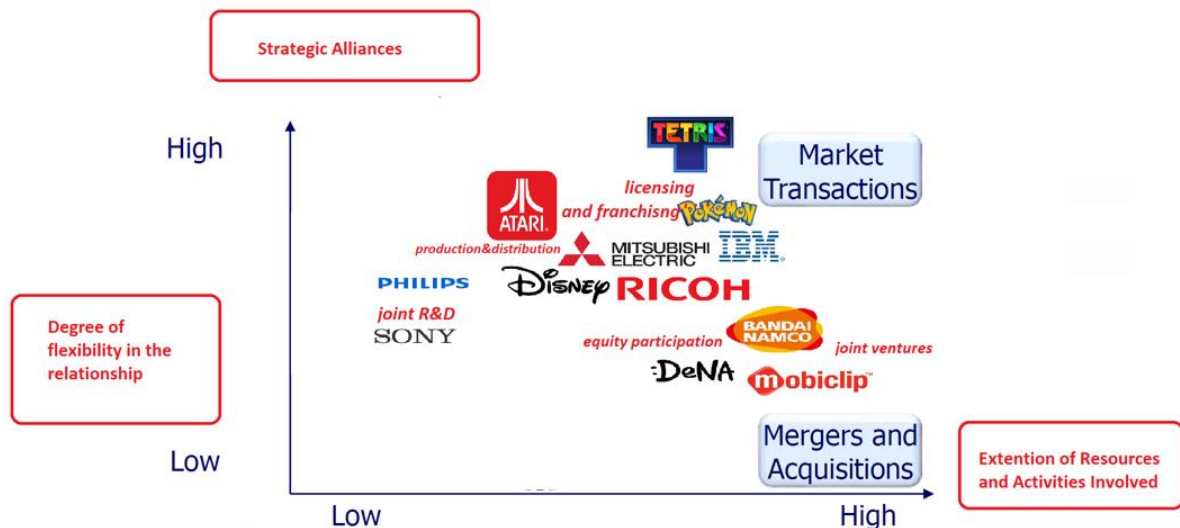


Figure 93 – Nintendo’s alliances

Figure 94 bring together the reasons for internal development, alliances and M&C:

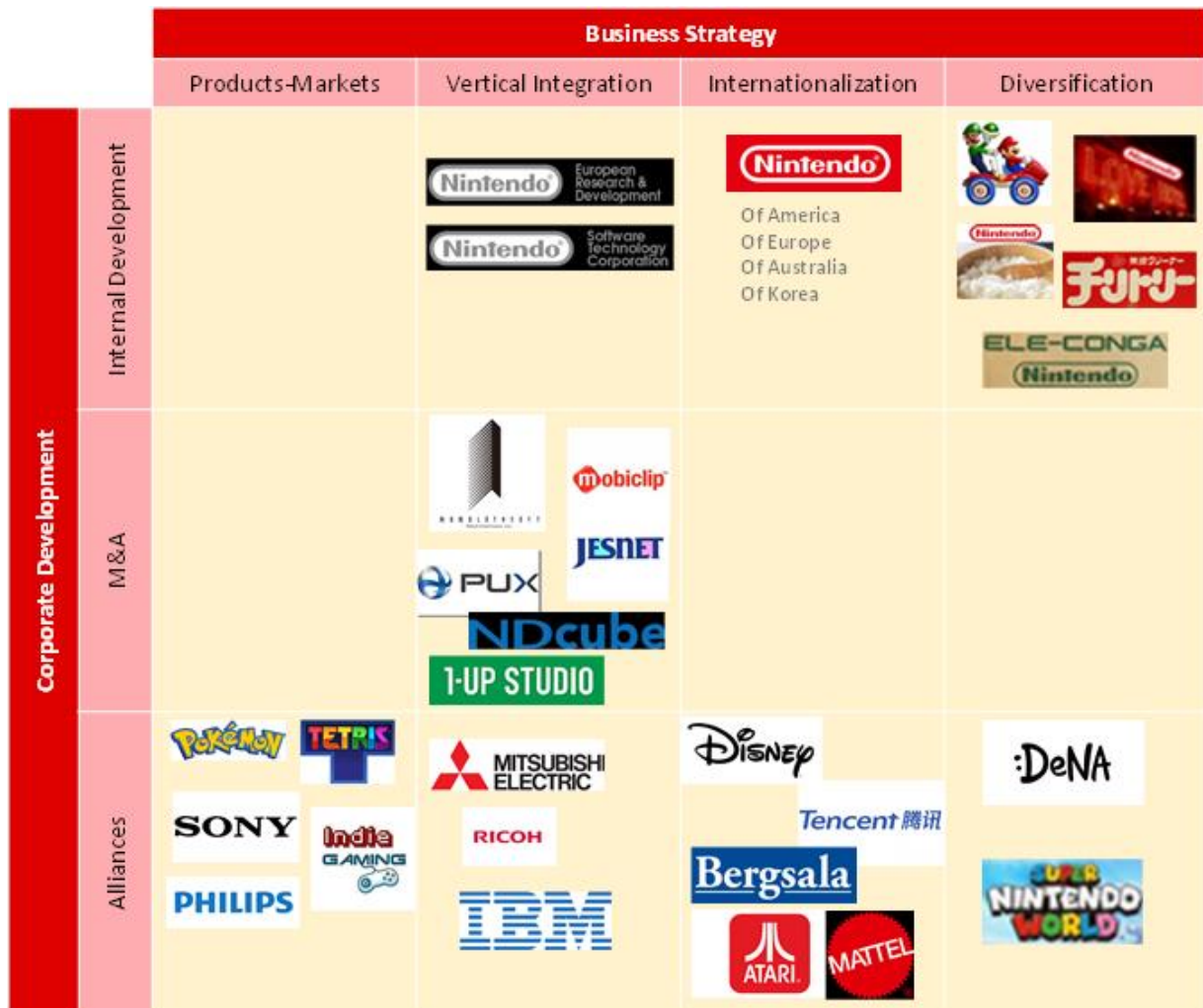


Figure 94 – Nintendo’s Business Strategy vs. Corporate Development

11 Planning

Following the strategy definition, next step is to define the structure that will support the implementation of the tactics. The organizational structure is the system that interlinks all the activities of the company and can there are 3 types of basic macro-structures (Freire 2020):

