

## CASE STUDY 4.3

Microsoft and Sony use their competitive resources to hit Nintendo hard

In 2007, the Japanese computer games manufacturer Nintendo launched the innovative Wii to retake a major share of the computer games market. But Microsoft and Sony have struck back so hard that Nintendo became loss-making for the years 2012 and 2013.

### Background – the early years

There is nothing new in the home video game machine battle. The Californian firm Atari was the early leader back in the 1980s. However, it had no proprietary software or hardware – competitors could copy its machines and software games developers had unrestricted access to its games. As in the case of the IBM personal computer – see Chapter 1 – this was not a recipe for success.

Then along came the Japanese company Nintendo. It had learnt some important strategic lessons about competitive resources. First, it used a branded character called Mario. Second, it sold the games consoles at low prices and made its profits from its exclusive software games. Third, it made sure that the games consoles were unique and could not work with other games. Finally, it restricted the number of software houses that it licensed to develop its games, thus ensuring that it had some control over the quality of the games.

### Game wars hot up in the 1980s and 1990s

Such success attracted another Japanese company, Sega. This company picked up some of the best ideas from Nintendo; for example, it developed its own branded character, Sonic the Hedgehog. In addition, it launched a more advanced machine and stole market share from Nintendo in a rapidly expanding market. By the early 1990s, Sega had become market leader, with around 50 per cent market share. Then Sony entered the market in the mid-1990s.

### Sony gains market leadership in the late 1990s

Sony used its competitive resources well. As a result of its involvement in films, it had the use of branded characters from its entertainment business. In addition, it used its financial resources to acquire a software development company and its expertise in consumer electronics to develop a new generation of games machines based on CD-ROMs. In 1998, Sega responded with its Dreamcast machine, which had superior graphics. Sony then hit back with PlayStation, which had even better graphics and was much faster than the Sega machine. Meanwhile, Nintendo was holding its own with Game Boy.

In 2001, Sega decided to throw in the towel on games machines – it had not made a profit for six years. Sony had invested \$500 million in PlayStation and its successor, PlayStation 2. It was reaping the rewards, with market leadership of around 80 per cent in a global market worth around \$20 billion per annum. Sony's games machine profits were the



After early success with the Wii, Nintendo's rivals have hit back with their own new games machines.

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biggest contributor to its total business over this time. Then along came Microsoft in 2000.

### Microsoft enters the home entertainment battle

Microsoft has been the market leader in personal computer software with its Windows system since the early 1980s. It has so dominated the global market that it has been the subject of anti-trust legal action in its home country, the USA, and also in Europe. Microsoft would not deny that it dominated this market worldwide. But the Windows system was largely employed for home *work* rather than home *entertainment*.

### Market opportunity 2001–2005

If you are an aggressive company like Microsoft, you can see an obvious opportunity to expand into entertainment – especially when the video-games console market is worth around \$30 billion and projected to grow at 10 per cent per annum up to 2015. Thus Bill Gates launched the new Microsoft games machine, the Xbox, in the USA in late 2001 and in Japan

and Europe in early 2002. Importantly, the new machine was in some respects more like a dedicated home computer, thus illustrating how the personal computer and the games machine may converge technically over the next few years. Arguably, this might threaten the Microsoft dominance of home PCs in the long term. Certainly, it also provided an opportunity for Microsoft to tackle a new and potentially lucrative market in the short term.

Around 2000 to 2005, Microsoft was not aiming to beat Sony's market share. Its machine was technically more sophisticated but was initially priced higher. Sony's PlayStation 2 largely matched the Xbox performance. The Nintendo GameCube was simpler technically, but significantly cheaper. Both Sony and Nintendo had a wider range of software games in the early years than Microsoft. However, Microsoft claimed to have built into its new machine the technical ability for gamers to use the much faster broadband telecommunications system so that fast games could be played between homes. But, since broadband was only in 4 per cent of homes at the time of launch, this was not a major competitive advantage in the early years. More generally, after four years on the market, prices were settling down at levels substantially below those of the launch period.

### Market opportunities 2006

In May 2005, Microsoft launched the Xbox 360 with a new generation of graphics capability and new software games. Almost on the same day (what a coincidence!) Sony announced the launch of PlayStation 3 (PS3). Importantly, both these machines represented a real competitive threat to Nintendo's Game Boy because they had superior gaming facilities.

Throughout this whole competitive battle, commentators assumed that Nintendo would be completely eliminated from the games machine market. They argued that Nintendo did not have the financial resources and market dominance of Microsoft or the next-generation technical capacity of Sony. The whole discussion among market observers was whether

Microsoft would be able to gain the upper hand from Sony in the games machine market: would game players wait for Sony? Or would they opt for the Xbox?

