

CASES 3

NINTENDO: A CONSOLE IN EVERY HOME

When Nintendo released its latest video gaming console, the Wii, many industry analysts thought the machine would quickly go by the wayside. At the time (November 2006), the prevailing philosophy was that success in the videogame industry depended on being able to produce the fastest, most powerful machine on the market. Faced with competition from Microsoft's Xbox 360 and Sony's PlayStation 3 (PS3) gaming consoles, both of which fit the bill, Nintendo's strategy of building a console around much simpler and less powerful hardware raised many questions about the Wii's viability.

Fast forward to the end of 2008 and consider the numbers. In November and December of 2008, Nintendo sold 4.1 million Wii consoles, Microsoft sold about 2.2 million Xbox 360, and Sony sold 1.1 million PS3. That's right—Nintendo sold more consoles than both of its major competitors *combined*. In terms of year-over-year growth for that same period, Xbox sales experienced a modest increase, and PS3 sales actually dropped. As for the Wii? During that same period, Wii sales *doubled*. On the software front, the videogame industry as a whole saw software sales increase by 26 percent. With that in mind, consider that the four top-selling games of 2008 were all exclusively for the Wii. The top seller, *Wii Play*, sold more than the combined Xbox and PS3 sales of *Grand Theft Auto 4*. Consider as well that Nintendo's staggering hardware and software sales growth occurred in the middle of a deep recession.

So what exactly has given Nintendo such an edge? Part of it certainly goes back to its hardware design. When designing their next-generation consoles, both Sony and Microsoft invested considerable time and funding into designing entirely new processing systems and several new features to make their machines more versatile. For instance, the PS3 included a Blu-ray player. The hardware for the original PS3 model cost almost \$700 per unit, and while Sony has managed to pull its costs on the current model down 35 percent from the previous model, it remains in the red and has yet to make a profit on console sales. Furthermore, after several reductions, the current PS3 model still sells for \$399, at least \$150 more than its two competitors. Microsoft has not had nearly the same difficulties as Sony in making its console profitable; however, it has recently had to introduce price cuts to its consoles. Nintendo, on the other hand, chose to use a simpler and much less expensive processing system, and has yet to introduce a price reduction on the system.

The Wii's overall game play generally varies from its competitors' as well. While the Xbox 360 and PS3 in many ways appear to be bigger, stronger, faster versions of their predecessors, the Wii—with a much more integrated motion capture system—in many ways has offered gamers something new.

Nintendo isn't looking at just gamers either. Traditionally the core market for video games has been dominated by teen and early-adult male action gamers. With the Wii, Nintendo has been pushing titles that it hopes will have a more casual family-friendly appeal—titles such as *Wii Fit* and *Wii Music*. The top-selling game for 2008—*Wii Play*—includes basic games like pool, ping pong, and target shooting. With offerings like these, the Wii provides relatively inexpensive in-home whole family entertainment.

Nintendo's vision also extends beyond just providing videogame entertainment. For example, the Nintendo DS, a portable gaming system, can also be used as a book reader. By purchasing its book cartridge, users can take advantage of the Nintendo DS's touchscreen to flip a page by swiping a finger (or a stylus) across the screen. Adaptation as an e-reader reflects just one of the ways that Nintendo is looking to make its hardware more versatile. The *Wii Fit* was designed to bring fitness activities into the family room and make it a communal activity. Nintendo, however, hasn't abandoned its core audience. Two of the top-selling games in 2008, *Mario Kart Wii* and *Super Smash Bros. Brawl*, were the latest releases in two longstanding Nintendo game franchises.

When asked about the future direction of Nintendo's software, their chief game designer Shigeru Miyamoto commented that his goal was for the Wii to become "a necessity for every home." Based on the Wii's recent success, it looks like Nintendo is off to a pretty good start.

- 1. Imagine that you are charged with designing a successor to the Wii. Briefly describe the new-product strategy you might use.**
- 2. How might the diffusion process differ between the Wii and its competitors?**
- 3. Compare the life cycle of Nintendo's videogame consoles as a whole to a particular console, such as the Wii.**

DELL: CAN THE ICON OF THE LOGISTICS INDUSTRY SUCCEED IN INDIA?

