

The Blue Ocean that disappeared – the case of Nintendo Wii

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Introduction

Kim and Mauborgne (2005a, b, c) use the ocean as a metaphor to describe the competitive space in which an organization chooses to swim. Red Oceans refer to the frequently accessed market spaces where the products are well-defined, competitors are known and competition is "bloody" and based on price, product quality and service. In other words, Red Oceans are an old paradigm that represents all the industries in existence today.

Michael Porter (1980, 1985) believes that companies are fighting for competitive advantage, battling for market share and struggling for differentiation. Blue Ocean strategists argue that cut-throat competition results in nothing but a bloody Red Ocean of rivals fighting over a shrinking profit pool.

Blue Oceans denotes an environment where products are not yet well-defined, competitors are not structured and the market is relatively unknown. Companies that sail in the Blue Oceans are those beating the competition by focusing on developing compelling value innovations that create uncontested market space (Kim and Mauborgne, 2005a). This is done by reconfiguring the company's offerings to better balance customer needs with the economic costs of doing so. The outcome of this process is a new value proposition.

Kim and Mauborgne (2005a) argue that tomorrow's leading companies will succeed not by battling competitors, but by making strategic moves, which they call value innovations: new offerings that deliver more value to customers while at the same time driving down costs.

However, the important questions still persist: How can a value innovation-based strategy be defined and how can a set of new value propositions be created? To answer these questions Kim and Mauborgne (1997) introduce another research tool to identify a company's strategy, the "strategy canvas".

The strategy canvas framework can be used to map the focal company's current value proposition and then compare it to the industry average and some of the mainstream competitors. The value factors are the components of the total product/service offer that are perceived as important by customers. The value factors can then be evaluated by the customer as high or low on a performance scale.

This article analyzes the "Blue Ocean" phenomenon in depth through a single case study of Nintendo "Wii". The goal is to better understand the underlying dynamic strategies in the form of interactions between theory and management practices. We evaluate the "turning points" and the timing of the strategies in transforming a Red Ocean to a Blue Ocean, and back again. Although there are inherent limitations to a single case study, we formulate managerial implications and discuss Nintendo's remaining challenges and further perspectives.

“Companies that sail in the Blue Oceans are those beating the competition by focusing on developing compelling value innovations that create uncontested market space.”

Case: Nintendo Wii (2006) and Nintendo Wii U (2012)

A few years ago, very few analysts would have predicted that Nintendo Wii would be the market leader in the games console market against the established Playstation 3 (PS 3) and Xbox 360 brands. According to Table I, Nintendo Wii took over the world market leadership in the beginning of 2008.

This had a large impact on third party publishers, who make the software for the consoles and also influenced the decisions that the three major players (Microsoft, Sony and Nintendo) would make in the future, in order to gain market shares.

One factor that helped Nintendo's Wii to gain so quickly was the console's broad appeal across all age groups, demographics and countries. But since Autumn 2010 Nintendo's first place in the world market has been under massive attack from both Sony and Microsoft's new sensing devices (PlayStation Move and Microsoft Kinect). In 2011 Nintendo Wii lost its world market leadership to the other two manufacturers (according to Table I).

Nintendo – key facts and financial data

Nintendo Co. was founded in 1889 as the Marufuku Company to make and sell *hanafuda*, Japanese game cards. It became the Nintendo Playing Card Company in 1951 and began making theme cards under a licensing agreement with Disney in 1959 (www.nintendo.co.uk, n.d.).

In September 2001 Nintendo launched the long-awaited GameCube console system (which retailed for US\$100 less than its console rivals, Sony's PlayStation 2 and Microsoft's Xbox); the system debuted in North America in November 2001. In addition, the company came out with Game Boy Advance, which was very successful (East, 2009).

Today Nintendo (www.nintendo.co.jp, n.d.) is engaged in the creation of interactive entertainment products. It manufactures and markets hardware and software for its home video game systems. The company primarily operates in Japan, Europe and America. Headquartered in Kyoto, Japan, the whole Nintendo Group (including subsidiaries) employs about 4,700 people (www.nintendo.co.jp, n.d.).

