

Analysis for the Development of Nintendo Based on SWOT Model

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Abstract. Nintendo Company Limited is a Japanese multinational corporation headquartered in Kyoto, Japan. Over the years, the company has evolved into an influential video game console and software development company, producing and selling hardware and software for its video game systems. The video game industry is dominated by Microsoft, SONY, and Nintendo. Companies have promoted the rapid development of the game market through cost control, technological innovation, and other methods, under the guidance of their own competitive strategies, and through fierce competition. The three companies have been battling for market supremacy for many years. This paper will analyze the strategy adopted by Nintendo, which is one of the leading brands in the consumer electronics sector, through SWOT analysis, and analyze the advantages, disadvantages, opportunities, and threats of Nintendo's strategy. In order to find out the shortcomings of the strategy adopted by Nintendo, and give the recommendation to assure success. Nintendo's strength not only owns the most popular intellectual property of characters like Mario but is also extremely popular in the world. In terms of weakness, the company's replenishment is not active and has many fake goods. What's more, the Switch and other products also have some problems. For its opportunity, Nintendo has an economic, policy, and technological prospects. At the same time, there are some adverse factors in the external environment. However, in terms of threat, Nintendo now has a lot of competition in the market. Changing player preferences and demographic shifts also threaten its growth.

Keywords: Nintendo; SWOT analysis; stocks; finance.

1. Introduction

The development of Nintendo and its gaming industry has attracted attention. People wonder how Nintendo got there. In the social context of the epidemic affecting the world, what are the problems that limit its development? From Super Mario to Pokemon Q, from FC to Game Boy. Nintendo has brought back fond childhood memories for generations. Today, Nintendo remains the world's most valuable game company with a market capitalization of \$80 billion. The purpose of this paper is to determine whether, on balance, with the development of society, what shortcomings of the company can be improved. What measures can be taken to make its products more suitable for people's needs and the development of the present era.

Understanding the deficiencies of the company's current operation has a very important impact on the company's future development direction, for at least two reasons. On the one hand, internally, the company can know how to improve its products and adjust its business direction. Due to the outbreak of the epidemic and the global blockade, the overall social and economic situation has declined. As a game company, Nintendo needs to formulate a reasonable strategy to ensure the supply of its existing products. On the other hand, externally, the company can know more clearly how to market the brand to win the trust of consumers, so as to improve the brand value. For instance, if a new idea is created or a new product is developed, how should the company publicize to have the greatest influence and get the recognition of the old customers and the market.

This paper will use literature research, case analysis, and quantitative analysis. The main purpose of this study is to develop an understanding of Nintendo's development strategy and make reasonable suggestions for the future development of Nintendo. In the second part, this paper will first introduce the company background of Nintendo. Then, the company's management functions and stock trends will be described. Finally, Nintendo's financial situation will be analyzed. In the third part, this paper will use the SWOT model to analyze the company's strengths, weaknesses, opportunities, and threats.

2. Firm Description

2.1 Background of the firm

Nintendo is a century-old Japanese company mainly engaged in the development, manufacture, and distribution of electronic games. Founded in 1889 in Kyoto, Japan, it started out as a manufacturer of hana fuda, and then tried various industries. In the late 1970s, it became involved in the Video Game industry. After the commercial success of the hand-held Game & Watch and the arcade game Donkey Kong. In 1983, he launched the home console "Family Computer" and the game "Super Mario Brothers" in 1985, which achieved unprecedented success. He also owns a number of famous IP, including the Legend of Zelda, Pokemon and Animal Crossing. He is a world-renowned developer pf video game consoles and software. It is also one of the three major manufacturers of game consoles in the world.

2.2 Management function

The main business of Nintendo is the software development and distribution for home consoles and hand-held game consoles, mobile phone games have gradually become the third pillar of their business. There are other businesses, such as video game publishing and production, game equipment development, running a theme park and selling the peripheral office.

