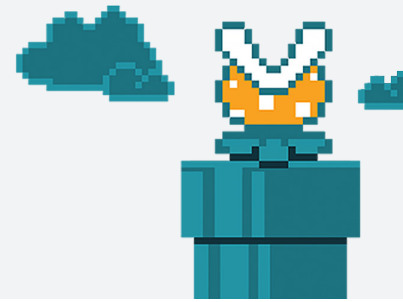


Nintendo & Growth



Fusajiro Yamauchi's playing cards were superior. Moving early on Japan's easing gambling regulations in 1889, Yamauchi built a company selling beautifully painted playing cards hand-crafted from mulberry and mitsu-mata tree bark. As his cards grew popular, Yamauchi faced a decision on how to meet the rising demand: either increase production speed by decreasing the quality of the cards or hire employees to make the same high-quality cards alongside him. Yamauchi chose the latter option, taking time to hire and train apprentices to craft the cards, and the company grew into the largest playing card manufacturer in Japan. Yamauchi never knew it, but his choice began a pattern that his company, Nintendo, would follow to success more than 100 years later.

The Koopa and the Hair

When Atari flooded the market with mediocre video games in the early 1980s, industry pundits called the video game market dead. Hiroshi

Yamauchi, Fusajiro Yamauchi's grandson, was up to the challenge. A problem solver, Hiroshi had shifted Nintendo into electronics and toys a few years earlier after realizing that Nintendo could go only so far with playing cards. The company's "Donkey Kong" arcade game became a megahit, and Nintendo was officially a video game contender. The next big challenge was jumping into the home console market, and Hiroshi wanted it done right.

Nintendo was determined to avoid an Atari-style burnout with its Nintendo Entertainment System (NES) console, so it established quality-control measures. First, only the very best games would make it to the NES. Nintendo installed authentication chips — which it produced alone — within every NES console and game cartridge, allowing it to select which games were playable on its console. Secondly, all approved games displayed the Nintendo Seal of Quality, Nintendo's golden guarantee stamp. Unlike





the low-quality Atari games from a few years ago, the seal buoyed customer confidence that games would be worth purchasing. Finally, and most importantly, Nintendo's excellent first-party games became mega-hits. The popularity of games such as "Donkey Kong," "Super Mario Bros.," and "The Legend of Zelda" sold millions of systems. The quality-first strategy worked.

With the video game industry revived, Nintendo's profits grew into the billions, and its mascot, Mario, became more recognizable than Mickey Mouse. Nintendo had won the race for video games as the slow and steady tortoise to Atari's hare. But, then the hedgehog showed up.

Wii Don't Need U

Competition from Sega and Sony crushed Nintendo's once-dominant market share. Although the Nintendo Entertainment System sold 62 million units, the following home console systems Super Nintendo sold only 49 million, and the N64 33 million. After the GameCube's record-low 24 million units sold, Nintendo needed to hit a home console home run.

Drawing on its history of successful growth with quality, Nintendo decided to deliver customers a new breed of games with its next console. Instead of primarily improving the console's

graphics (as was industry tradition), Nintendo's Wii system added motion controls to create a fresh experience for new and old gamers alike. With grandmas, toddlers, and everyone in between now in its customer base, Nintendo sold an incredible 101 million Wiis, nearly double its highest console sales yet. But just as Atari flooded the market with low-quality games, Nintendo allowed the motion-control craze to get out of hand, and cheap accessories were everywhere.

When Nintendo released its next home console, the Wii U, many customers thought it was just an accessory to the original Wii. "We already have remotes, balance boards, golf clubs, and steering wheels for our Wii: we don't need a 'U' too." The console's unimpressive lineup of launch games, early release, and confusing name didn't help either. Nintendo ended up selling only 13.56 million Wii U's, less than two-thirds the number of GameCubes it sold and about one-eighth the number of Wiis. With quality in the back seat, Nintendo went from its highest home console sales to its lowest in the space of a single generation.

Conclusion

In the video game business, the name of the game is the game, and quality is the only rule.