In the fiscal year 2012 Nintendo's recorded revenues were US\$7.8 billion, a decrease of 36 percent from 2011. The net income of the company was negative in 2012, US\$526, compared to a small positive result in 2011. Approximately 80 percent of the company's revenue is generated from regions outside Japan. (www.nintendo.co.jp, n.d.)

The video game console industry

The interactive entertainment software market is characterized by short product life cycles and frequent introductions of new products. Game consoles are relatively expensive in the beginning of the product life cycle. Hard-core game freaks pay dearly to have a console early, but sales really jump in years two and three, as Moore's law and economies of scale drive prices down and third-party developers release must-have games. By year four the buzz has begun about the next generation, and at that time, the game consoles can be found at the local grocery store at discount prices.

Nintendo has been operating in the video game console market since 1977 with color television games and is considered the oldest company in this market. It is one of the largest

Table 1 World-wide sales of games consoles (units) and market shares (%) 2005-2012

| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | | 2012 | |
|--|---------------|-----|---------------|-----|---------------|-----|---------------|-----|---------------|-----|---------------|-----|---------------|-----|-----------------|-----|
| | Mill units | % | Mill units | % | Mill units | % | Mill units | % | Mill units | % | Mill units | % | Mill units | % | Mill units | % |
| Sony PS 3 (+earlier versions) | 16.8 | 69 | 12.9 | 53 | 15.8 | 40 | 17.7 | 33 | 17.5 | 35 | 17.4 | 35 | 14.1 | 36 | 11.9 | 40 |
| Microsoft Xbox 360 (+ earlier versions) | 4.8 | 20 | 7.5 | 31 | 7.8 | 20 | 11.2 | 21 | 10.2 | 21 | 13.6 | 28 | 13.8 | 35 | 10.5 | 35 |
| Nintendo Wii + 'U' (+ earlier version - GameCube) | 2.7 | 11 | 4.0 | 16 | 15.5 | 40 | 24.8 | 46 | 21.8 | 44 | 18.1 | 37 | 11.6 | 29 | 5.1 + 2.4 = 7.5 | 25 |
| Total | 24.3 | 100 | 24.4 | 100 | 39.1 | 100 | 53.7 | 100 | 49.5 | 100 | 49.2 | 100 | 39.5 | 100 | 30.0 | 100 |

Source: Author's own creation, based on www.vgchartz.com, n.d.

console manufacturers in the world and a leader in the hand-held console market. The company released five generations of consoles over the past two decades, which include Nintendo Entertainment System, Super Nintendo Entertainment System, Nintendo 64, GameCube and Wii. Nintendo has dominated the hand-held games market since its release of the original Game Boy hand-held system in 1989. For example, in fiscal year 2012, Nintendo sold 14 million units of Nintendo 3DS. In total, the hand-held console Nintendo DS, had a life-time sales of 180 million in April 2013 (www.nintendo.co.uk, n.d., www.nintendo.co.jp, n.d.).

Today, there are three major players in the world-wide game console industry:

1. Sony.
2. Microsoft.
3. Nintendo.

Nintendo's original launch of Wii in November 2006

The company's console, Wii, was launched in November 2006. Nintendo's arguments for using this brand name were (Carless, 2006):

- Wii sounds like "we", which emphasizes this console is for everyone.
- Wii can easily be remembered by people around the world, no matter what language they speak.
- Wii has a distinctive "ii" spelling that symbolizes both the unique motion controllers and the image of people gathering to play.

The genius of the Wii is that it has changed the rules and invented a type of gaming with massively enhanced interaction between player and game.