### Market response from Nintendo

In late 2006, along came Nintendo's response: a new games machine called the Wii that was truly innovative. Nintendo introduced a motion-sensitive wand that could be pointed and waved to control the game on the screen. It also helped that the Wii was priced at around \$200, significantly cheaper than its rivals. Nintendo could not make enough of the machines and had stopped advertising. By the end of 2010, Nintendo had sold 85 million machines – nearly as much as the combined sales of both Microsoft and Sony.

### Microsoft and Sony hit back

In late 2010, Microsoft launched its Kinect motion box. This was technically more advanced than the Wii because it was able to respond to visual and sound signals without the need for a hand-held controller. Nintendo's sales began to falter.

In 2013, this was then followed by completely new games machines from Microsoft and Sony: the Xbox One and the PlayStation 4 – see Table 4.5. Nintendo's only response had been the hand-held 3DS machine, followed later by a two-dimensional version of the same machine. In 2012 and 2013, Nintendo made operating losses on its worldwide business even before the launch of the two new games machines from Microsoft and Sony. Arguably, Nintendo needed another machine like the earlier Nintendo Wii to recover its position. Otherwise, it might go the same way as Sega.



**All three companies have published extensive plans, which are available on their websites.**

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**Table 4.5** The rival products in 2014

| Games machine                                                    | Maker     | Launch prices                                    | Total sales since launch       | Facilities                                                                              | Number of games available                                                              |
|------------------------------------------------------------------|-----------|--------------------------------------------------|--------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Xbox One with updated Kinect controller – launched November 2013 | Microsoft | \$499 plus \$60 per year for processor, Kinect   | 5 million units                | Live TV, Blue Ray, 8 core processor, Kinect                                             | Limited games at launch<br>Good range after four years                                 |
| Nintendo 3DS followed by cheaper 2DS                             | Nintendo  | \$170                                            | 'Disappointing' level of sales | Handheld, exclusive three-dimensional display but online services weak and closing down | Wide range of games, especially those aimed to broader target group than games players |
| PlayStation 4 – launched November 2013                           | Sony      | \$399 plus \$50 per year for game playing online | 7 million units                | TV streaming services, Blue Ray, 8 core processor                                       | Limited games at launch: primarily aimed at games players only                         |

Source: author from various websites plus references listed at end of chapter.



### Case questions

- 1 What conclusions do you draw about the competitive advantages of Microsoft? Are its advantages sustainable over time?
- 2 What core competencies does Nintendo possess? Is it capable of leveraging them further? If so, how?
- 3 How does Sony score on Kay's three areas of distinctive capabilities? What conclusions can be drawn on future resource development?
- 4 What is the strategic significance, if any, of the efforts of games machine makers to establish their own special technical standards? What are the risks of such strategies?

### STRATEGIC PROJECT

#### Will Nintendo survive?

This case was written in early 2014. Nintendo was clearly struggling against the competitive resources of Sony and Microsoft. You can read the impact on Nintendo from its annual report and accounts for 2013 which is available at [www.nintendo.co.jp/ir/en/library/annual/](http://www.nintendo.co.jp/ir/en/library/annual/) What would you recommend?

### CRITICAL REFLECTION

#### How useful is the resource-based view?

At the present time, the resource-based view (RBV) of strategy development is the focus of a significant body of research and development. Some strategists believe that its insights lie at the core of strategy development. But the RBV also faces significant criticism in at least three areas:

- 1 *Tautological.* The RBV is seeking truths that are part of the very definition of what is being sought. The RBV is supposed to identify the resources that lead to competitive advantage by identifying those resources that deliver value, rarity and inimitability. But competitive advantage itself is defined as something that is valuable, rare and inimitable. In this sense, the RBV only seeks to identify what it already knows or should know!
- 2 *Vague generalisations.* The resource areas identified by the RBV – core competencies, innovative capability, etc. – are vague. Some suggest that they are so generalised as to be of little value. They need to be seen in the context in which they arise if they are to have any meaning. Otherwise, they are merely slogans or aspirations that everyone can seek.
- 3 *Pathway to competitive resources.* The RBV is unclear on how organisations can develop and maintain their competitive resources. The destination of the superior, competitive resource is somewhat clearer than the path to develop it.

What is your view? Does the RBV have some useful insights? Or is it over-rated as a meaningful concept?

### SUMMARY

- The *resources* of an organisation are those assets that deliver value added in the organisation. The *capabilities* of an organisation are those management skills, routines and leadership that deploy, share and generate value from the resources of the organisation.
- The purpose of a resources and capabilities analysis is to identify where value is added in an organisation and where the organisation possesses SCA.
- In resource analysis, it is important to begin by analysing the complete range of resources and capabilities of the organisation: tangible resources, intangible resources and organisational capability. Such resources go beyond the usual definitions of accounting and finance concepts into more ill-defined areas like the true value of patents and leadership.