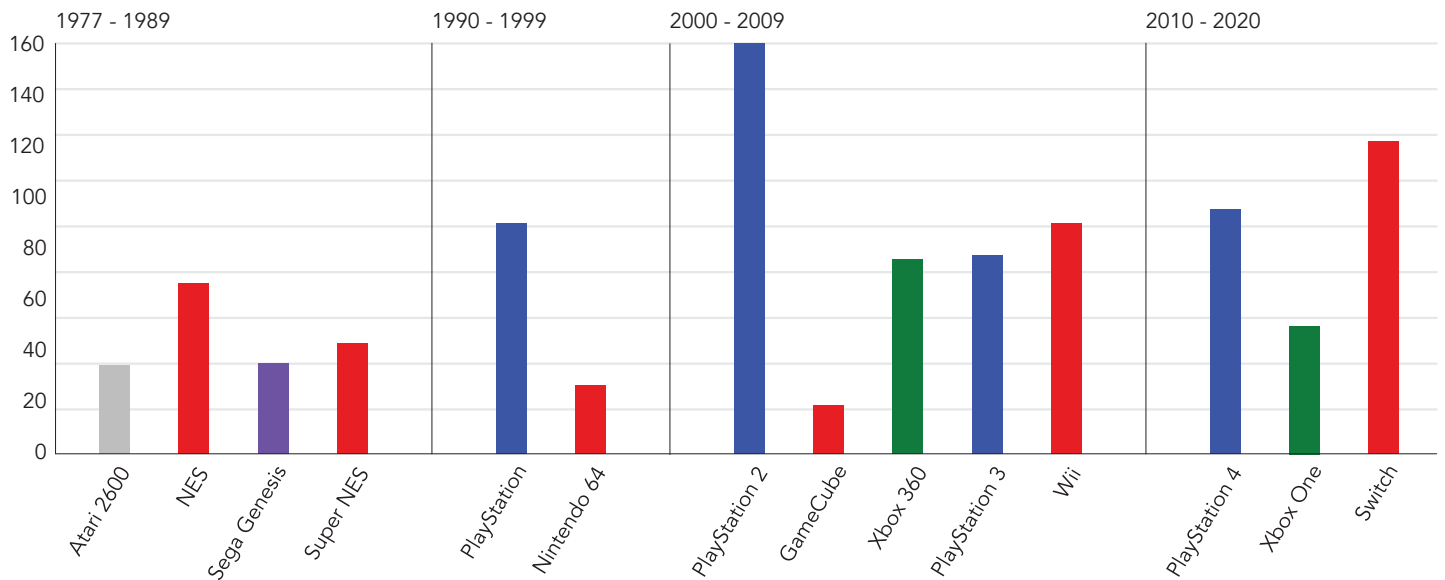
Fusajiro Yamauchi built Nintendo by crafting beautiful playing cards, and his grandson Hiroshi similarly crafted quality control measures to revitalize the video games market. Today's Nintendo has had its ups and downs, but the company succeeds when it prizes quality.

Nintendo's next console, the Nintendo Switch, has learned that lesson. The Switch, with its library of high-quality games that you can play at home or on the go, sold an incredible 139.36

million units, earning it the title of the fastest-selling home console ever. The name of the game is the game, and Nintendo's playing it right.

Activity

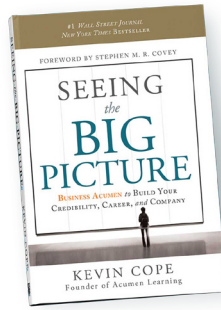
The chart below contains relative sales data for several consoles released between 1977 and 2020.



1. Nintendo revitalized the industry in the 1980s by implementing quality control measures. Feeling that Nintendo's quality control measures were excessive, some developers chose to shift their game projects from Nintendo to Sony. Can too much quality be a bad thing? Why or why not?
2. Look at the consoles released between 2005 and 2006. The Xbox 360 came out a year earlier than its competing consoles, and the PlayStation 3 was the first console to feature a Blu-ray player. Why did Nintendo succeed with the Wii? How might it have been more successful?
3. What qualities lead customers to pick your company? What qualities lead customers to your competitors?
4. How do you specifically support that perception of quality?
5. Which company do you estimate will be the most successful in the upcoming decade?
6. Now that you've completed the case study with your team, write down three lessons you've learned that will help you make better business decisions in the future.

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