Wii's Blue Ocean strategy

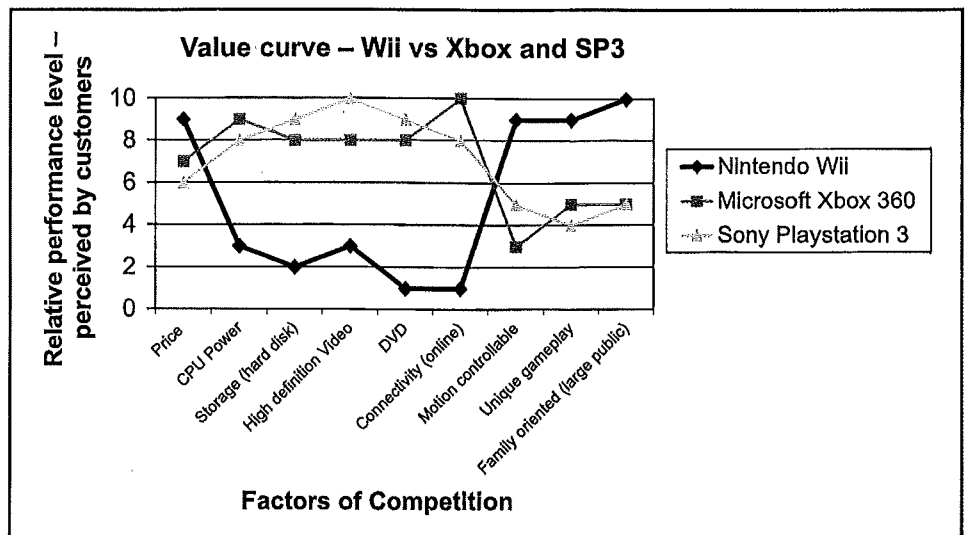
Nintendo's new direction was clear from the outset: instead of offering an incremental hardware upgrade, Nintendo offered a new way to play games, one that involved gamers in a new way which differentiated the experience from that of its competitors. What the Wii represented was the first major home console innovation that did not involve graphical or power updates, but a new way to play, and it was a perfect vehicle with which Nintendo was able to disrupt the market.

Nintendo was attempting to create a Blue Ocean by creating a unique gaming experience and at the same time keeping the cost of its system lower than Sony's and Microsoft's. In this way, Nintendo was trying to create "value innovation" (vectorstudy.com/management-theories/blue-ocean-strategy). Part of Blue Ocean strategy involves creating a strategy canvas that depicts the current market space and relative offering level for major attributes that companies compete on. It helps visualize which offerings cost more to compete on. It also helps companies identify which values to eliminate, reduce and/or raise and it helps identify new values that aren't currently competed on.

Figure 1 shows a strategy canvas for the Nintendo Wii, compared to Microsoft's Xbox 360 and Sony's PlayStation 3, at the point of introduction in late 2006. The bottom of the graph lists the primary sources of Wii's competitive advantages. The comparison is done with the

"The case shows the necessity for Nintendo to create a dynamic strategy in order to stay in the Blue Ocean and not to allow turning it into a Red Ocean again."

Figure 1 Strategy canvas for Nintendo Wii's original introduction in 2006



starting point at the time of introduction, and the later upgrades in 2007 (Thurrott, 2010; Carless, 2006; Nintendo.co.uk, n.d.):

Price. Wii was 30-40 percent cheaper than Xbox 360 and Sony Playstation 3. Contrary to the Kim and Mauborgne's (1997, 2005a) original strategy canvas model, the price is here converted into perceived value for customers, and, all other things being equal, the lower the price, the higher the customer perceived value.

CPU power. Wii had comparatively low processor speed; it had no Dolby 5.1 (sound system). Both PS3 and Xbox 360 had processors that are far more powerful than in most PCs.

Storage (hard disk). In the basic model Wii had no hard disk.

High definition video. Both PS3 and Xbox 360 used high-end graphics chips that supported high-definition games and were prepared for high definition TV. Wii's graphics were marginally better than the PS2 and the original Xbox, but Wii pales next to the PS3 and Xbox 360.

DVD. Both Sony and Microsoft provided the DVD opportunity. Sony even included a blu-ray DVD drive.

Connectivity (online). The Xbox especially had positioned itself as the online games console with multi-player functions.

Motion controllable. With its innovative motion control stick Wii added new value to game playing. The stick integrated the movements of a player directly into the video game (tennis, golf, sword fights, etc.).

Unique gameplay. The Wii gaming console required motion from players, thus adding a whole new element to the play experience.

Family oriented (large public). With the motion control stick Nintendo opened up the console world to a completely new public of untapped non-gamers. Parents and even grandparents were playing with the Wii.

