

Wii: Creating a Blue Ocean The Nintendo Way

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RESUMEN

Durante la última década, Nintendo ha tenido serias dificultades para mantenerse a flote en el mercado ultra-competitivo de los video-juegos. Su suerte se revirtió solamente cuando modificaron radicalmente su estrategia (creando un Blue Ocean), cambiando así las reglas del juego. Con el lanzamiento de la Nintendo Wii a fines del 2006, recuperaron su posición de liderazgo y se convirtieron en el principal rival a vencer por rivales de la talla de Sony (Playstation 3) y Microsoft (Xbox360).

ABSTRACT

For several years now, the video game industry has been locked into what can best be described as a Red Ocean, where the focus is on beating the competition, winning market share, capturing consumers and outselling the competition. Blue Ocean Strategy² (BOS), on the contrary, focuses on creating new demand in places where there is none, thus making the pie bigger instead of fighting over whom gets the largest slice of the pie. Since the launch of the Wii (pronounced “we”) video-game system, Nintendo has taken great steps toward making the competition irrelevant. This short article is meant to analyze the company’s strategy and understand it from the point of view of BOS.

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2. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, by W. Chan Kim and Renée Mauborgne, Harvard Business School Press, 2005.

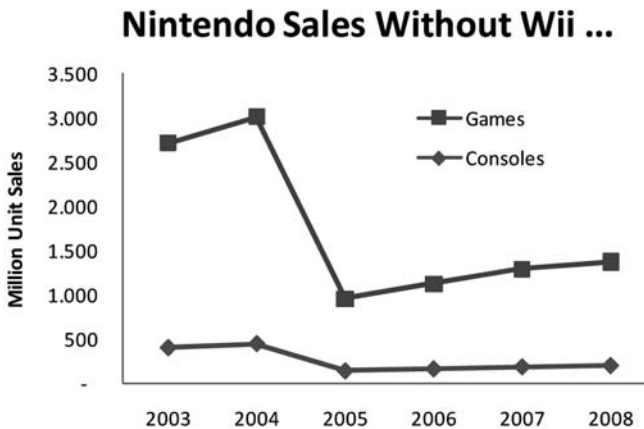
I. Introduction

For several years now, the video game industry has been locked into what can best be described as a Red Ocean, where the focus is on beating the competition, winning market share, capturing consumers and outselling the competition. Blue Ocean Strategy³ (BOS), on the contrary, focuses on creating new demand in places where there is none, thus making the pie bigger instead of fighting over whom gets the largest slice of the pie. Since the launch of the Wii (pronounced “we”) video-game system, Nintendo has taken great steps toward making the competition irrelevant. This short article is meant to analyze the company’s strategy and understand it from the point of view of BOS.

Out of the Red Ocean

Looking at the past 15 years in video game history, it would have been difficult to predict that Nintendo would make it into the top 10 of the 2008 Business Week / BCG *Most Innovative Companies*⁴. This ranking, led by Apple and Google, finds Nintendo in the 7th spot. How did the company get back in shape after so many years of being a mere follower in the console arena? Its last big hit was the GameBoy, in portable entertainment (DS is coming on as a strong follow-up!), but in the main console arena, it has lack-lusted with GameCube and SNES. This analysis is focused on the success behind the launch of the Wii (leaving out of scope the handheld market).

Figure 1: Nintendo Unit Sales (except Wii), Games and Consoles, 2003-2008



For a long time, Nintendo’s sales growth was stalled and the company did not seem to grow at the pace that its insanely large video game properties such as Mario, Donkey-

3. Kim and Mauborgne (2005).

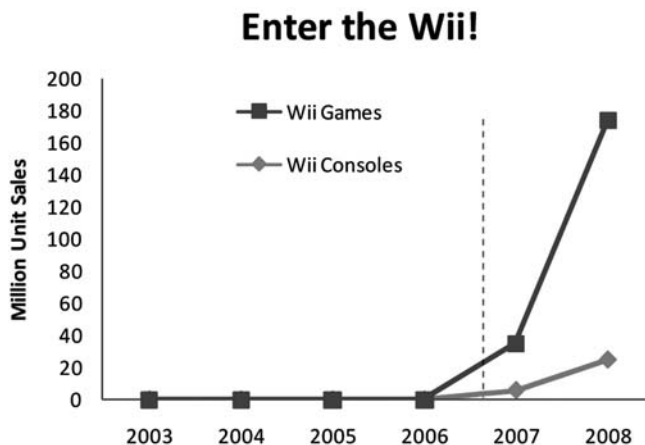
4. Published in *BusinessWeek*, April 28th, 2008.