2.3 Stock tendency

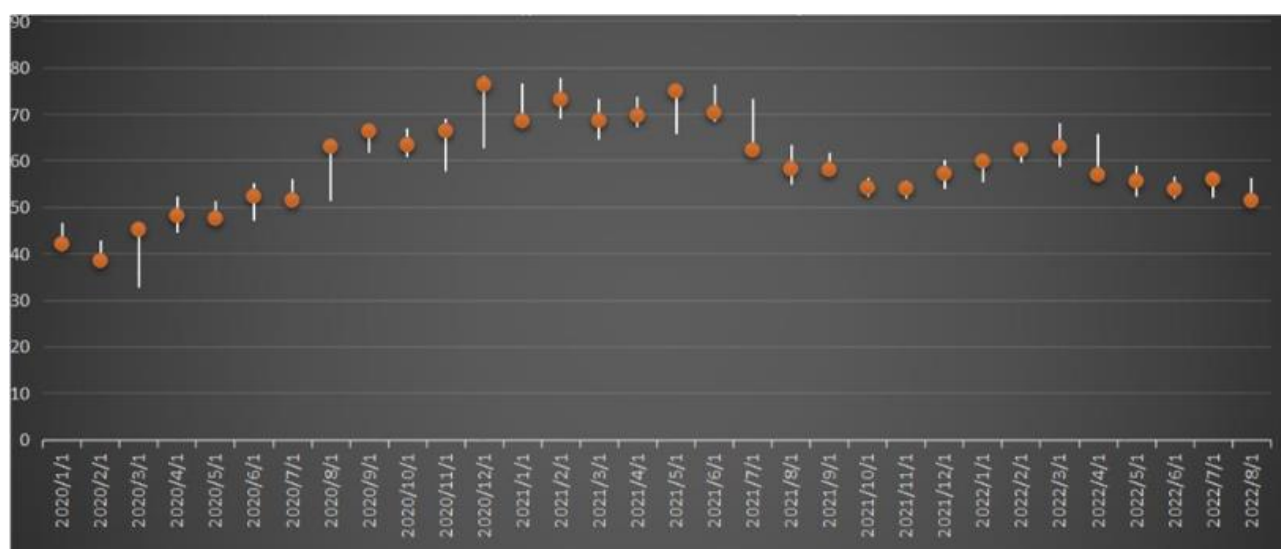


Fig. 1 Stock price of Nintendo

As shown in figure1, the stock price of Nintendo displays a fluctuating tendency since January 2020. At the beginning of 2020, Its stock price was situated at the lowest point about 32.8 USD. This phenomenon was likely influenced by the pandemic outbreak. In the later 1 year, the stock price maintained a rising trend and surged to the peak (78.3 USD). After this, it experienced a relatively gradual fluctuation in 6 months. Nevertheless, there was a significant drop to 51.9 USD until

November 2021. In March 2022, the price increased to 68.25 USD and later had a declined tendency. In August, the stock price is stable at about 52 USD.

2.4 Financial Analysis

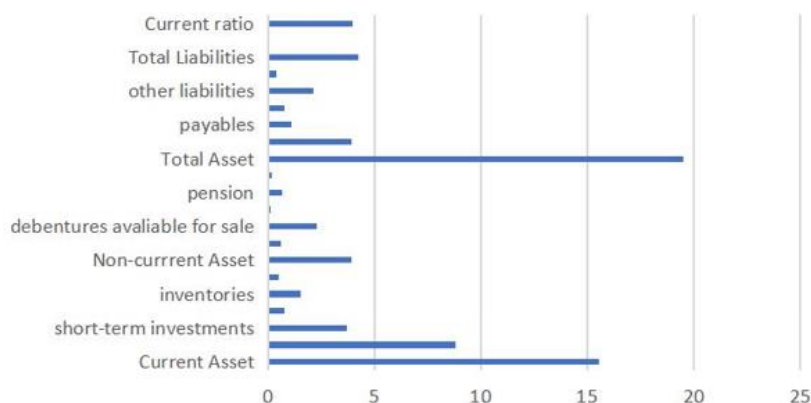


Fig. 2 Nintendo 2022 Financial Situation (billion USD)