- Simple – orientation for the short-medium term, to preserve survival and growth
- Functional – orientation for the medium term, to ensure coordination between the different functions
- Divisional – orientation for the medium to long term, to guarantee the integrated development of the company’s activities

And there are 3 types of advanced macro-structures (Freire, 2020):

- By strategic business units – orientation for the medium to long term, to guarantee an integrated development
- Matrix – orientation for the medium and long term, to capture synergies
- Network – orientation for the medium and long term, to optimize performance and explore synergies

11.1 Organizational structure

According to Nintendo's Annual Report 2020, the company is organized in three main divisions for Research and Development: Entertainment Planning & Development (EPD), Platform Technology Development (PTD) and Business Development Division (DBD). The other corporate divisions include Development Administration & Support, Finance, Marketing, General Affairs, Licensing and Manufacturing.

- Entertainment Planning & Development, the largest division within the company following the merger between the former Entertainment Analysis & Development and Software Planning & Development divisions, is responsible for development of games and software for Nintendo platforms and mobile devices. Mr. Shinya Takahashi serves as General Manager of this division.
- Platform Technology Development division is responsible for the development of hardware, operating systems, network and technology tools. Like EPD, PTD also resulted from the merger of two former key divisions: "Integrated Research & Development" and "System Development". Mr. Ko Shiota serves as General Manager of this division.
- Business Development division, a new division formed during the restructure, is responsible for refining Nintendo's business model for dedicated game consoles, exploring opportunities related with software development for smart devices, such as mobile phones and tablets, and to manage Nintendo's Intellectual Property (searching new business opportunities such as theme parks, movies, etc). Mr. Yusuke Beppu serves as General Manager of this division.

Along with these 3 divisions Nintendo is also organized in 27 subsidiaries which bring additional complexity to the company structure in a **divisional macrostructure**.

The different divisions and subsidiaries have different geographical locations and many subsidiaries, although being internal structure, are also referred as external resources when being involved in joint development processes with Nintendo internal divisions.

11.2 Planning under uncertainty

Referring to uncertainty in 2020 will probably lead us to discuss the impact of COVID-19 in different business and the society in general. Considering this and as previously discussed in this report, COVID-19 might bring additional opportunities for the gaming industry, even recognized by World Health Organization as an healthy social pastime during coronavirus pandemic (Snider, 2020), in parallel with the television streaming services due to the decline of cinemas and the more often population confinement measures (Epstein, 2020). However, when referring to planning under uncertainty there are two scenarios for Nintendo, beyond COVID-19, that we would like to address and consider:

1. The trade-war between USA and China;
2. The decision to enter the subscription multiple platform gaming.

It is important to identify the uncertainty pattern *versus* the level of uncertainty of the environment and the capacity of Nintendo to control it, crossing with the suitable planning methodologies. For such a table is purposed below.



	High Uncertainty of the Environment and/or Organization	Low Uncertainty in the Environment and/or Organization
Low Potential Control over the Sources of Uncertainty	<ul style="list-style-type: none"> Unpredictable Pattern 	<ul style="list-style-type: none"> Restricted Pattern Technocratic Planning Predictive techniques to identify future trends; Collecting information on uncertain variables; Sensitivity analysis and <u>scenarios simulation</u>; <u>Contingency plans</u> for specific situations; Operational and financial plan 
High Potential Control over the Sources of Uncertainty	<ul style="list-style-type: none"> Comprehensive Standard 	<ul style="list-style-type: none"> Predictable Pattern Conventional Planning Modelling of the plan with commercial, operational and finance indicators; Quantitative and qualitative data support; Temporal projection with statistical tools Build-up a mid-term operational and financial plan 

Figure 95 – Uncertainty patterns and planning methodology

Considering the Tradewar between USA and China, Nintendo will have the need to develop a technocratic planning, including scenario planning and contingency plans. Considering the manufacturing of the current or future models of Nintendo consoles with a competitive price, must consider the impact of the economical restrictions.

	Economical restrictions/taxes for components or products from China	No-economical restrictions/taxes for components or products from China
Nintendo consoles regular price	<ul style="list-style-type: none"> Cost absorption Fares in electronic components manufactured in China have an increasing impact in the final price of the products, even if consoles assembled outside China; Margins are lower and this will have an impact in the slow growth of consoles sales in value 	<ul style="list-style-type: none"> Margin kept Free trade of electronic components manufactured in China as well as products manufactured and assembled and then exported Price continues to be competitive versus competitors; give opportunity for price reduction
Nintendo consoles high price	<ul style="list-style-type: none"> Cost transfer Fares in electronic components manufactured in China have an increasing impact in the final price of the products, even if consoles assembled outside China; Margins kept but customer pays the difference and might have an impact on sales volume 	<ul style="list-style-type: none"> Margin exploitation Free trade of electronic components manufactured in China as well as products manufactured and assembled and then exported Higher price then the market is willing to accept; Impact on sales in volume and value

Figure 96 – Scenarios of console profit with and without economic restrictions to China

After identifying the key-questions for the company (the consoles price), considering the critical elements of the surrounding environment (economical restrictions due to trade-war), four scenarios were built (cost absorption, cost transfer, margin kept, margin exploitation). The fourth phase analyses the scenario implications and is included in the table in the last bullet point of each quadrant.