Nintendo's strategy (2006-2010)

Wii became a market leader by emphasizing its simplicity and lower price (compared to Sony and Microsoft) to break down barriers for new customers.

“The interactive entertainment software market is characterized by short product life cycles and frequent introductions of new products.”

With Nintendo's overall goal of video game expansion, initial advertisements featured a number of different demographics (from children to senior citizens) playing and appearing to greatly enjoy the experience. The effect of this was that Nintendo was able to directly target less traditional consumers through the medium of television, an exceptional mass market vehicle that maximized its potential consumer reach.

Nintendo has attracted non-traditional users, including women and those over 60 years old, with easy-to-play titles such as Brain Training and Wii Fit launched in April/May 2008 (Reynolds, 2010). The Brain Training software was sold to middle-aged people, who wanted to stimulate their memories and learning processes. The £70 Wii Fit game came with the Wii Balance Board linked to the Wii console wirelessly. Players could stand, sit or lie on the board and do a range of exercises such as yoga and press-ups, as well as simulate slalom skiing or hula hooping, all with the guidance of an on-screen fitness expert. This game could help people lose weight. Playing the Nintendo Wii Fit could also improve balance and possibly help avoid falls. Researchers hope to determine the effectiveness of computer games in developing muscle strength and coordination and reducing the risk of falls for people with Parkinson's disease (Susman, 2013).

By January 2012, Wii Fit had been very successful and sold around 42 million worldwide. Additionally, the nature of the product meant that it proved to be an immense money maker for Nintendo because of its bundling with the Wii Balance Board. Wii Fit also generated a high profit margin as its price was higher than standard software (Purchase, 2012).

Nintendo is highly dependent on sub-suppliers, both for both hardware and software. The company commissions a number of sub-suppliers and contract manufacturers to produce the key components of game consoles or assemble finished products. The company was not able to meet the growing demand for its new Wii console launched in November 2006, as its suppliers were not able to ramp up their production to meet the demand. A shortage of key components had a negative effect on the company's revenues, although software suppliers are all developing new games based on licensing agreement with Nintendo (CNN Money, 2007).

While the hardware (consoles) market is dominated by three players, the software market is more open and fragmented with regional players and local developers. The games software industry is undergoing a period of consolidation with M&As.

Following the success of the original Wii Fit, October 2009 saw the release of Wii Fit Plus, an update to the original, which still utilized the Wii Balance Board but included new exercises and mini games. With the Wii Fit Plus, Nintendo took advantage of an opportunity to further extend the consumer reach of the Wii, and in October 2010 Nintendo launched a TV advertising campaign featuring British actress Helen Mirren, who was 65 at the time (Ivan, 2010).

Wii's market share development compared to Microsoft (Xbox) and Sony (SP3)

Table I shows the worldwide unit sales of games consoles from 2005 to 2012, together with the corresponding market share.

Generally, Wii sales are evenly split among the three major markets, with 30 percent sold in Japan. The American market (including Canada and South America) accounts for 40 percent and other markets (including Europe and Australia and a few niche markets) for 30

“A shortage of key components had a negative effect on the company’s revenues ...”

percent of units sold, respectively (www.nintendo.co.jp, n.d.). Sales of Sony (PS2 and PS3) and Microsoft (Xbox and Xbox 360) have been more unequally distributed: Microsoft sells most Xboxes and Xbox 360s in North America (www.xbox.com), whereas the Sony's biggest markets for PS2 and PS3 are Japan, China and the rest of Asia (author's own estimates).

At the retail level, game consoles are sold through electronic and audio/video retailers, super-markets, discount stores, department stores and Internet retail stores.

The competitors' reaction (2010)

The two main Wii competitors have both undergone dramatic changes, since the first console was introduced:

Sony Playstation

In 2008, cumulative sales of PlayStation2 (PS2) reached 130 million units, making it the world's best-selling game platform. However, the 2006-2007 launch of Sony's new-generation PS3 did not translate into the immediate success that the company had hoped for. PS3 was not as successful as the Nintendo Wii. Sony suffered from a perception that it was a complex console to be used only in a darkened room by young men. The core age group used to be a tight demographic group of 14- to 30-year-old men (Brightman, 2012).

