

Analysis of Corporate Innovation and Development Strategies Based on the SWOT Model - Taking Nintendo as an Example

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Abstract:

Under the impact of the COVID-19 pandemic, people's outdoor activities have been banned due to the quarantine policy, and indoor entertainment activities have become the mainstream method for people to pass the time. During this period, the video game industry had achieved tremendous achievements. By analyzing the representative companies, it is helpful for managers or investors to recognize the future development direction of the market after the pandemic. This article uses the SWOT analysis method to analyze Nintendo, one of the leader in the game console industry, to evaluate and summarize its performance during and after the pandemic. Through research, it is found that although Nintendo has made many profits by relying on its advantages during the pandemic. It has also exposed its shortcomings in market forecasting and risk management. The pandemic has provided Nintendo with new development directions in mobile games and digital sports but also brought threats such as the decline in the purchasing power of target consumers. Based on the above analysis, relevant suggestions are provided to Nintendo, such as increasing fan encouragement for mod developers and increasing investment in the above two new development directions.

Keywords: SWOT analysis; pandemic; Nintendo; video game; game console.

1. Introduction

During the pandemic (2020-2022), to prevent the spread of the pandemic, most countries and regions adopted a policy of home isolation. People lacked outdoor entertainment activities to relieve their body and mind. Therefore, electronic games become an important part of people's entertainment activities. Through electronic games, people can break the limitations of distance, maintain communication with their relatives and friends, and make new friends to bring spiritual healing. Related game companies were also actively adjusting their development strategies and seizing the opportunity of the pandemic to promote the sales of electronic game-related products and occupy more market share. According to Deniz and his research team, through hypothesis testing, it was confirmed that the pandemic did lead to an increase in the stock prices of the large game companies they studied, which is shown in figure 1 [1]. In this graph, these four companies can stand for general development of game industry from different continents. Both Take-Two (TTWO) and Electronic Art (EA) come from America, while Copcom and Ubisoft are located in Japan and France respectively.

However, in the post-pandemic era (2023-present), as the pandemic situation eases, the relevant isolation policies

have been removed, and people's demand for entertainment activities has changed. Thus, the development strategy formulated under the pandemic background would no longer be applicable, and related companies need to make new decisions again in the face of dynamic consumer demand. Moreover, the pandemic has not only changed people's consumption concepts and consumption levels but also alternated consumers' preferences for game products. Some game companies need to step out of their comfort zone, adapt to the market trends after the pandemic, and develop new fields that they have never tried before. By analyzing the development strategy of a company during and after the pandemic, investors can evaluate a company's sensitivity to market changes and its potential problems, which can help them better understand the investable value of a company. In that case, this article will take Nintendo as an example, which is one of the most famous video games on a global scale. With the help of the SWOT analysis method, this essay analyzes Nintendo's innovative development strategy based on reports and data related to Nintendo from 2020 to 2023 to demonstrate the reason why this company was able to maintain rapid sales growth during the pandemic and the problems it may face in the post-pandemic era from the perspectives of consumers and Nintendo's strategic direction. Finally, based on

the analysis, this paper will give constructive suggestions in the post-pandemic era as well. for the target company and other firms who are struggling