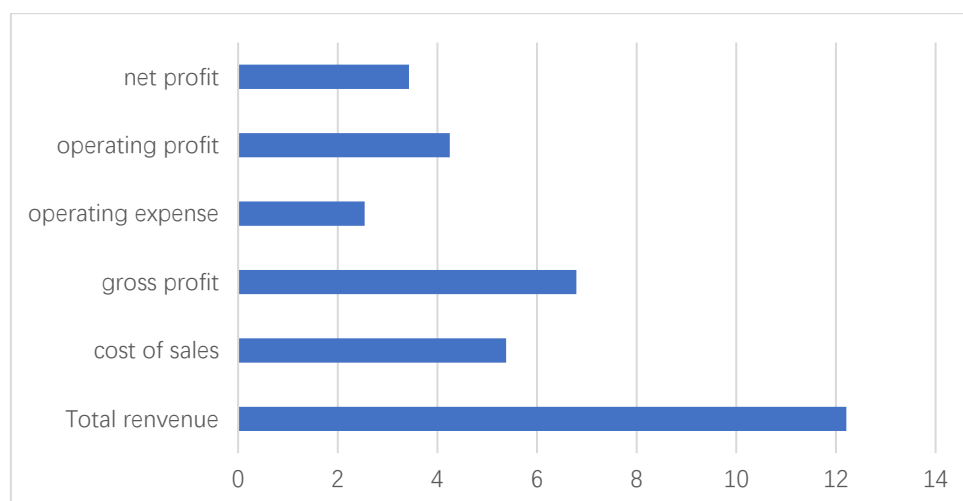


Fig. 3 The Revenue of Nintendo in 2022 (billion USD)

As shown in figure 2, in 2022, the total assets of Nintendo are about 19.5 billion USD. This involves 15.56 billion USD current assets and 3.9 billion USD non-current assets. To be more specific, the current assets consist of cash (equivalents), short-term investments, receivables, inventories, and others. The figures for these items are 8.8 billion USD, 3.68 billion USD, 0.76 billion USD, 1.5 billion USD, and 0.51 billion USD respectively. In addition, the debentures available for sale (2.28 billion USD) occupy the greatest proportion of total non-current assets. On the other hand, Nintendo has 3.88 billion USD current liabilities and 0.38 million USD non-current liabilities. The current liabilities contain payables, tax liabilities, and other liabilities. They are 1.1 billion USD, 0.73 billion USD, and 2.1 billion USD respectively. According to the calculation, the current ratio of Nintendo is about 3.94 which means the liquid resources are sufficient for Nintendo's operation.

As to Nintendo's revenue, its total profit is 12.43 billion USD. The cost of sales and operating expenses are 5.38 billion USD and 2.54 billion USD. Subsequently, the operating profit of Nintendo is 4.23 billion USD. The net profit is equal to the operating profit minus the tax cost. It is 3.43 billion USD.

Nintendo has invested its funds into four organizations (Niantic, PUX, Matrix Semiconductor, Gyration) and they are the lead investor of PUX. However, Nintendo has exited its investment in Matrix Semiconductor. Their most recent investment was on Oct 15, 2015, when Niantic raised \$20M.

In the report in 2020, Nintendo received more than 1.1 billion USD from ValueAct Capital. Nintendo has acquired 3 organizations (Dynamo Pictures, SRD, Jeunet). Their latest acquisition was Dynamo pictures on July 14, 2022. Furthermore, Nintendo is funded by Saudi Arabia's Public Investment Fund which is the lead investor either. In addition, Nintendo invests large sums in game development and online infrastructure. Nintendo has stated this is primarily money to 'organically expand' their game development assets and creative culture with approximately 880 million USD. Nintendo spent lots of money on improving its online and account offerings in order to maintain and expand its relationship with consumers.

3. SWOT

SWOT analysis refers to analyzing an enterprise's strengths, weaknesses, opportunities, and threats. Therefore, SWOT analysis is actually a method to synthesize and summarize all aspects of internal and external conditions of an enterprise, and then analyze the advantages and disadvantages, opportunities and threats faced by an organization. We took this approach to analyze Nintendo's competitive market environment and develop a better growth strategy.

3.1 Strength

As for the strength of the Nintendo, it can be divided into a few aspects. First of all, Nintendo owns the most popular intellectual property of characters like Mario, Pokemon and Zelda. The company attracts several fans and product users with these exclusive games. Nintendo has a strong brand, it occupied a 29% market share in the global console market. Additionally, the Switch is extremely popular in the world, it has a relatively smaller size than PS5 or Xbox. In some circumstances, potential customers are more likely to choose the Switch than others, for instance, when they want to enjoy the electrical games in the trip. In short, purchasers will choose Switch due to its convenience and accessibility. The innovative development strategy furnishes reasonable and sustainable progress with Nintendo.

3.2 Weakness

(1) Replenishment is not active: After the outbreak of the epidemic, the global lockdown, many people stay at home, very bored, and need a game machine to alleviate their boring life, Nintendo's game machine is undoubtedly a good choice, but Nintendo's replenishment is not active, leading to the shortage of game machine material.

