You have recently been hired by Nintendo of America as an analyst and have been assigned to its Wii strategy group. You are participating as a team member, on-line, with other team members to analyze this industry. Your team leader has asked for a description of the industry’s dominant business and economic characteristics, the nature of the competition in the industry, assessment of the driving forces and the list of industry key success factors. To conclude your assignment, you will be expected to make recommendations to the top management.

The video game industry is the economic sector involved with the development, marketing and sale of video games. It encompasses dozens of job disciplines and employs thousands of people worldwide. It includes video game consoles, game software, handheld devices, mobile games and online games. Console is the largest segment in the industry, but online, mobile, PC software and broadband are some of the fastest growing segments. Industry sales are expected to exceed 50 billion in 2010 and the growth rate is expected to increase.

Studies show that the modern society in the developed countries sees the entertainment programs and devices as relax for the stressing style of life. This is part of what the studies call to gratify our pleasures. Gaming is one of resources that people has for this entertainment, and studies revealed based on psycho-social researches that people adhere or even addicted to games because of the pleasure it ushers. More than the surface elements it revealed were the usefulness it afforded to cognitive development. Yet, with much exposure to gaming eventually lead to addiction and destabilizing behavior towards other human psychological aspects (1). To understand all these aspects and they role in the society helps to better develop the strategies for a very competitive business such as the console games.

Companies under high level of competition recognize the criticality of establishing market leadership and to gain differentiation from their competitors. This rivalry is a strong competitive force. For Sony, the key to gain the consumers' attention is to capitalize on the incumbency advantages of massive installed base and huge library of titles to thwart its two rivals, Microsoft and Nintendo; there are hundred of small companies offering some kind of console but without to dominate any market; this represents a weak competitive force. This strategy is the main motivation of creating high-end video game products for consumers’ consumption. For gamers, this is the reference point for Sony products. Microsoft aims to the similar segment producing a fierce competence between them. They are basically two high-tech companies offering their products to a highly shared segment with some specific core for each one. Nintendo focus its strategy in the pleasure of gaming more that in high tech. the high tech for Nintendo is a tool, not an objective. This allows to Nintendo to have a small overlap of the market with Sony and Microsoft. This overlap is increasing over the time in the fight to capture more market share from the other two companies.

The socio-cultural trends vary widely based on the global market conditions; Nintendo has expand the scope of the consumers, now the gamers are not teenagers or young people, but also the average age of players has significantly increased. Game preferences change greatly with age. Consumers’ behavior and type of preferences differ in age. Buyers are in all ages, most of them are preteens, teems, young adults. Average game players age increases to 33 and 25% of buyers are over age 50. In addition, the broadening of consumer base from teenagers to ages 18-44 and even 55-64 are significant consideration for the companies. In 2007, there are about 250 to 300 million game players worldwide.
Each company tries to reach some competitive advantage over its competitors. For example, Sony has emphasized the new technological development of the DVD technology. Microsoft aims to integrate the console with the PC and to offer a huge variety of alternatives over internet. Nintendo has tried to focus in other segment of game consoles, offering innovative product with the Wii. This Nintendo advantage is getting closer because of the alternatives that Microsoft and especially Sony is presenting to capture Nintendo market share.

The use of new technology and innovation contributed to the marketing production and high profitability of the companies; this is the most important opportunity element for the companies in this sector. But the huge competence between the companies has introduced many other risks. The companies are selling the consoles at a lower price that its costs of production. They expect to collect money selling games, a similar approach than the printer seller companies. This contributes with a higher pressure and risk in the business. Nintendo, with the Wii console, has built a strong competitive advantage; Nintendo sells this console at around of break-even cost, which compared with Sony and Microsoft strategy, it helps to get a strong financial position. In addition, it gives to Nintendo room for decrease the prices, squashing the competence.

In the technological trend, some strategies try to overtake the competitive advantages than other companies have (e.g.: remote control, DVD, internet) while at the same time the companies try to offer new development showing some new competitive advantage. Internet technology and capabilities are moving quickly, and it represents a segment where Nintendo has enough room to progress. In addition 3D technology is getting more accessible and more of the companies in the market will start to offer some kind of 3D games. Nintendo should move also in this direction, not only integrated with the TV but also helmets with 3D vision and remote perception. In order to boost profit and maintain the leadership position, the ability to incorporate new technological trends will continue being a key factor.

Detractors for the Nintendo’s technology stress that the Wii console does not take advantage of improvements in technology, specifically high-definition television; this is other point of improvement for Nintendo.

Software has historically generated two-thirds to three-fourths of the overall video game market. Console games accounted for about two-thirds of software sales with the rest coming from PC and hand-held software. Nintendo should participate more actively in the development of video games. At the launch of the Wii console, few video games developer companies supported it; this was seen as a weakness for the Wii console. Now, instead that the number of games offered for the Wii console has strongly increased, the quality of them remain a step backward of the competitors. Nintendo has room for improvements in this area. In addition, software and hardware suppliers represent a strong competitive force. Some companies such as Microsoft has shown a strong market aggressively buying small and medium suppliers companies.

A threat to the overall video game console market is the rise of massive multiplayer online games. While both the Xbox 360 and PS3 have Internet capabilities, massive multiplayer online games are based on the Internet and are a potential disruptive threat to console games because they require no hardware or software purchases. Instead, these popular games typically run on a subscription-based model. In addition, mobile games has grown rapidly-- tripling in the last 5 years to around $2-3 billion in 2006--as part of a growing trend of casual gaming. Mobile games have the advantage of an extremely large installed base of over 2 billion users worldwide. These substitute products represent a moderate competitive force.
Some of the others KSF are the technology, manufacturing capabilities, distribution channels, skills and capability, the R&D, the graphic capabilities, adaptability for the different regional markets.

And other recommendations are to better integrate the console with PC at home technology and internet, provide lower prices mainly for accessories and games, integrate with home-networking, develop strategic relationship with developers, develop demos and samples to test out game characters and accessories, seek for diversified distribution channels, continue with the brand image differentiation and develop advertising support.

Works consulted