Besides the scenario plans also contingency plans must also be prepared in technocratic planning, to cope with less probable scenarios that can occur. In this case a scenario could be the introduction of a lite version of a competitor console (example Playstation) that could compete directly with Nintendo Switch with similar features such as motion and fitness accessories, possibility to converge portable and stationery console.

Regarding the model for subscription gaming, under conventional planning, we must consider that this type of planning is usually applicable to more traditional businesses such as in the primary sector, since they are stable in the long run (Freire, 2020). As Nintendo operates a purely technological business, in a quaternary sector with higher external and internal uncertainty, a structural planning is needed. In this

case Nintendo competitors already have implemented gaming subscription services, as well as new entrant in the area such as Apple (with Apple Arcade). Nintendo has to decide if will keep apart from this reality where users will have access to Nintendo contents through different hardware devices for a single monthly or annual fee or keep the current model. For such Nintendo may implement a sequential process for decision taking and action regarding the subscription model platform availability, 1. only at Apple Store and Android Store, covering the mobile phones where they already have their games available, or 2. also expanding to Apple TV/Arcade, Google Stadia/Fire, xCloud and Playstation Now, reaching a higher number of users and subscribers in multiple platforms and hardware devices (including their competitors). In such cases, partnerships can be established for content/subscription delivery.

11.3 EGOS map – leadership in Nintendo planning

In order to analyze, decide and plan well, leaders should use the Double Z model as further explained below. For Nintendo, as a Governor (G) culture company also with Entrepreneur € nuances, the model may be something like the one below.

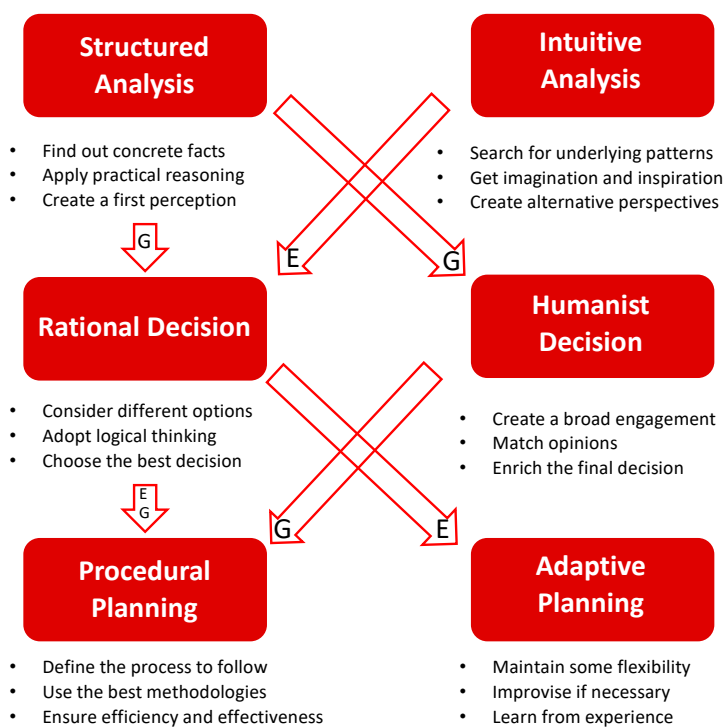


Figure 97 – Double Z Model for Analysis, Decision and Planning (adapted from 2020, Freire)

12 Implementation

12.1 Functional Management

Like most companies, Nintendo uses a functional and multidivisional structure to implement its strategical and operational plans. This approach enables functional oriented coordination from the top management, while collaborators can focus on the work and expertise required for each division or department. Overall, the main activities of a company can be grouped in 6 functions (Freire, 2020): Human Resources, Research & Development, Operations, Marketing & Sales, Finance and Information Systems. Considering the nature and DNA of Nintendo, we will address mainly the Research & Development function.

In 2016, soon after Mr. Tatsumi Kimishima appointment as Nintendo’s President, the company implemented a relevant organizational restructure that impacted its governance (which will be covered in Control Chapter), but also the R&D divisions.

From a departmental structure standpoint, Nintendo applies mainly a departmental groups approach where collaborators develop their work inside each division. On daily operations, hardware and business development divisions work naturally separated from the software division, but coordination is essential to implement a comprehensive corporate strategy. The much-needed coordination between departments is mainly achieved through existing executive committees and transversal meetings, which can be considered as liaison groups.

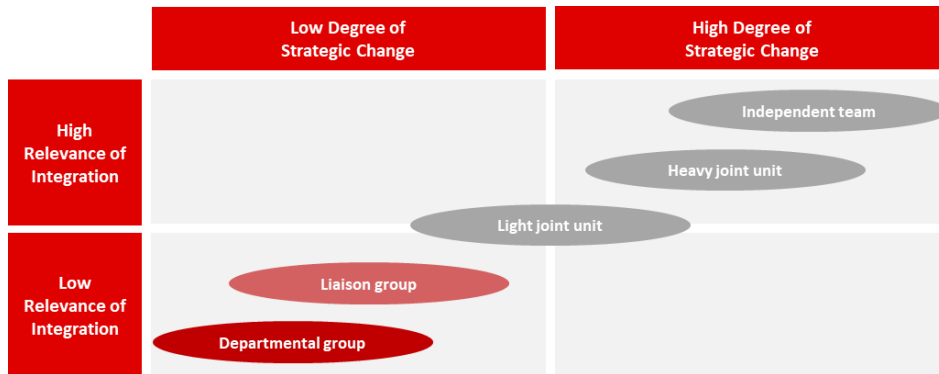


Figure 98 – Adequation of Microstructures to the company strategy

Within each division, teams are mainly organized by project/product. For example, in EPD division teams are organized by product such as The Legend of Zelda, Super Mario Odyssey, and so on, reporting to its respective project manager.