(2) Fake goods more: When Nintendo became famous, a number of counterfeit manufacturers came to the scene and produced numerous counterfeit versions of the game consoles, affecting the company's earnings and reputation.

(3) The Switch item: Nintendo is too dependent on the Switch, too one-dimensional, and if no one likes the Switch in the future, Nintendo could face debt problems.

(4) Product failure: After the failure of the Wii U, Nintendo lost many of its customers who loved and trusted it, and many of them moved on to other brands. It was a failure of product and strategy.

3.3 Opportunity

3.3.1 Favorable factors of the External Environment

(1) Economic environment: SONY is one of its competitors of Nintendo. Walkman went to the market and quickly became a trend in the 80s. However, after the iPod came out, the MP3 format took the place of the Walkman. It has taken a toll on the economy of SONY. As a result, this is certainly a good time for Nintendo to promote its products.

(2) Policy environment: The state has provided a lot of policy and legal support for the game service industry, including game patent applications and encouraging the development of game equipment products. It is easier for Nintendo to expand its overseas market.

(3) Technology environment: Microsoft has a very short career in video game design and development, so they lack experience. Nintendo far surpasses Microsoft in both hardware and software development.

3.3.2 Adverse Factors of External Environment

A strong competitor is the biggest challenge for Nintendo. Microsoft's XBOX, which is extremely functional, sold 1 million units on its first release and 30 million worldwide. Facing Microsoft's XBOX from a very high starting point, it will be difficult for Nintendo to surpass or even catch up with it. Meanwhile, Microsoft's new product came out a year before Nintendo's, that makes it difficult for Nintendo to time new releases.

3.4 Threat

Tough competition: When Nintendo was considered a sensation in the gaming industry, there wasn't much competition. Nintendo became a monopoly in the market. However, the situation is quite different nowadays; There's a lot of competition from companies like SONY, Electronic Arts, and Sega. Each company tries to get ahead by constantly introducing new products. For instance, SONY's star Playstation series became the most popular game console. Activision Blizzard's classic games such as Call of Duty and World of Warcraft have become some of the most influential games in the gaming world.

Change preferences: As technology has changed and the development of society, so have player preferences. In the past, gamers typically bought games and consoles, but over time the trend has changed. Now smartphones are becoming common in the world and people can't live without them in their daily life, so gamers have turned to online gaming, preferring to use mobile phones and computers rather than consoles. Also, the lack of diversification outside the video game design field is one of the reasons. The lack of innovation in new games makes players gradually lose interest and patience with the product.

Demographic changes: Because Nintendo is a maker of video games and consoles, its customers are mainly teenagers and young children. And Nintendo operates in many countries. Over time, the proportion of older people in most countries has increased, meaning that demand for Nintendo's products is decreasing. In China, the number of births is now declining year by year, the natural population growth rate is gradually slowing down, and population aging has become serious. There are fewer young people, which means Nintendo's customers and potential customers are shrinking.

Other: In recent years, the world political situation is volatile and conflicts between countries occur from time to time, resulting in frequent fluctuations in international exchange rates. High proportion of overseas sales has exposed the company to risks relating to fluctuation in foreign exchange rates.

4. Conclusion

After years of development, Nintendo has become a company with single products and no active replenishment. In addition, there are a large number of fake products in the market, accompanied by the distrust of customers brought by its previous products and the threat of competitive companies. Nintendo needs to implement better plans in the future, and the team envisages the following future developments:

Through continuous research and development of new products, to overcome the shortcomings of its product uniformity and win back the trust and interest of customers. Speeding up the production line on this basis can prevent people from buying fake goods and reduce the company's revenue. When the interest of players and non-players in the product decreases, it can be done by co-branding with other brands to attract attention. Maintain the profits of the "old" by improving old products while developing new ones. Through these actions, we can not only maintain the profits of old products but also maintain the development and promotion of new products.

Nintendo's competitors are the biggest stumbling block, especially Microsoft's XBOX. They had to be the "leader" in their industry to limit their competitors, and they had to use Internet research and analysts' data to figure out how to make plans that would keep Nintendo one step ahead.

Now it is an information age, and Nintendo should develop more online functions instead of being obsessed with reality. It can imitate Tencent's product "King of Glory" to make in-game consumption so that users can get what they want at home. In the future, both real and online sales can be adopted to avoid losing real collectors and "home people" customers.

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