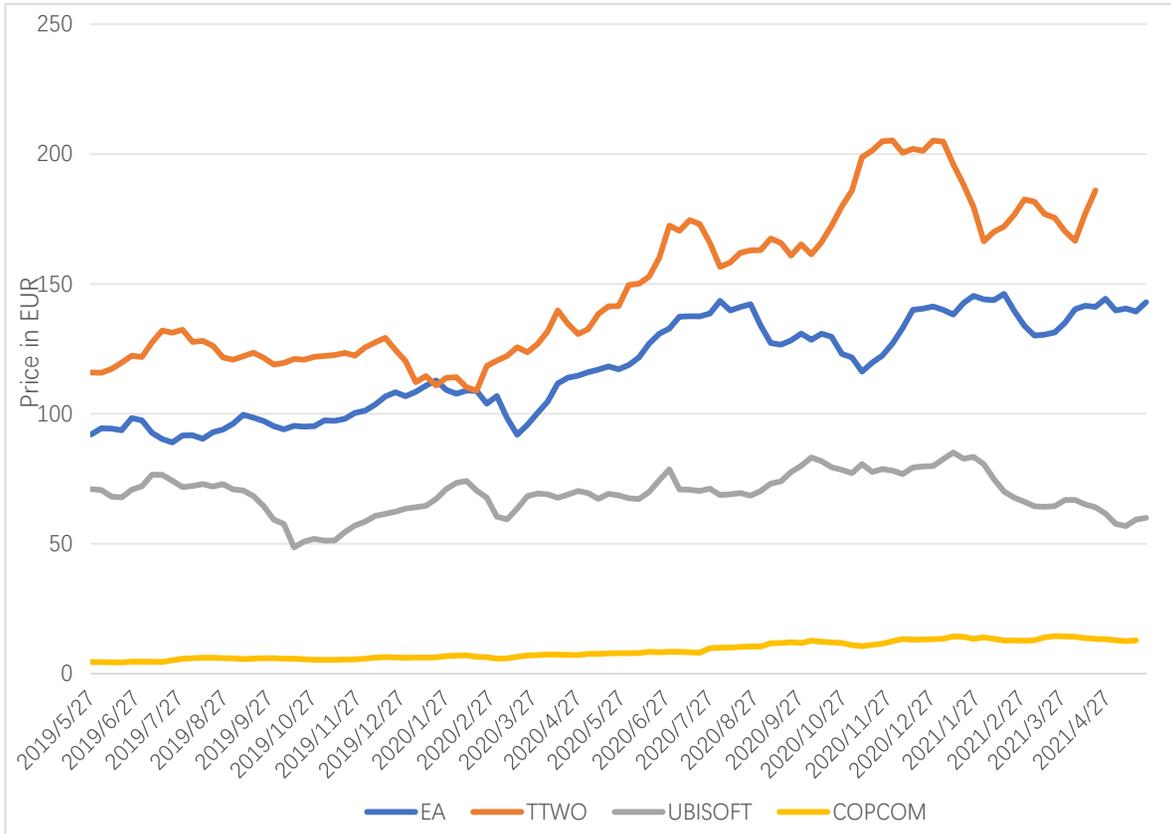


Fig. 1 Stock Price in EUR Weekly

Data from: <http://finance.yahoo.com/>

2. Case Analysis

2.1 Case Description

Nintendo is a Japanese multimedia video game company with a long history. Since entering the game industry in 1973, it has maintained a leading position in the industry. Its main business is the development, publication, and distribution of video games and game consoles. In recent years, Nintendo has achieved a series of commercial achievements. Since 2019, the company's net sales have been on an upward trend and reached 1,601,677 million yen in 2023, as shown in Figure 2. During the pandemic (2020-2022), Nintendo's game console Nintendo Switch

sales exploded, surpassing the same generation product PlayStation 4 (PS4) to become the best-selling eighth-generation game console, and even appeared in short supply [2]. Because of its low price, unique market positioning, and wide range of target customers, this product still has certain competitiveness compared to the ninth-generation console PlayStation 5 (PS5). However, after the pandemic (2023), sales have declined significantly, and the final sales are not as good as PS5, as shown in Figure 3. Therefore, when the pandemic is over, Nintendo will not only face pressure from competitors' new generation of game consoles, such as the Xbox Series X|S launched by Microsoft but also face changes in consumers' preferences for entertainment due to transformation in consumption levels after the pandemic.