Kong, Zelda and Metroid might have once suggested. As of 2005, the company started seeing some positive results, but from its handheld division, with the launch of Nintendo DS (nowadays fighting head to head with Sony's PSP). However, its main business floated carelessly in the land of indifference: while Sony's PS2 had amassed an excess of 115 million buyers, the GameCube had not crossed the 20 million mark. Something had to be done, but the change had to be radical, because the competition had gained too much ground on the technological arena and, by 2005/2006, may have been already too much advantage to catch up to. If Nintendo was to succeed in the current generation of videogames⁵, it needed massive surgery to its strategy and market focus. That is exactly what it did.

II. Current Generation

The first to market was Microsoft, with its Xbox 360 launching on November 19, 2006. Its predecessor had clearly been a "first attempt" in the market and bought credentials (selling 24 million units versus PS2's 118 million and GameCube's 22 million) for an outsider like Microsoft. The real fight, it had been said many times, would be between Sony's PS3 and the Xbox 360. Being first to market gave Microsoft some edge, since usually all console launches are accompanied by a period of shortages and demand-meeting problems. It also helped establish its technological superiority over the PS2 and GameCube early on, and before the launch of PS3 and Wii. Little did they imagine that Nintendo would snatch all the hype and early success in this new generation!

Figure 2: Nintendo Wii Unit Sales, Games and Consoles, 2003-2008



5. The videogame industry evolves in waves, marked by improving technologies. This gives competitors an extra challenge: at each new stage, someone might "break into" the market and disrupt it when entering a new technological cycle. Sony succeeded at this with the PlayStation, attacking incumbents Nintendo 64 and Sega Saturn I the 32-bit era. Microsoft tried the same stunt in the 64-bit era, with Xbox fighting PS2, Nintendo GameCube and Sega's Dreamcast, the incumbents. Detailed at http://en.wikipedia.org/wiki/Console_wars

III. Enter the Wii: Changing the Concept with New Game-Play, New Consumers, New Approach

Up until 2006, the company had, in a way, been fighting the wrong battle: the Playstation 2 from Sony and the Xbox from Microsoft were winning the technological battle, while Nintendo’s GameCube was very far off from center stage. While its competitors had started targeting a more mature and lucrative gaming audience (18-34), the GameCube was aimed towards the 7-16 segment. The GameCube, although showing better graphics and having the interesting Nintendo game library, left out some interesting features such as the ever-expanding DVD player market and early internet connectivity. The greatest strategic mistake, though, was probably the segment targeting aimed at the “under-18” market, which represented only 1/3 of the total market⁶ above. This put a cap on Nintendo’s success, a strong differentiation from its competitors who had a higher price but targeted an older audience with much more buying power.

With the creation of the Wii, Nintendo recognized its mistakes and decided to make radical changes to its strategy:

Game-Play: Also referred to as “Playability”, and refers to the change in focus from the technological race towards a more user-oriented strategy – the equivalent of going from “seeing everything better and going faster, with better graphics” to “having more fun”. The improvement of game play is noteworthy: the wireless controller “liberates” gamers and opens endless options; the accessories (Mario Kart wheel, fishing rod, shield and sword, blaster) make the controls much more realistic and the overall experience much more pleasant.

New Consumers: After realizing its past mistake when aiming for a younger audience, Nintendo set out to remedy this: the appeal of the Wii console goes, as a matter of fact, far beyond the “regular” target age groups⁷ and enters a whole new dimension. Nintendo has started tapping into the “casual gamers” category; reaching far beyond the “hard-core gamers” which the PS3 and Xbox 360 target directly. Nintendo’s mission seems to be “*to encourage people around the world to play video games regardless of their age, gender or cultural background*”⁸, capturing young and old alike.