In September/October 2010 Sony launched the PlayStation Move, a motion-sensing game controller platform for the PlayStation 3 (PS3) game console. Based on a handheld motion controller wand, PlayStation Move uses the PlayStation Eye camera to track the wand's position and sensors in the wand to detect its motion (Sony Computer Entertainment, 2010).

Microsoft Xbox 360

Microsoft continues to target the “serious” gamer segment with the Xbox 360, whose graphics, games and Xbox live internet gaming have been popular with the core user segment, primarily young males. The US market remains the most important so far, accounting for nearly 50 percent of overall Xbox sales.

Xbox is the console with the highest “software tie ratio”, defined as the average number of games each console owner buys. For the Xbox 360, Microsoft manages a “games per console” average of nearly 8 to 1, the highest in the industry (Wikia, 2010).

The strength of Microsoft's software distribution network has also kept the company alive in the business, allowing Microsoft to have a presence in more worldwide markets than Nintendo. Microsoft is strongly positioned in countries like China, India, Malaysia and South Africa, all of which are growth markets, and this is promising for future sales of Xbox.

In November 2010, Kinect for Xbox 360, or simply Kinect (originally known by the code name Project Natal) was introduced world-wide. It is a motion-sensing input device for the Xbox 360 video game console. Unlike its rivals, Microsoft's Kinect does not use a controller. Instead, a series of sensors allow the gamer to control the action using gestures, movement and speech. Based around a webcam-style add-on peripheral for the Xbox 360 console, it enables users to control and interact with the Xbox 360 without the need to touch a game controller, through a natural user interface using gestures and spoken commands (Crawford, 2010).

Nintendo's strategy (2011-2013)

Nintendo's response to the two competitors' new product launches came in late 2012. In November 2012 Nintendo's new Wii U was released. The Wii U console and controller prototypes were first shown at the exhibition E3 2011 (www.nintendo.co.jp, n.d.). The main feature of the controller is its built-in touchscreen, which either supplements or replicates the gameplay displayed at the television screen. The Wii U GamePad is the main controller for the Wii U, featuring a built-in touchscreen which can either supplement or replicate the gameplay shown on the main display. When using the "Off TV Play" function, the controller can function as a standalone screen without the use of a television screen.

The GamePad represents Nintendo's attempt to differentiate its new console in the same way that it did with its Wii back in 2006. The implementation of a touchscreen allows for what Nintendo terms "asymmetric gaming," where the TV and GamePad touchscreen can simultaneously offer different perspectives on the game at hand, effectively allowing for dual screen gaming. Additionally, the Wii U also has the ability to stream the TV image to the GamePad's screen, allowing gameplay to occur without the need for the TV. This is a feature that is geared towards families, as it allows for the Wii U to be in use even if another family member wishes to use the TV for another purpose.

However, if the original Wii represented a shift away from the hardcore gaming market, the Wii U signals a movement back towards the hardcore gaming market space. The GamePad, although innovative, actually resembles a traditional controller in more ways than the original Wii motion controls. Nintendo has equipped the Wii U with features that allow it to be used as a multimedia entertainment device rather than only as a video game console. These features focus on online services, instead of physical media. This strategy signifies Nintendo's intention to look forward, rather than backwards. For example:

Nintendo has placed a large emphasis on the entertainment features of the Wii U. The Nintendo TVii service, launched at the end of 2012, is a service that combines TV streaming services, social media, and movie-streaming services such as Netflix and Amazon Instant Video (Reisinger, 2012).

The Wii U is available at two price points: Basic (\$300 in the USA) and Deluxe (\$350 in the USA). With these prices Nintendo will take a loss on selling the hardware, but as soon as the consumer buys one piece of software, the entire customer relationship becomes positive in terms of profits for Nintendo. The purpose of the business model is to drive the installation base of hardware, and then to drive a strong tie-in ratio with all the software (games) for the consumer (Robinson, 2012).

Until now the sales of the new Wii U has been disappointing for the Nintendo management. By the end of July 2013 the U console had sold 3.6 million units, clearly under Nintendo's prediction of 5.5 million. The console is still being sold with a loss, and all the profits are generated on the games (Byford, 2013).