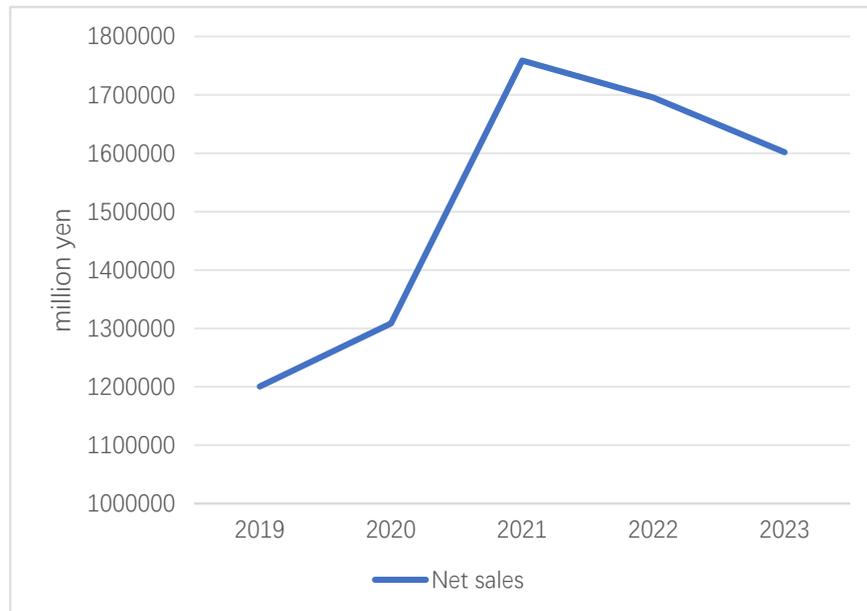


Fig. 2 Net sales of Nintendo

Data from: <https://www.nintendo.co.jp/ir/pdf/2023/annual2303e.pdf>

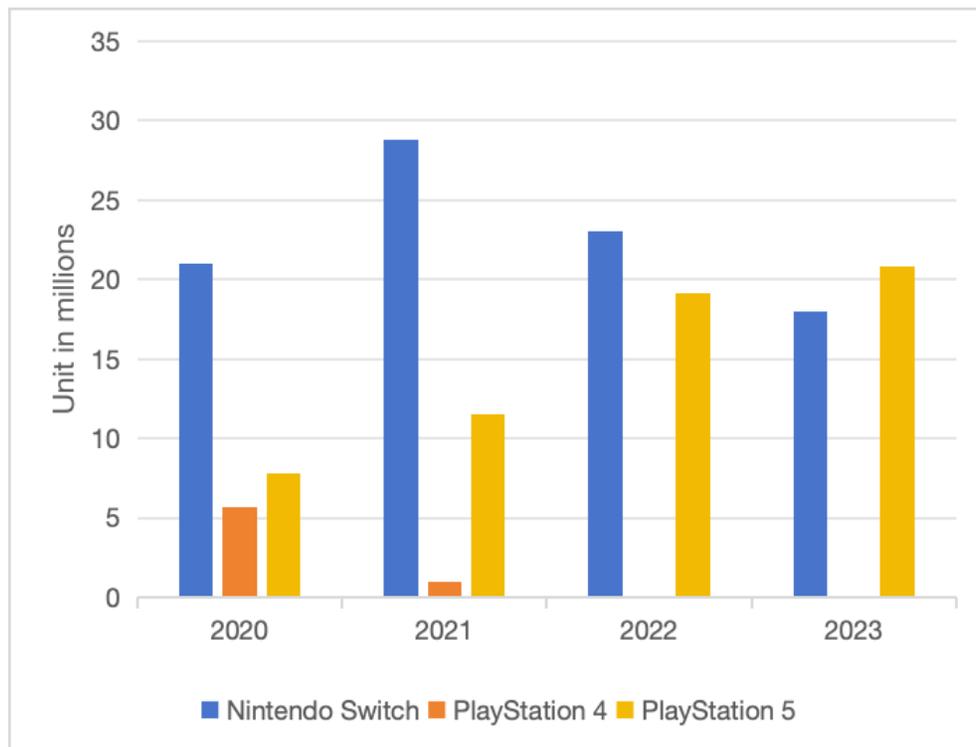


Fig. 3 Global Sales of Game Consoles in Unit

Data from: <https://sonyinteractive.com/en/our-company/business-data-sales/>
https://www.nintendo.co.jp/ir/en/finance/hard_soft/number.html

2.2 SWOT Analyse

2.2.1 Strength

As mentioned above, Nintendo’s product positioning is different from that of its main competitors, which has become one of Nintendo’s advantages. In terms of price positioning, the price range of its main competitors, such as PS5 and Xbox Series X, is approximately from US\$349 to US\$599, while Nintendo’s basic NS console is only US\$299, and even the advanced OLED model

is only US\$349. In addition, Nintendo also launched an economical model Nintendo Switch Lite in 2019 that focuses on the handheld experience and is priced at only US\$199. Therefore, Nintendo has shaken the customer base through a low-price strategy and attracted consumers from competitors [3]. This strategy can also be achieved through increasing production and innovative design [3]. In terms of marketing strategy, Nintendo fully uses streaming media to promote its brand on social media platforms such as Twitter and YouTube and launch relevant promotional activities.[4] Unlike competitors who set up only an official account on one platform, Nintendo promotes its products by establishing Twitter accounts in different countries and regions to push localized content to users in relevant regions.