According to *Blue Ocean Strategy* theory, there are three groups of noncustomers that any company can reach out to: (1). “soon-to-be” noncustomers who are on the edge of the market, waiting to jump ship, (2). “refusing” who consciously

6. Microsoft Xbox: The Battle for Gaming Supremacy, by Michele Della Briotta, Yeganeh Mashayekh, Stephen Stokols, Steven Sesar and Charlie Zhong, Competitive Landscape, slide 10.

7. New Wii Games Find a Big (but Stingy) Audience, New York Times, www.nytimes.com/2008/04/21/technology/21wii.html?ref=technology .

8. Nintendo New Products Ideation, Phillippe De Ridder.

choose against the market and (3). “Unexplored” noncustomers, who are sitting in distant markets.

The Wii offers the first tier a leap of value that attracts them (casual gamers), and, while the second tier customers seem mostly unaffected, it is the third tier that seems to have been readily attracted by the Wii ⁹.

The Wii has even been praised for use as means of recovery as physical therapy for patients¹⁰, being prescribed by doctors to regain strength and help with rehabilitation of certain injuries.

New Approach: All in all, Nintendo has flipped the board and taken the industry hostage with its new, holistic videogame approach. No longer is high-definition capability the defining matter in video games; it would be absurd to deny its importance, especially in hard-core gamers, but for the casual gamer, it’s almost a non-issue. Now gamers are playing with their families, their friends and not alone in the dark at night (which is the typical gamer concept until now). With its Wii Sports package, which comes bundled with the Console, and includes Baseball, Bowling, Boxing, Golf and Tennis, some people don’t even find a reason to buy more games. That game-pack allows for hours of fun and entertainment in a highly competitive, yet mobile and fitness-oriented environment. This new approach has certainly struck a nerve with both consumers and non-consumers.

According to analysts, Nintendo’s Wii strategy can be summarized as a disruptive strategy¹¹, where past success paradigms are broken and new ones are written. While its predecessors (SNES, N-64 and GameCube) had all introduced incremental modifications to the original Nintendo Entertainment System (NES), the Wii changes several laws and underlying assumptions, thus making it a truly *rule-changing* experiment.

While past Nintendo consoles had been trying to emulate competitors or improve marginally the gaming experience, the Wii offers a change on all orders of things and sets new standards for other consoles, thus capping their expansion into some fields where high-definition graphics and a faster CPU do not constitute valid credentials.

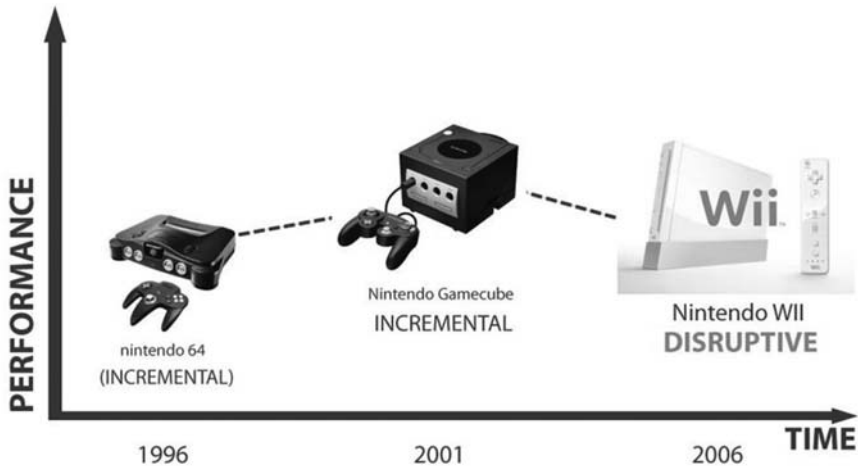
In the next section, applying the *Blue Ocean Strategy* framework, we will analyze how the industry was deconstructed and reconstructed by Nintendo to understand the success of the Wii.

9. Nintendo Wii’s Growing Market of “Nonconsumers”, by Scott Anthony, HBSP Innovation Insights.

10. New Form of Physical Therapy: Wii Games by Lindsey Tanner, Associated Press <http://www.livescience.com/health/080209-ap-wii-therapy.html> .

11. Christensen (1999).

Figure 3: Nintendo Wii as a Disruptive Innovation¹².