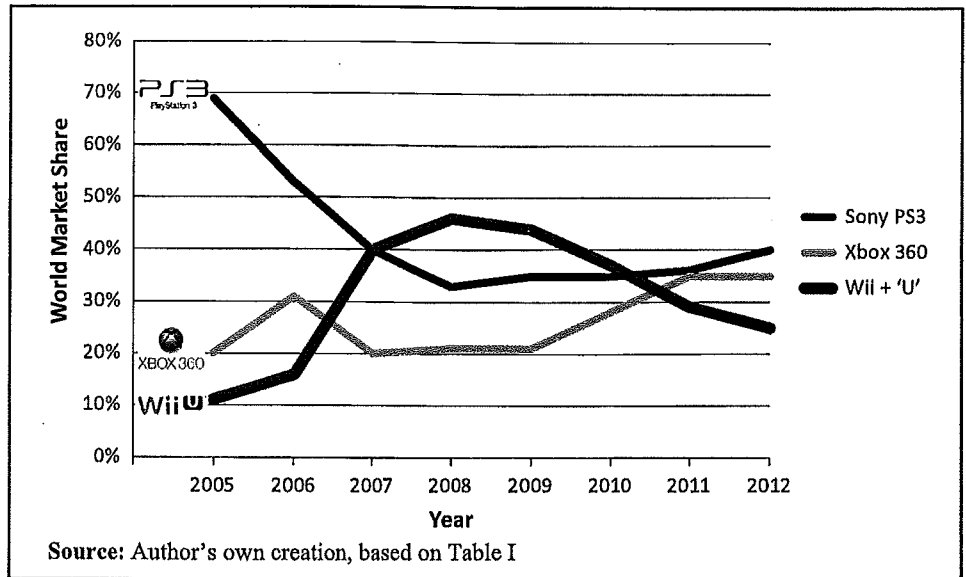
The question is whether Nintendo can still create another "Blue Ocean". These worries about Nintendo's Wii U come at a time when smartphones and tablet PCs are taking shares away from games consoles.

Table I shows the worldwide sales of games consoles (in millions units) from 2005 to 2012, together with the corresponding world market shares, which are also illustrated in Figure 2.

Nintendo's launch of the its "Wii" in 2006 was highly successful. In the world market for game consoles Nintendo Wii moved from third place to first place within a year of introduction. As seen in Figure 2, the peak in terms of market share came in. Since then the market share has gone down to a low point of 25 percent in 2012 (Table I).

The sales of Nintendo Wii U in 2013 (until September 2013) indicate a further decrease in the market share. This has led the management to use price cuts on Wii U as an attempt to stop the decrease of world market share (Reuters, 2013)

Figure 2 Development of world market shares for SP3 (Move), Xbox 360 (Kinect) and Wii ('U')



Conclusion

This case underlines that the Blue Ocean strategy cannot be a static process (Kim and Mauborgne, 2005b).

The case shows the necessity for Nintendo to create a dynamic strategy in order to stay in the Blue Ocean and not to allow turning it into a Red Ocean again. However, it seems that Nintendo has not been able to generate enough competitiveness safe-guarding tools, at least not until now. Its two competitors have managed to imitate Nintendo's excellent idea about motion controls and come up with even better solutions:

- Sony launched the "Move" in September 2010.
- Microsoft launched the "Kinect" in November 2010.

With the PlayStation Move, Sony claimed to have a controller, which offers more accurate motion control than the Wii, and Microsoft's Kinect removed the need for a controller completely. Notably, what these devices offer is motion control combined with more graphical power than Nintendo's Wii.

Nintendo's answer to these two competitive moves came in November 2012 when it launched the "Wii U" to integrate the tablet PC concept (known from, e.g. the iPad) into console gaming.

The launch of the "Wii U" represents Nintendo's attempt to reestablish its Blue Ocean in game consoles, but sales in 2013 do not indicate that Nintendo will achieve a new Blue Ocean.

The strategic window for "Wii U" will not be open for a long time, as new product variants from both Sony and Microsoft are expected by the end of 2013.

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