12.2 Process and Project Management

Process management

According to our assessment, Nintendo has two key types of processes. The first, and likely the most relevant, is related to research and development of new games and hardware platforms (consoles). This is a project-type process that is not repeated equally over time, but rather performed in a unique and customized manner, as every new product development is essentially a new project. The core resources of the company are engaged in this type of creative process. The second relevant process, which follows the former, is the mass production of each new viable product. All in all, it is necessary to produce and sell millions of videogames copies and consoles units to create value from the R&D.

Process type	Product and Service Type				
	Single and low volume	Specific and low volume	Varied and medium volume	Complex and high volume	Standard and high value
Customized	Games and HW development				
By task					
Operational flow					
Line flow				Mass production	
Continuous flow					

Figure 99 – Process Management

Project management

As mentioned above, at Nintendo each new video game or console development is handled as a new project. And the methodologies used to manage such projects have evolved over time and with the needs imposed by the industry environment.

The current video game industry is an unstable and fast evolving environment, where a dynamic and iterative approach is required. Overall, game development management, as most software development nowadays, is shifting towards an agile methodology. In Nintendo's particular case, the company does not value all the planning and bureaucracy that comes along with waterfall-type of project management. Conversely, time and quality of implementation are valued over documentation. Modern game development requires an iterative and quick process of implementation, test, feedback and incremental improvement. For Nintendo the improvement is driven by making the games "fun". As described by Clinton Keith in the book "Agile Game Development with Scrum" (Keith, 2010), Nintendo approach to game development has long privileged agile-type of mentality, even when that was not the trend in the industry – "Nintendo had no interest in any documents we'd prepared; they only wanted to see the game. If the game was making progress and demonstrating fun, Nintendo funded another three months and left us with the instructions to "find more fun." If not, the game was abandoned, and another idea was discussed."; "Since agile game development provides a more incremental delivery of value, it gives publishers and studios the potential to build relationships where progress is measured on a regular basis to determine whether the project is worth pursuing further, much as Nintendo and Miyamoto did with Angel Studios."

	Stable Environment	Unstable Environment
Dynamic and Iterative Approach	<ul style="list-style-type: none"> ▪ Examples: Waterfall, ITIL ▪ Sequential plan planning and execution ▪ Assignment responsibilities for different activities ▪ Regular meetings to assess deviations from the plan 	<ul style="list-style-type: none"> ▪ Examples: Agile, Scrum ▪ Acceptance of uncertainty and appreciation of speed in performance ▪ Empowering of teams to be agile and quick in adapting to situations ▪ Frequent and brief state-of-the-day meetings
Structured and Directive Approach	<ul style="list-style-type: none"> ▪ Examples: PMBOK, PRINCE2 ▪ Phased and detailed organization of large-scale projects ▪ Optimization of efficiency in the management of human, physical and financial resources ▪ Periodic meetings to analyse the progression of the plan 	<ul style="list-style-type: none"> ▪ Examples: Lean, Six Sigma ▪ Adapting to instability with structured initiatives ▪ Incremental improvement of activities in line with the evolution of circumstances ▪ Regular state-of-the-day meetings to set up the next priorities

Figure 100 – Project Management

12.3 Implementation leadership

Nintendo operates in the quaternary sector (entertainment business) and is a company with strong innovation and creativity DNA, which is therefore supported by a predominant entrepreneur organizational culture. Not surprisingly, the R&D divisions (both software and hardware), with entrepreneur profiles, are the ones that most significantly contribute to the company development and growth. These R&D divisions, responsible for the development of first-party games and hardware platforms (home video and handheld consoles), are the heart and soul behind Nintendo success. The remaining functional areas, closer to Governor, Operational and Social profiles, assume a more supportive role. According to our assessment, the positioning of Nintendo's functional areas on the EGOS map is the following:

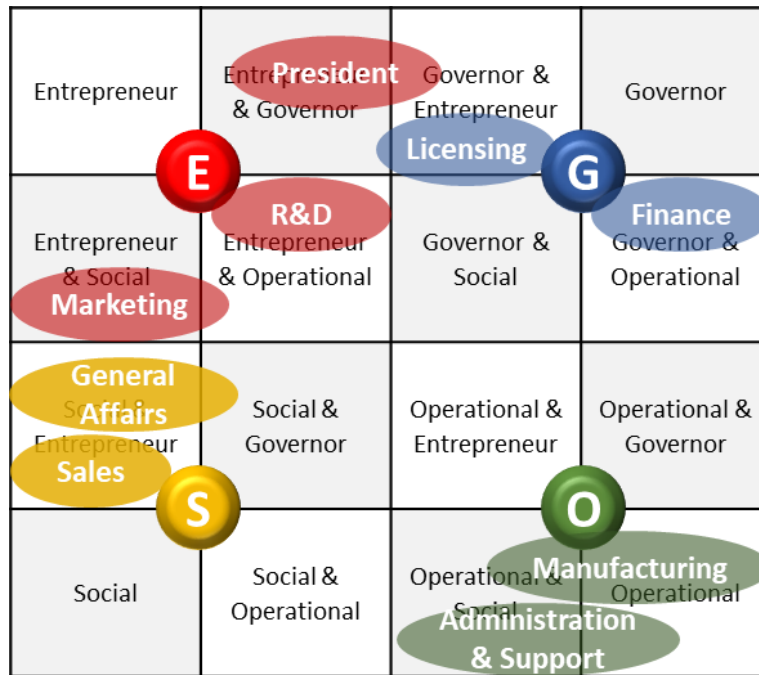


Figure 101 – Nintendo’s functional areas on EGOS map

Regarding the team leadership style, it seems that Nintendo operates predominantly under an “orientation” approach. Particularly in the R&D divisions, where creativity and innovation are critical, the employees are challenged to participate, to think for themselves and to explore new ideas. Nevertheless, the leaders ultimately provide guidance to guarantee that each project is perfectly aligned with the corporate strategy and Nintendo’s values. This approach is supported by the words of Shynia Takahashi (manager at Nintendo Entertainment Planning & Development division): *“In many cases, we begin by assigning a small group to a project; not necessarily senior staff, but developers, to try and come up with ideas. Those lead to the end product. Super Mario Odyssey is a good example to explain this: we actually had several small groups and as a result we had many different ideas, which we then put together to make a single product. Naturally during the course of early development, we find the right mission for each project. I believe every game has a different mission.”*