IV. Into the Blue Ocean

None of what we described above has been accidental. Nintendo CEO, Satoru Iwata, has said that *“While some people put their money on the screen, we decided to put ours into the game experience”, in an attempt to “not just improve the market, but disrupt it.”*¹³ Referring to the DS Strategy and subsequently applied to the Wii. To execute this strategy, careful consideration must be put not only on the product itself and the buyer experience, but on the intent and the comparative performance the product will have among its peers.

The strategy canvas which we will now see is both a diagnostic and an action framework for building Wii’s blue ocean strategy. It allows two main purposes: to understand where the competition is investing and also what the consumer perception is of these offerings. The vertical axis depicts the value derived from each of the factors the industry competes in (horizontal axis).

We have identified the following range of factors that seem to be defining of the video game industry:

- DVD/HD Integration
- Processor Quality and Graphics
- Appealing Game Titles
- Hardware Accessories
- Social Gaming (Family and Friends)

12. Nintendo New Products Ideation, Phillippe De Ridder.

13. Breaking: GDC - Detailed Nintendo Keynote Coverage http://www.gamasutra.com/php-bin/news_index.php?story=8656.

- Fitness and Sports
- Backward Compatibility
- Web Downloads and online gaming
- Wireless controllers
- Price
- Character Customization
- Motion Sense Controller

Each of these factors holds part of the explanation about the strategic direction that Microsoft, Sony and Nintendo (as well as other competitors) have taken. Each one implies a certain amount of resource allocation and investment, and may well be the fruit of many years of strategic thinking and development. Together, they depict the factors that each company, through their products, chooses to differentiate themselves in the market and satisfy demand.

The difference with the Wii is that Nintendo chooses a path astray from the arms' race to better technology and builds a product that, although technically inferior, sets to capture the lion's share of the market by focusing its firepower on factors besides the technical prowess.

These are compared among the competitive group and a certain value is assessed to be perceived by consumers (for this case, they have been estimated by the author in contact with and reading reviews of consumer groups online). The resulting *value curve* is the graphic depiction of a company's relative performance across its industry's factors of competition.

Figure 4: Strategy Canvas for Wii

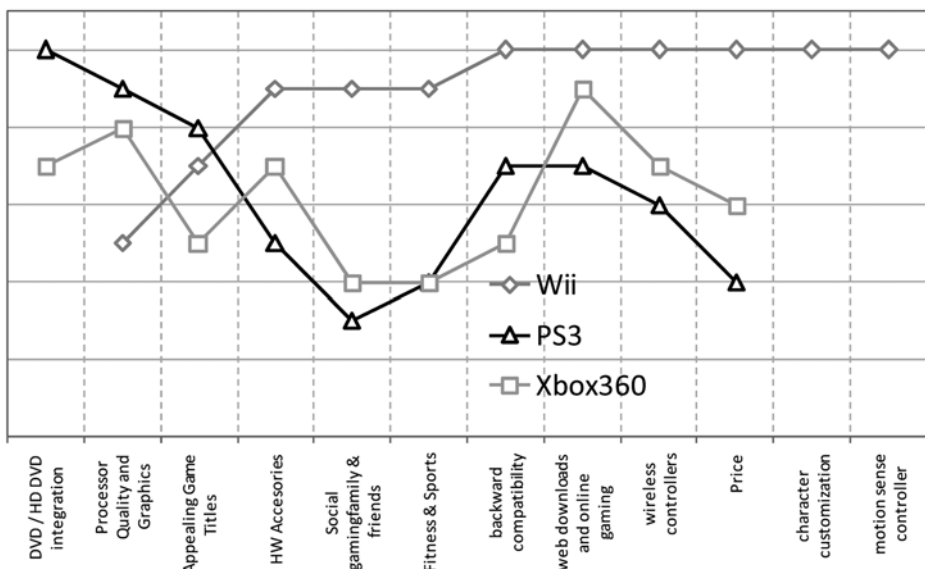


Figure 5: Eliminate-Raise-Reduce -Create Grid for the Wii

<p>Eliminate DVD/HD-DVD Playback</p>	<p>Raise Hardware Accessories Wireless Controller Social Gaming Fitness & Sports Backward Compatibility Web Downloads & Online play</p>
<p>Reduce Processor Quality and Graphics Price</p>	<p>Create Motion-sense controller Character customization</p>

The Eliminate-Raise-Reduce-Create grid above is the key to breaking the trade-off between differentiation and low cost – therefore creating a value curve which will catapult the product to success. In this case, the most expensive elements (processor and DVD/HD playback components) were eliminated or reduced, thus allowing a lower price and a profit on the console sale¹⁴.

