

Nintendo's big challenge: letting others win

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Wii

One would think Nintendo Ltd. has little to worry about in the video-game market the company seems to rule, having sold more than 50 million of its Wii consoles to date.

After all, Nintendo's gaming consoles have outsold the competition's by a longshot. The U.S.-installed base for the company's Wii and handheld DS is larger than all their rivals combined, according to data from the NPD Group. And the Wii has more than doubled the worldwide-installed base of its predecessor console, the GameCube.

Even during March -- which turned out to be a relatively weak month for

the industry -- the Wii managed to outpace the combined sales of the [XBox 360](#) and PlayStation 3.

That has put [Nintendo](#) in the driver's seat for the gaming industry, which is so far enjoying a relatively strong year compared to other sectors that have been thrashed by the economic meltdown.

First-quarter sales for video game hardware and software have remained flat with the same period last year, which turned out to be a record-setting year for the industry, according to NPD data.

Hot game franchises like "Guitar Hero," "Call of Duty" and "Resident Evil" have kept sales moving for the year, and analysts expect a strong game line-up in the later half of the year to maintain the sector as well.

Still, Nintendo is facing some unique challenges in the market. For one, most of the best selling games on Nintendo platforms are the company's own, based on popular characters such as Mario, Zelda and Donkey Kong. While this helps its near-term profits, analysts say the company needs more sales from other game publishers to ensure the long-term success of its consoles.

"Nintendo knows that their console turns into a paperweight unless the other publishers make good games for it," said game analyst Michael Pachter of Wedbush Morgan Securities.

No company in the video game sector has been more successful over the last year than Nintendo.

The company introduced its Wii console in late 2006. While lacking the processing power of rival devices such as the XBox 360 from Microsoft and the PlayStation 3 from Sony, the Wii's innovative motion-sensor controller grabbed the attention of the masses and proved to be

extremely popular, with both hard-core gamers as well as consumers who are new to the industry.

Since its introduction, the Wii has sold more than 19.5 million units in the United States through the month of March, according to NPD data. That's more than the 14.9 million units sold of the XBox 360 -- despite the fact that the latter console has been on the market for a year longer--and more than 150 percent above the sales of the PS3 in that time.

Worldwide, Nintendo says the Wii has sold more than 50 million units in its lifetime. And unlike its rivals, the Wii has maintained its original price point of \$250.

On the handheld side, Nintendo is clearly dominant. The company's DS has sold nearly 30 million units in its life-to-date in the U.S. -- twice as many as the rival PSP from Sony, according to NPD. And the company has seen a strong uptake of its latest device, the DSi, which launched on the market at the end of March. Nintendo said sales of the DSi totaled 435,000 units the first week alone.

But recent data may be pointing to a slowdown. Wii sales slid 20 percent in March compared to the previous month_a bigger drop than seen by the 360 or PS3.

In Japan, where the economy has been in a deep slump, the console saw its sales actually dip below the PS3 during the month of March. While Sony benefitted from a popular exclusive game called "Yakuza 3," Nintendo itself said it was facing some pressure in the market.

"The Wii is in the most unhealthy condition since it hit the Japanese market," Nintendo Co. president Satoru Iwata said in a statement to the media recently. "The current condition in the Japanese market is not the

one we want."

Pachter of Wedbush Morgan said the company's challenges in Japan are unique to that market and should not be read across its other markets.

"Nintendo is kind of a victim of its own success," Pachter said. "No one is on top every minute of every day. The Wii is not as novel in Japan, and there's a lot of loyalty to Sony out there. I don't think (the weak month) is an indictment of Nintendo at all"

Some analysts say that Nintendo's biggest challenge is the fact that the most successful games for its consoles are the ones the company produces itself.

A look at the data bears this out. In the U.S., only one third-party game publisher has a title in the top-ten selling games for the Wii for the console's life-to-date, according to NPD data. That is "Guitar Hero III: Legends of Rock" from Activision Blizzard. Every other top game for the console has been produced and published by Nintendo.

This was a similar problem with the company's last console -- the GameCube -- which had only two third-party games in its top ten list.

By contrast, seven of the ten top selling games for the Xbox 360 and [PlayStation 3](#) are from third-party publishers. Game analyst Doug Creutz of Cowen & Co. says Nintendo's customers don't seem as interested in titles from other publishers, which makes the platform less attractive to developers, despite its huge installed base.

"I think the Nintendo audience is just not out there looking for third-party titles for the most part," Cruetz said in an interview. "What we have seen to date does not suggest that Nintendo customers care about content from anyone other than Nintendo, unless it's 'Guitar Hero' or

'Rock Band.'"

Some publishers have tried to take advantage of the Wii's unique control scheme with games made exclusively for the console, but success has been mixed. Notable efforts were "Boom Blox" from Electronic Arts, "de Blob" from THQ Inc. and "Carnival Games" from Take-Two Interactive. But only "Carnival Games" has been considered a strong success, despite relatively high critical scores for the other two.

Even the DS platform seems to share this challenge. In March, Take-Two launched the first version of its blockbuster "Grand Theft Auto" franchise for the device. But the game, called "Grand Theft Auto: Chinatown Wars," sold a disappointing 89,000 units during the month, well below analysts' forecasts.

"We view the title's performance as more indicative of the difficulties inherent in the Nintendo market for third party products and not due to any mis-execution on Take-Two's part," Creutz wrote in a note to clients.

For its part, Nintendo seems to understand the problem. At the Game Developers Conference last month in San Francisco, Iwata used his keynote address to tout the company's large installed base and woo more developers to consider the platform.

"One rule remains the same: Software sells hardware," Iwata told the gathering. "I do understand the concerns about lack of third-party success."

Iwata said hardware makers such as Nintendo must first grow the installed base of their platforms, to make them attractive to developers. He said that was the reason Nintendo released big games based on its best-selling characters like Mario and Zelda within 18 months of the Wii's debut.

Some think Nintendo may be intentionally stepping back a bit from games this year to give third-party developers more room.

The company has had relatively few big releases this year. Two releases--"Mario Power Tennis" and "Pikmin"--are old GameCube games with new control schemes overlayed for the Wii. Nintendo executive vice president of marketing Cammie Dunaway said the Wii has more than twice the installed base of the GameCube, which means many buyers of the Wii are unfamiliar with the company's previous games.

Nintendo's only other big release on the calendar so far is "Wii Sports Resort," slated for July 26. The game will come bundled with the Wii MotionPlus, a plug-in device designed to make the Wii control more precise for sports games and other titles.

But in a surprising development, Nintendo said earlier this week that it will launch the Wii MotionPlus separately on June 8.

This is believed to be a move to support Electronic Arts, which is preparing a new line of sports titles for the Wii -- including "Tiger Woods PGA Tour 10"--which hits the market a week later.

"They are re-paying EA for supporting the Wii, that's what's behind it," Pachter said of the early launch of the device. "Ultimately, the [Wii](#) is not going to succeed unless there's third-party success. They learned their lesson with the GameCube."

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