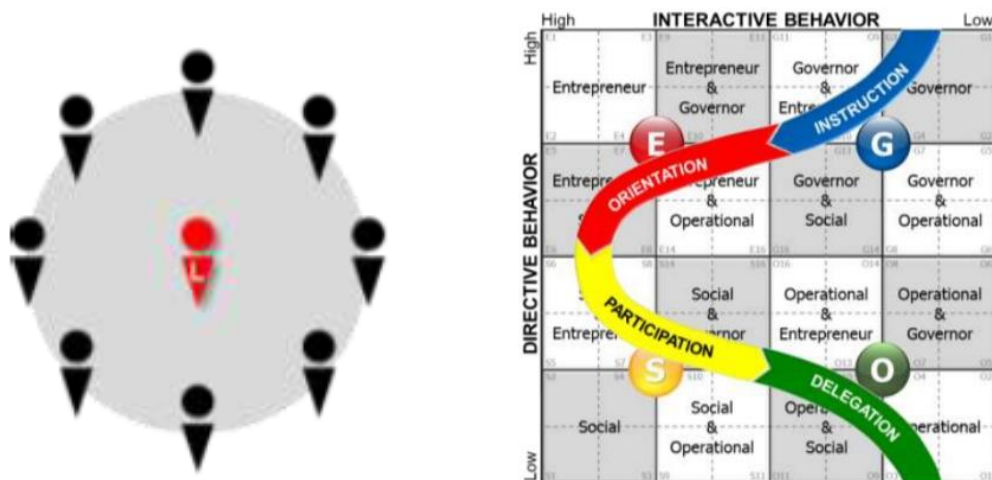


Figure 102 – Nintendo teams leadership style

13 Control

13.1 Corporate Governance

The equity owners of the companies are the ones controlling the performance of companies' top management (Freire, 2020). In the case of Nintendo, the main shareholders are large Japanese and American financial institutions (Nintendo, 2020h):

Shareholder Name	Number of Shares (hundred shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	76,561	6.43%
JP Morgan Chase Bank 385632	75,263	6.32%
Japan Trustee Services Bank, Ltd. (Trust Account)	56,781	4.77%
The Bank of Kyoto, Ltd.	48,802	4.10%
The Nomura Trust and Banking Co., Ltd. (MUFJ Bank, Ltd. Retiree Allowance Trust Account)	42,109	3.53%
State Street Bank and Trust Company 505010	26,141	2.19%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	24,978	2.10%
SSBTC CLIENT OMNIBUS ACCOUNT	22,545	1.89%
JP Morgan Chase Bank 385151	20,632	1.73%
Japan Trustee Services Bank, Ltd. (Trust Account 7)	18,464	1.55%

Figure 103 – Nintendo's main shareholders

In order to guarantee the top managers are their agents, company owners can: create a board of directors to monitor company's evolution and define its leadership structure; conduct independent audits; attribute incentives to the top executives aligned with owners financial, economic and sustainability interests; sale of shares to other investors (Freire, 2020). Governance systems vary from company to company and are influenced by factors such as geography and shareholders structure. While the Anglo-American governance system privileges the shareholders, other systems like the Community and the Emerging governance systems account for a wider range of stakeholders (Freire, 2020).

So far, Nintendo had poorly ranked Governance systems (Bloomberg, 2020). Some of the negative aspects pointed out to the company are:

- Low level of disclosure of information;
- Low diversity at Board of Directors;
- Low number of Outside and Independent Directors in the Board (out of 9 directors only 3 are from Outside the company and only 2 of them are Independent);
- CEO Duality: the CEO accumulates the role of President of the Board of Directors.

Nevertheless, the company is currently improving its governance system (Figure 104), in order for it to become more transparent and sound (Nintendo, 2020e).

First of all, it introduced an Audit and Supervisory Committee composed mostly by outside directors “to strengthen the auditing and oversight over the Board of Directors”, in the words of Nintendo’s president Tatsumi Kimishima (Seedhouse, 2016).

Nintendo has also adopted the Executive Officer System for the purpose of clarifying the responsibility for the execution of operations and establishing a more flexible management structure which can appropriately and swiftly respond to the rapidly changing business environment through the separation of the management decision-making and supervisory functions from the execution of operations, as well as by accelerating the delegation of authority to execute operations. The resulting system delegated authority throughout management and enabled younger senior managers to act, something that has been credit for Nintendo’s success in recent years. Addressing investors in 2018, Mr. Kimishima said: “After [Hiroshi] Yamauchi’s presidency, there was a change in the environment surrounding Nintendo, where no longer could any single person decide matters on their own. That was the start of the collective leadership system that I, too, have carried on.”

Another positive aspect of the current system is that links the performance-based compensation for each Director to the company’s results (but there is no performance-based compensation for Directors who are Audit and Supervisory Committee Members). Nevertheless, this can be further improved as the company results used to compute the performance-based compensation are only financial results. ESG performance is not included, therefore reducing the incentive of directors to pursue sustainable value creation for all stakeholders (Nintendo, 2020c).