The *raise* strategies mostly point towards the customer buying more peripherals and therefore increasing overall system revenues. The motion-sense controller makes hardware much more necessary to the Wii platform than any of its competitors; and the accessories (driving wheel, sword, blaster, fishing rod) become the ways to unlock a more participative playing experience. This differentiation factor is actually adding revenue potential to the Wii.

The Fitness & Sports trend, added to the general Social/Family gaming the Wii has enjoyed are also revenue generators. The ancillary product is the Wii Sports, bundled with the basic hardware offering. More than a year after the Wii launch, Wii Fit came out. Wii Fit is a balancing board (additional hardware) that comes with a full exercise program, equipped for fun (soccer headers, slalom), Fitness (jogging), Balance activities (Yoga), among others. Some games are specially designed to interact with the board, thus also driving game revenue.

Finally, the Web Downloads and online play is a central feature to the Wii. Besides the news and weather forecast the Wi-Fi equipped Wii offers, users can download traditional games from the Wii Channel and invite friends to share their customized characters and be in constant contact.

The results of this strategy are outlined in the next two figures:

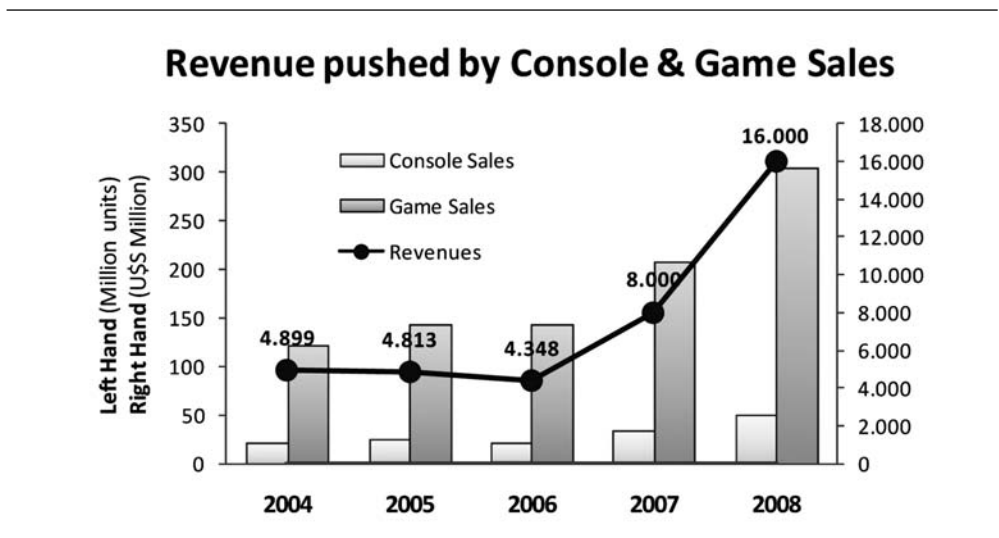
14. Usually, it is common to sell the console at a discounted price – a loss – and recover money on selling games. This has not been the case with the Wii. Nintendo makes a profit on console sales, which eliminates the pressure from having to break even with game sales.

Figure 6: Cumulative Sales for Wii, PS3 and Xbox360, March 2008-June 2008



Two years into the current generation battle, Nintendo is so far the winner. Xbox360 launched earlier (see figure 9) but has not amassed the installed base that the Wii has created in less time. Although the US figures are not shown, that is the territory where Microsoft and Nintendo are having more of a head-on battle; in Japan and Rest of the World, Nintendo emerges as winner.