Regarding the issues of innovation, this is another advantage of Nintendo. NS has three different game modes, unlike game consoles such as PS5 which only support external monitors. The TV mode satisfies the gaming experience of both hardcore players and casual players. The handheld mode provides a more flexible gaming experience with its portability, which attracts many players. Desktop mode is very new in the market and helps players expand their gaming environment [4]. In addition, by switching between these three different game modes, players can redefine NS according to their different demands and use it as a part of their lives [5].

2.2.2 Weakness

Judging from sales data alone, Nintendo did surpass its competitors with the NS during the pandemic, but it was reported that its exclusive game Ring Fit Adventure was out of stock in both online and offline sales channels during the pandemic. It is undeniable that the product has established a user base beyond expectations through the pandemic, but it also reflects Nintendo's lagged response to consumer demand [6].

In addition, Nintendo's risk management in the supply chain is not optimistic. Its supply chain model is that the headquarters of Nintendo are responsible for developing core technologies and outsourcing product manufacturing and assembly to labor-intensive countries such as Vietnam and China [7]. Although this method can keep costs low under normal circumstances, such a supply chain model has a shortage of logistics and transportation personnel and increased transportation costs under the background of the pandemic, which has caused Nintendo to bear more inventory management, logistics, and transportation costs. Moreover, Nintendo's dynamic adjustment to market conditions is somewhat conservative. It will not continue to place orders until inventory is approaching exhaustion. They also failed to make sufficient preparations before

the pandemic to combat its various impacts on the supply chain [6]. If Nintendo had been able to predict the outbreak and take timely measures, its sales would have been higher.

Additionally, due to the lack of a certain number of third-party partners, Nintendo's game library is not as large as its competitors Microsoft and Sony. With the rapid development of mobile games during the epidemic, its limited game library is likely to become one of the important disadvantages in this competition [8].

2.2.3 Opportunity

For Nintendo, the outbreak is not only a challenge but also an opportunity to seek new development paths. As mentioned above in figure 2 people had an increasing demand for Nintendo's products during the pandemic, which can be inferred that their products met consumers' demand successfully during the pandemic [2]. However, not only companies in the game console industry such as Nintendo benefit from the outbreak, but also companies that focus on making mobile games. Because of the impact of the pandemic, people's demand for indoor entertainment has increased, and mobile games have gradually expanded their market share. In 2023, mobile games accounted for 49% of the electronic game market, while the console game market accounted for 30% [9]. In the market, mobile devices such as mobile phones or tablets meet people's needs other than games, while game consoles that can only play games seem too single-function [10]. Therefore, Nintendo can invest in mobile games with its outstanding software development experience and a large user base.

In terms of user groups, according to the research of R.K.Elnaggar et al., the impact of the pandemic has led to a significant decline in the physical activity levels (PALs) of male adolescents [11]. This decline in PALs will stimulate consumers' demand for indoor sports activities. According to the research of Jacqueline et al., most people hope to continue to accept digital sports activities after the pandemic [12]. The above research shows that in the post-pandemic era, people's demand for digital sports activities will continue to grow. As Nintendo's indoor sports product RFA, a research team has proven that it can maintain or improve an individual's physical fitness and provide a good activity plan for people who lack systematic exercise [13]. Therefore, Nintendo can continue to achieve success in the field of digital sports through the success of the RFA series of products.