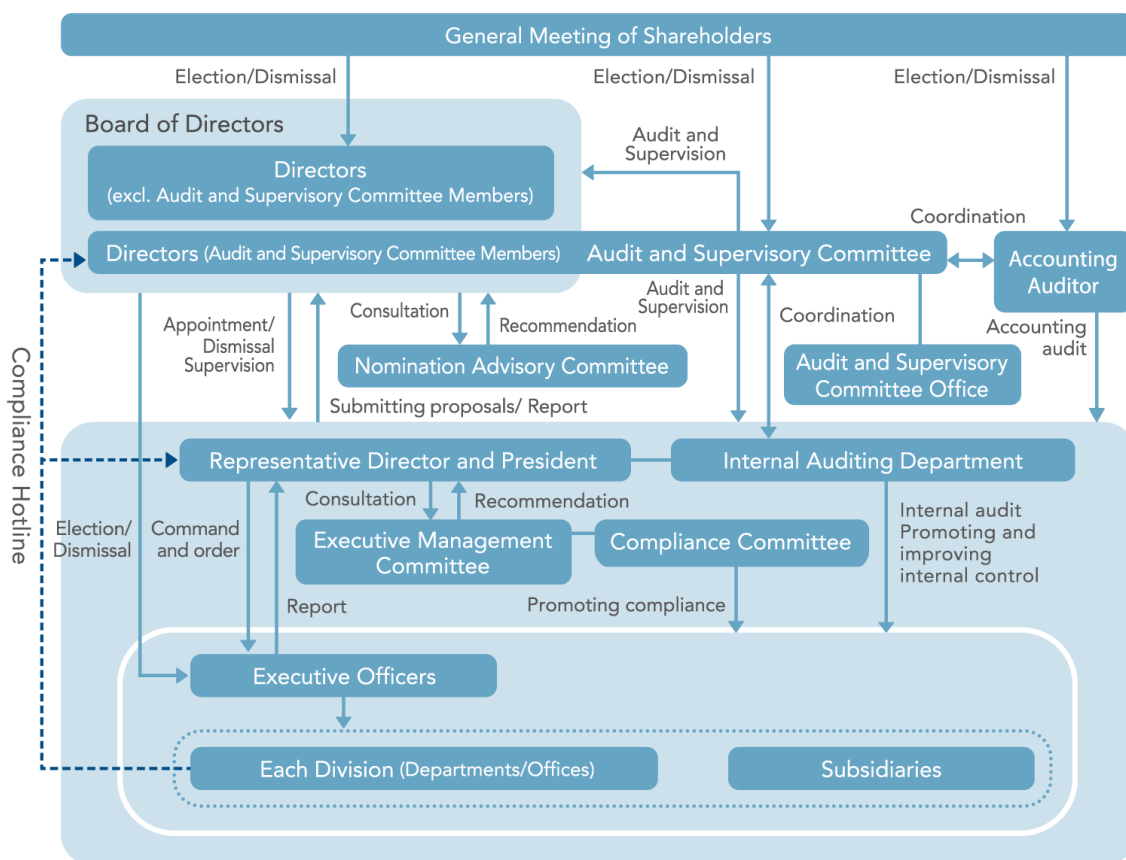


Figure 104 – Nintendo’s Corporate Governance system (Nintendo, 2020e)

As a final remark, this being a Japanese company, it follows, in most aspects, the Community governance system (Nintendo, 2020e). But it has also some components of the Anglo-American system, which may be justified by its presence in global markets and high share of American and other non-Japanese shareholders:

	Anglo-American	Community	Emerging	Nintendo
Examples of Countries	USA, UK, Canada	Japan, Germany, Netherlands, Belgium and Scandinavia	China, Russia, India, Brazil, Mexico and Eastern Europe	Japan (but global presence)
Orientation	Shareholders	Multiple Stakeholders	Multiple Stakeholders	Multiple stakeholders
Financing	High weight of the capital markets	Banking system and capital markets	Shareholders' families, government and banking system	Capital markets
Governance	Influenced by capital market expectations	Regulated by national legislation	Influenced by government guidelines	Influenced by capital market expectations
Priority	Short/Mid term stock market return and appreciation	Medium/Long term satisfaction of the various stakeholders	Reconciliation of business and political interests in the medium-long term	"At Nintendo, we strive to maximize long-term corporate value while carefully considering the benefits for everyone we touch."
Leaders' Remuneration	High component of performance related remuneration	Medium component of performance related remuneration	Low component of performance related remuneration	Medium component of performance related remuneration
Control	Board of Directors	Board of Directors and Supervision Board	Structures according to local practices	Board of Directors + Audit and Supervisory Committee Board
Composition of the BoD	Executive and Non-Executive Directors (including independent)	Executive Directors and representatives of employees, banks and/or partners	Executive directors and representatives of the government and of family shareholders	3 out of 9 Directors are Outside Directors. 2 of them are Independent Directors.

Figure 105 – Influences on Nintendo's Governance system

13.2 Management Control

The main objectives of Management Control are to assess the performance of the different levels in the organization, to identify management weaknesses and to recognize performance improvement paths for the future (Freire, 2020). Management Control is not the final step of a certain strategic cycle but the starting point for the next cycle.

This said, in the medium and long-term Management Control tends to focus on the financial dimension of the company. In order to avoid this to bias the strategic assessment, companies should develop a medium-term strategic control system that balances 4 perspectives: financial, customer, internal processes and learning and growth. The Balanced Scorecard model (Kaplan & Norton, 1996) and the Strategy maps (Kaplan & Norton, 2004) are two related tools that balance the 4 dimensions mentioned above.

Companies usually do not disclose the indicators they use in their Management Control systems. That is also the case of Nintendo. But the company mentions, in its Annual Report (Nintendo, 2020a), that it does not set any management targets. Nintendo argues that in the uncertain, dynamic and competitive market they operate it is very important to keep flexible in decision making and that strict management targets would undermine such flexibility.

