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Practice exam questions

Nintendo Switch 2

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Check your answer to the question on pp. 28–29 of the magazine. This question relates to the Edexcel specification.

Sample answer

One reason why Nintendo's R&D approach gives it a competitive advantage is its long-term focus on perfecting gameplay over pure technical specs. This patient strategy, such as spending eight years developing the Switch 2, allows the company to create unique and highly polished products. This serves as a form of product differentiation in a market where rivals like Sony and Microsoft often compete on graphics and processing power. The result is a strong unique selling point (USP) that builds a loyal fan base, making demand for Nintendo's products more price inelastic. This competitive strength allowed the company to increase the price of the Switch 2 by 50% to \$450 and still achieve huge sales, boosting overall revenue.

However, this long R&D cycle creates a significant risk that could undermine its competitive position. The article highlights that there were 'fears that the company had taken too long in the research and development stage before launching the new product'. In the fast-paced electronics market, an eight-year development period is very long – competitors can launch multiple product generations in that period. This exposes Nintendo to the threat of its final product being technologically obsolete upon release, leading to a commercial failure. Such a failure would mean that the huge R&D investment would give no return, which would severely damage profitability, erode cash reserves and likely cause a collapse in shareholder confidence.

A second reason for its competitive advantage is Nintendo's willingness to use R&D to innovate in new technological areas, moving beyond traditional consoles. A prime example is its development of the augmented reality (AR) game Pokémon Go, launched in 2016. This was a massive global success, generating over \$6 billion in revenue from more than a billion downloads. This created a huge new income stream and increased the company's cash reserves, which could then be reinvested into developing other products like the Switch 2. This strategy of diversification through innovative R&D spreads the company's risk and builds a competitive advantage by creating revenue sources that its direct console rivals do not have.

On the other hand, this type of 'blue sky' R&D is inherently a high-risk, high-reward strategy. For every successful venture like Pokémon Go, a business could have multiple expensive projects that fail to find a market or are technologically unfeasible, representing a significant financial drain. The article points out that Nintendo's revenues have 'fluctuated over the last 2 decades', which strongly suggests a history of hits and misses directly linked to this risk-taking approach to innovation. A major R&D failure, especially if publicly known, could not only waste millions in capital but also lead to a loss of investor confidence, negatively impacting the company's market value and its ability to raise finance for future projects.

Sample examiner comment

Mark: 8/8 (level 3 – an excellent response, fully focused on the question)

Thorough knowledge and understanding of are shown of research and development (R&D) and its links to strategic concepts like product differentiation, diversification and price inelasticity of demand.

Application is strong and consistent throughout the response. Specific details from the case study, such as the eight-year development of the Switch 2, the 50% price increase, and the success of Pokémon Go, are used effectively to support the points being made.

Coherent and logical analysis is demonstrated through clear chains of reasoning that link cause and effect. For instance, the response effectively connects Nintendo's patient R&D approach to creating a USP, which in turn builds brand loyalty and allows for greater pricing power.

Excellent evaluation is achieved through the well-balanced structure of the answer. For each of the two reasons presented, there is a well-developed counter argument that explores the significant risks involved, such as the threat of technological obsolescence and the financial risk of high-cost innovation. This demonstrates a clear awareness of competing factors and fully meets the demands of the 'assess' command word.

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