2.2.4 Threaten

In the post-pandemic era, the threats faced by Nintendo cannot be ignored. Due to the impact of the pandemic, people's consumption behavior has changed, and their

consumption of daily necessities has increased [14]. As a result, consumers have become more frugal and their consumption has decreased [14]. As the consumption level decreases, people's choice of entertainment products will also change. For Nintendo, it not only has to face the impact of the decline in the consumption capacity of the target group but also the pressure from competitors, including PC games. Most of the popular competitive games on the market are free and exclusive to PC, which means that even people who don't have a computer can go to an Internet cafe to play games at a low price instead of buying exclusive games that cost about \$60 [15]. Not only PC games, but also the free mobile games mentioned above are gradually occupying more of the market [9]. Therefore, under the influence of the pandemic, people may be less willing to pay for games they like and instead play free games on other platforms, which will inevitably cause Nintendo to lose some users.

In addition, Nintendo will also face the growing problem of piracy. The number of user visits to the well-known piracy website Pirate Bay has been on an upward trend from 2021 to 2022 [16]. According to an analysis by a provider of anti-piracy solutions, piracy websites received 182 billion visits in 2021, an increase of 15.2% compared to 2020 [17]. Due to the rampant piracy, more and more people will play Nintendo games through illegal channels, seriously damaging Nintendo's economic interests.

Admittedly, Nintendo will prosecute any suspected IP infringement, but some enthusiastic and capable Nintendo game fans have also been sued by Nintendo for developing mods based on its games, which has frustrated the enthusiasm of mod creators. For example, Another Metroid 2 Remake was originally a fan-made free game developed by players using Nintendo's IP, but it was sued and removed from the shelves by Nintendo the day after it was published. In this case, since Nintendo's own game library is not rich enough, players may be dissatisfied with its failure to develop new IPs and prevent players from re-creating old IPs [8].

2.3 Suggestion

By analyzing the strengths, weaknesses, opportunities and threats faced by Nintendo based on the SWOT model this article will provide the following suggestions for Nintendo's future development. Firstly, Nintendo may be able to increase the lifespan of the game and the playfulness of the game by supporting fans' mod creation, thereby improving consumer satisfaction with the game [18]. In addition, according to Katarzyna Bilińska-Reformat and her team's interviews with Polish game users from 2018 to 2019, they learned about their views on game mod development and concluded [19]. Game mods can bring new

gaming experiences to players, help build a creative gaming community, and extend the lifespan of the game [19]. Not only that, Nintendo, as a game developer, can also get inspiration from player-made mods to develop new content [19].

Secondly, according to the analysis in the opportunities section, as people's consumption level declines, the paid exclusive console game market is shrinking, while the market size of free mobile games is expanding. According to Tian Meng's research, the freemium strategy is the main marketing strategy for mobile games [20]. Nintendo can continue to practice related models and explore the mobile market, which has great room for growth.

Finally, Nintendo can also rely on the user base and feedback accumulated by RFA during the pandemic to improve subsequent products and production lines. For example, it can link RFA games with Nintendo's IP or look for other factories around the world to expand the product supply chain to cope with future digital sports trends [6].

3. Conclusion

This article uses the SWOT method to analyze Nintendo based on its performance during and after the pandemic, and draws the following conclusions. Nintendo's strengths lie in hardware and software design. In terms of marketing, it uses low prices to attract consumers and catch consumers' attention around the world on social media through excellent localization. Nintendo's weaknesses are that it is too conservative in estimating consumer demand and lacks risk management in supply chain management. In terms of opportunity, the pandemic has promoted the development of fields such as mobile games and digital sports, and Nintendo can catch the lucrative opportunities by developing experience and user base in these fields. As for potential threats in the future, due to the decline in consumption levels of its target groups caused by the pandemic, low-income groups will be more inclined to free mobile games, and Nintendo will lose a group of costumers. At the same time, Nintendo also needs to face the increasingly rampant piracy market. In the SWOT analysis, this article does not list all of Nintendo's characteristics in each section, but only cites some relatively more obvious one. In addition, some of the conclusions of this article are based on information from existing literature and related reports, and no systematic quantitative investigation has been conducted, so there may be some deviations from the actual situation within Nintendo. SWOT analysis alone cannot show the full picture of a company. It is hoped that in future research, methods such as Porter's Five Forces Model can be applied to conduct a more in-depth evaluation of Nintendo.

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