Michael Dell had the idea of selling computer systems directly to customers when he was a student at the University of Texas. In 1985 his new company designed its first computer system and soon began offering next-day, on-site product service. By 1996 Dell was selling computers on the Internet, and by 2000 the company's Web site was pulling in \$50 million a day in direct sales.

Today Dell is well established as an icon of the logistics industry. Its lean business model has influenced countless other companies to follow its lead. Dell's 300,000-square-foot Morton L. Topfer Manufacturing Center (known as TMC) in Texas serves as ground zero for the build-to-order (or "just-in-time") manufacturing processes it's famous for. The TMC makes it possible for Dell to assemble hundreds of computers an hour, taking orders as they come in and making them to the customers' specifications. In the computer industry, technological equipment quickly becomes outdated, so Dell wants everything that goes out the door to be fresh off the assembly line—not losing value in a warehouse.

Dell's revolutionary supply chain is characterized by its minimum levels of inventory, a policy of paying suppliers only after the customers have paid Dell, and direct sales. Industry analysts say that these strategies have changed high-tech manufacturing the way Wal-Mart changed retail.

The question for Dell now is how to plan for future growth in emerging global markets such as China and India. Can Dell's business model, which is based on information, efficiency, and speed, work as well in parts of the world where the economic and social contexts are so different from how they are in the United States?

Dell has planned a major capital investment and expansion in its Indian operations, which would employ 20,000 people in a new manufacturing facility similar to TMC. Analysts predict that if Dell is successful in bringing its build-to-order implementation to India, it could spur a movement of manufacturing-focused foreign investment in the country.

A 2005 report by KPMG International concluded that China and India will be the world's two biggest economies by mid-century, and, "although India has underperformed in the last lap of the growth race, there is a strong possibility that India may well move ahead." Dell appears to agree. CEO Kevin Rollins explained: "India currently sells 4 million computers per year and this is projected to rise to 10 million units annually in the next three to five years. Our workforce here is capable and the time is right for the second phase of expansion in contact center activities, research and development and...a manufacturing site."

Critics are skeptical that India will be as profitable as Dell hopes, however, citing the country's lack of reliable roads, power, and telecommunications. Although telecommunications have improved with a 53,000-mile fiber-optic network, India maintains only 2,000 miles of highways (the United States has 23 times that). Delivery chains rely almost exclusively on small vehicles with only three wheels that navigate on dirt roads. As for India's power supply, business owners experience nearly 20 significant outages every month (compared to 5 in China). Add to this the hassle of endless red tape required of businesses in India, labor regulations that force businesses to get government permission to lay off workers, and laws that require unanimous worker approval before companies can reorganize, and it becomes clear why critics wonder whether Dell can succeed there.

Dell counters that their computers are lightweight enough to be transported in the three-wheeled trucks that are the backbone of the Indian supply chain. And industry observer Clay Risen adds, "Dell's requirement that suppliers locate warehouses nearby suddenly seems an advantage—after all, the less the supply chain has to deal with the Indian transportation system, the better." Dell can concentrate on the urban middle class with the money to buy computers in major cities like New Delhi, where the country's infrastructure, power, and telecommunications systems are more reliable.

Even with the risks involved with doing business there, Dell has decided that India is too large and full of possibilities to ignore. The industry is watching and waiting to see how the computer giant fares. Dell's success—or failure—could determine whether more manufacturing companies follow its example in the future.

- 1. Describe how Dell's manufacturing processes represent a change in chain management from how things were done during the mass-production era. What does it mean that there has been a reversal of the flow of demand from a "push" to a "pull" system?**
- 2. Describe the order processing system. How does it work in a company like Dell? As an order enters the system, what must management monitor? Why is it so important that the order processing system be executed well?**
- 3. Describe the role that a supply chain manager at Dell might play. What would his or her responsibilities be? Why is there such high demand for supply chain managers in companies like Dell today?**
- 4. Describe the benefits that Dell and other companies receive from supply chain management. What benefits do supply-chain oriented companies commonly report? What has research shown?**