Figure 7: Nintendo Sales Figures, 2004-2008



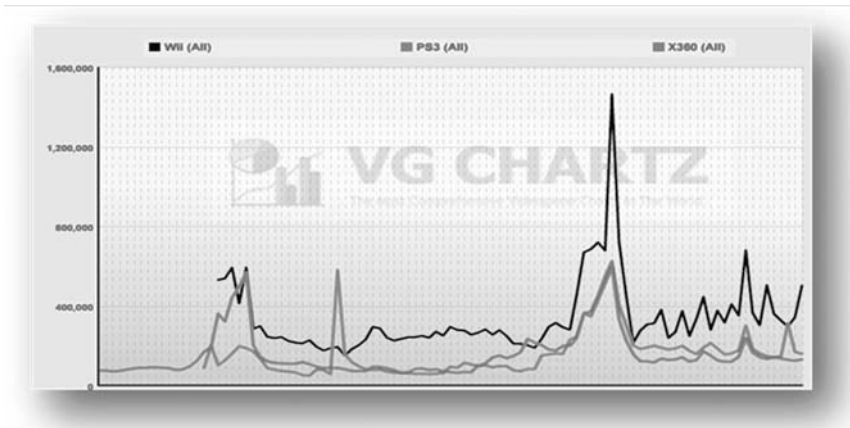
As we can see, the Blue Ocean / Disruptive strategy seems to have been successful. Nintendo appears to have regained its star-power as the *real deal* in video games. Its

revenue growth has sky-rocketed and so has its popularity. It has played catch-up with Microsoft and – something the giant from Redmond is not used to seeing – overtaken it in spite of the Wii’s later launch.

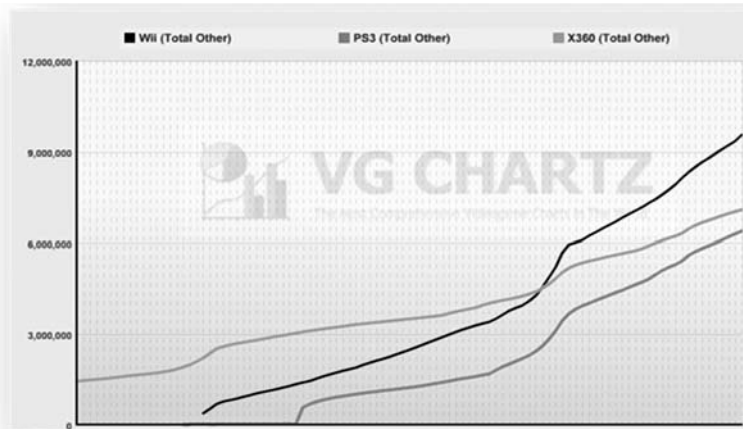
As can be seen in Figure 9, while Xbox360’s sales curve has already flattened somewhat. PS3’s performance mimics the Wii, although at a safe distance. Nintendo had an excellent 2007 Christmas season, selling out almost everywhere (especially in the US). Its ease of play, affordable price and media-hype generated a selling sensation, more than doubling its opponents’ sales added together.

Although sales estimates obviously estimate the initial rhythm to die down progressively, sales have remained strong throughout the first six months of 2008, reaching an installed worldwide user base of almost 30 million consoles, doubling PS3 and beating Microsoft by almost 10 million units. The recent launch of Wii Fit has caused another media sensation and challenged the notion that video games help to create *couch potatoes*. The Wii has shown that playing video games can also be a form of physical activity and help children (and elderly!) stay fit.

Figures 8: Industry Dynamics¹⁵, per period and cumulative, 2006-2008



15. Charting capability provided by <http://vgchartz.com>.

Figures 9: Industry Dynamics¹⁶, cumulative, 2006-2008

V. Pandora's Console

Pandora's Box has been opened, and unleashed into the video game industry. There is no talk yet of the next generation of consoles; however, there is already talk of designing a "Nintendo Killer" but only rumors. The only viable response so far has been price cuts in the competitors, which reinforces Wii's success (and places the pressure on game sales to recover that profitability). Nintendo has executed a well thought-out plan and has created a Blue Ocean, generating demand where there was none and moving away from the competition instead of crashing into them. When such a thing happens, the results are not usually "lukewarm"; either it works wonders or it is a complete failure. So far it has worked wonders for Nintendo.

See you next generation!

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Kim and Mauborgne, 2005, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, Harvard Business School Press.

16. Charting capability provided by <http://vgchartz.com>.