Nevertheless, despite the above, some level of management control needs to be present throughout the organization. Therefore, we present in Figure 106 a tentative list of indicators that could be applicable to a videogames company such as Nintendo.

Indicators for Balanced Scorecard and Strategic Map	
Financial Perspective	Customer Perspective
Return on Equity	Global and regional market shares
Revenues	Brand awareness
Net Margin	Customers Satisfaction
Unitary Distribution Costs	# games purchased per customer per year
Internal Processes Perspective	Learning and Growth Perspective
Average duration from idea generation to game release	Organizational climate
Number of employees per number of games released	Employees loyalty/rotation
Average development cost per game released	Number of projects initiated spontaneously by low rank employees
Percentage of game sketches abandoned before game release	Training hours per employee per year

Figure 106 – Tentative Indicators for Balanced Scorecard and/or Strategic Map

The indicators related to the Learning and Growth Perspective aim at measuring the company’s ability to foster innovation and creativity among its people for new ideas of joyful products to emerge. The indicators related to Internal Processes intend to measure how efficiently the company converts these ideas into new games and other products. The Customer Perspective indicators reflect the value the company represents to/creates for customers with its products. Finally the Financial Perspective indicators aim at controlling if the company is able to generate enough return for shareholders.

The development of a Strategic Dashboard could also help Nintendo, by complementing the Balanced Scorecard by monitoring firm’s performance in terms of value creation and strategic objectives.

13.3 Group and Individual Control

A company needs not only to monitor its corporate level indicators but also to control the performance of its teams and employees.

In order to define who should be controlled, in each team, it is important to understand who in the team is accountable. Is it the Employee, the Leader or the all Team? In the case of Nintendo and because of cultural reasons, the Leader is typically the accountable one:

	Increased Individual Responsibility	Reduced Individual Responsibility
Reduced Group Responsibility	Employee's Accountability	Leader's Accountability 
Return on Equity	Team's Accountability	Diffuse Accountability

Figure 107 – Group and Individual Control

It is also important to understand how the control is performed. Does it focus on the processes, on the results or both? In the case of Nintendo, the control is more performed in terms of the Results. On the processes it varies. In software development teams the processes are controlled thoroughly, but in the creative teams the process is not considered relevant:



	Low Process Assessment	High Process Assessment
High Results Assessment	Results Control 	Systematized Control 
Low Results Assessment	Informal Control	Processes Control

Figure 108 – Process and Results Assessment

When Group and Individual control mechanisms are in place they allow identifying the teams and/or individuals that consistently exceed expectations or achieve high performances. In order to retain their best people, elevate the good examples and motivate the whole company, a combination of group and individual rewards/bonuses can be implemented. Nintendo distributes bonuses to its employees and

teams. No details are made available to the public on how these bonuses are distributed. But the average compensation of a Nintendo employee, considering salary and bonuses (Nintendo, 2020a), is more than 2.3 times the average salary in Japan and twice the average salary for IT people in Japan (Kawano, 2019).

13.4 Learning Organization

Control should foster ongoing organizational learning: the company should look at the problems identified through the control process as opportunities for improvement and learning. In rigid companies, this is not often the case, and problems trigger not an improvement process but, instead, an accountability process. The remaining companies, the learning organizations, improve through circumstantial learning or structured learning.

Nintendo can be considered a learning organization because of its experimental approach to the market. It is a company capable of taking risks in launching bold and risky new products, targeting new markets. This can only be performed by a company that looks at the risk of failure also as an opportunity to grow and to learn. At a corporation level, the company's focus in the medium and long-term and the strategic decisions in the past two decades suggest the company follows a structural learning. The company carefully analyses the results of its major product launches, understands the root cause for eventual failures (such as the Wii U), learns and rectifies. There is not enough public information to confirm if this corporate level behavior is the result of departmental and team level structural learning.

To finalize, we believe that Nintendo's control systems and structural learning process are already supporting the definition of the company's next strategic cycle.



Figure 109 – Mario and Luigi

14 Conclusions & Outlook

Throughout our extensive strategic teardown of Nintendo, we realised that the company operates in a market which is constantly exposed to new technologies with impacts in its business. We identified specifically that the streaming trend might shake the competitor's landscape. Nevertheless, we came across the importance and differentiation Nintendo has been able to keep with its IP (mainly characters), as well as the innovation capabilities demonstrated in interactive systems (motion equipment and peripherals). On the other hand, we realised that they were not able to deploy front edge technologies in its console systems.

To bring light to our strategic recommendation, we performed a new SWOT analysis (Figure 110) in order to better understand where Nintendo might find opportunities for further development.

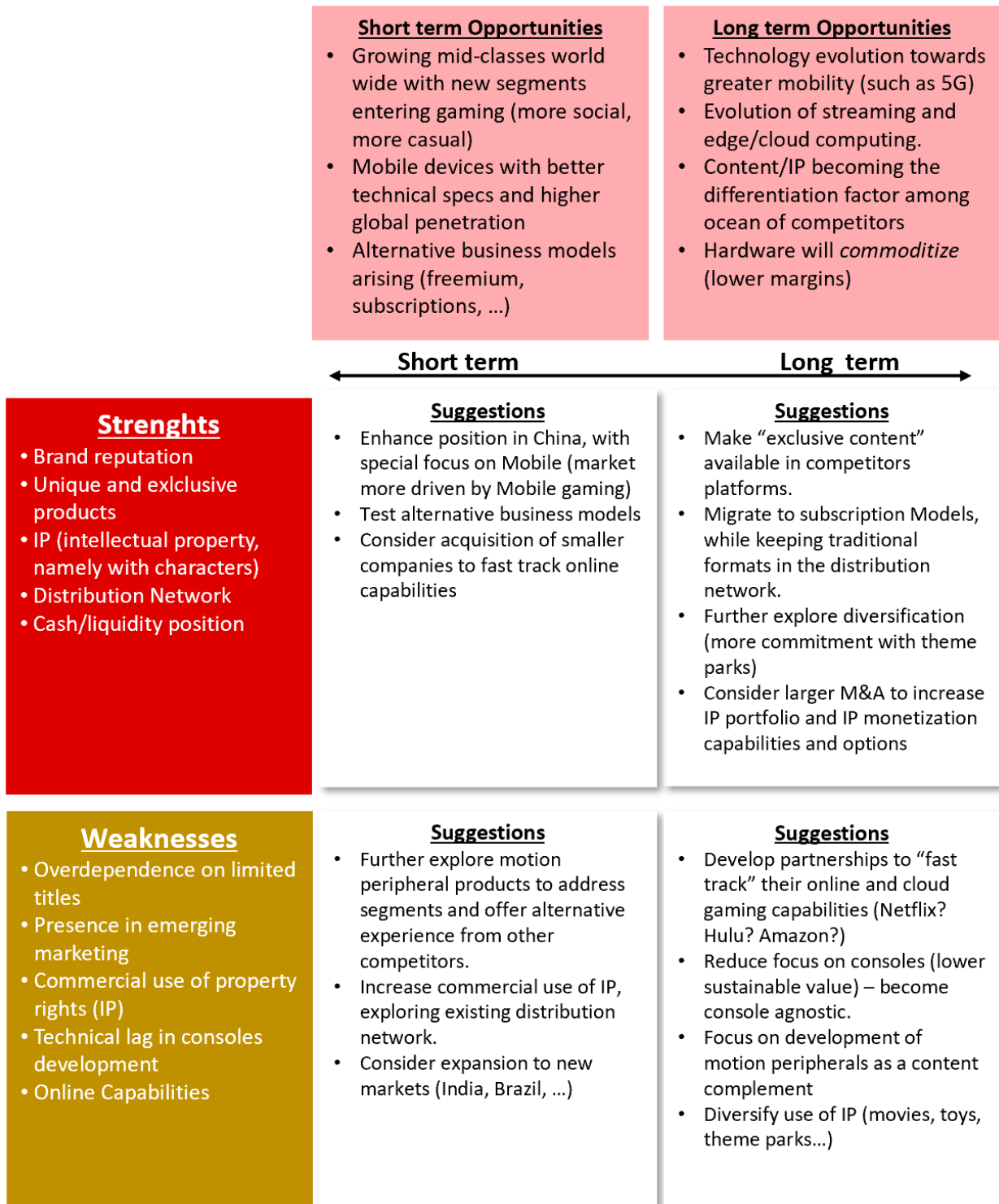


Figure 110 – Nintendo’s new SWOT analysis

International expansion:

Nintendo has explored deeply its current footprint in its traditional markets (USA; JP; EU), which still represent opportunities to grow through the enlargement of its products-markets and as well as through its diversification plans.

However, Nintendo might find significant growth opportunities by better exploring its partnership with Tencent (for Chinese Market). Moreover, new markets, such as India market, might represent “quasi” green fields. Although not explored, we also believe Brazil and, in near future, Africa continent might as well reserve expansion opportunities.

Product development:

Nintendo has demonstrated strong capabilities to develop and explore its characters (IP) in the video-game industry. In addition, they have demonstrated unique capabilities in developing accessories/interactive systems.

Nevertheless, we found that the console market is not where the major growth will appear. Mobile gaming is on the rise, and the traditional console might find unusual competition from stream gaming services.

Nintendo seems to lack the capabilities (having a competitive disadvantage against its major competitors) in the online/cloud gaming solutions.

From our analysis, we reach a point where we would recommend to Nintendo either acquire capabilities to enhance its cloud and mobile expertise or, alternatively, to focus mostly on content creation, pushing through all the platforms (becoming more platform agnostic). This would probably open new partnership possibilities, namely with Sony Playstation and Microsoft Xbox.

Consoles might remain in Nintendo portfolio, but as a reference to content creators rather commercial focus (as Google has done with Google Pixel).

Diversification:

Namely for the theme parks. Through our analysis, we realised that theme parks offer an excellent perspective of sustainable value and Nintendo partially has critical core competencies to create differentiated experiences. To resolve the lack of core competencies, they should keep the current partnership, focusing on growing rather than building absent core competencies.

Corporate development:

Through our analysis we realized that Nintendo as a considerable amount of cash, which although offers a resilient position, is not creating value for the stakeholders.

In our perspective, Nintendo should consider acquisitions that might reinforce their core competencies or help the new core competencies needed to succeed in an evolved market (more mobile, more cloud). To further explore, but we offer two recommendations:



LEGO - Lego is a European company with a yearly turnover of ~€5B

Why do we believe it would be a good acquisition? Lego has strong IP which can be further explored in the gaming industry; are a key player in toy industry, which might further develop Nintendo IP. Had been successfully exploring their IP in diversified markets (movies, for example).

Risks? Nintendo does not have the expertise of integrating acquired companies. Lego might be “too big” to be absorbed by Nintendo, without unpredictable impacts on people and culture.



Rovio (angry birds company) owns Hatch Gaming, a mobile game streaming platform with a yearly turnover of €300 M.

Why we believe it would be a good acquisition? to reinforce Nintendo differentiation, Rovio has relevant IP (such as angry birds) and has been able to explore it (through toys, movies,...). On the other hand, Rovio has relevant core competencies to leverage on the mobile gaming and game streaming/cloud gaming segment (their core business is on mobile gaming)

Risks? Different culture and too small, might not bring the intended change.

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