What small business can learn from Pokémon Go

By Scott Zambonini

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Location-based mobile game Pokémon Go is perhaps the best commercial example of augmented reality (AR) gaming to date since the introduction of the technology in terms of broad global market appeal.

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The market valuation for the Kyoto-based gaming company Nintendo climbed to R574 billion following the game's release in the United States of America (US) in July. However, last week investors wiped R86 billion off the market when the company announced the global success of the game would not result in an upward revision of its consolidated financial forecast.

The short and long of it, as we were reminded by Macquarie analyst David Gibson, is that Nintendo jogged the market's memory by noting that its financial interest in the game was limited because of its ownership stake and the game's development history. Despite the very interesting and complex set of 'Pokéconomics', there are curious and practical business lessons for aspiring app and tech entrepreneurs, and a few trends can be distilled from the Pokémon Go phenomenon.

Engagement, retention, virality and monetisation

Pokémon Go is a perfect example of how the correct utilisation of modern technology and business strategy can result in commercial success. Pokémon Go shows that the creative vision of a successful app has to capture the market through engagement, retention, virality and lastly, but most importantly monetisation. Of particular interest is the monetisation model. By permitting selective partners to become 'sponsored locations' in the game, the sponsor or advertiser has the ability to use the game to lure real-world traffic to their business locations.

The McDonald's partnership in Japan highlights one of the many alternative revenue streams the infancy-stage application is pursuing. In order to attract players to establishments, the fast food chain allows over 3,000 restaurants to become gaming locations for Pokémon Go. It is a brilliant way of extending the McDonald's playground into the augmented reality universe.

Large chain franchises with a widespread footprint and a desire to increase foot traffic are best suited to partnering with Pokémon Go. The rule then becomes, when designing an app, keep monetisation in mind.

Reaping rewards of reinvention

It's never too late to reinvent yourself. Nintendo historically enjoyed a solid market share since the 1990s with its gaming hardware, including the Gameboy, SNES, N64 and Wii, and its gaming intellectual property (IP) such as Mario Bros, Pokémon, Zelda and Wii Sports.

In recent times, however, the company's latest hardware offering, the Wii U, has failed to capture a broad market in comparison to the likes of Sony's Playstation 4 and Microsoft's Xbox One. It was the underdog of the game console wars, resulting in financial losses for the company. Nintendo was forced to reassess its own situation. It disrupted its own business model, and pursued an alternative path towards mobile augmented reality gaming, and for this, it would rely on collaboration with another partner, Niantic Labs.

Collaboration is key

Nintendo partnered with Niantic Labs to harness their AR core-competence in conjunction with the Pokémon IP and developed a mobile application, which achieved viral status by targeting an existing, dedicated community to drive widespread adoption. It's worth noting that the real long-term winner here is ultimately going to be Niantic. Their not-so-easy to replicate mobile AR gaming platform is almost certainly going to be married with other IP outside of Pokémon which will in turn bring about a host of new applications, big data and revenue streams.

Nintendo holds 32% of the Pokémon Company and an estimated 7% stake in US-based Niantic, the two companies that developed Pokémon Go. Their strategy is clear: Nintendo acquired stakes in other businesses, and then exploited the tactical relationships through collaboration with these businesses.

Cult followings count

Another factor Pokémon Go got right was fusing augmented reality gaming with nostalgia. This integration has produced a winning combination of a cult-following married to an established mobile AR gaming application. Essentially its Niantic's previous AR game, Ingress, rebranded with Nintendo's Pokémon IP.

Pokémon Go's value proposition is travelling and exploring the real world through the lens of fantasy produced by a mobile device. Thus the game requires you to physically move around in the real world to achieve the optimum fantasy. Clever! The developers, can therefore spawn Pokémon in locations of their choice which in turn motivates some of its 30 million users to explore that location, thus influencing their movement.

The lesson here is simple: make something old new, and don't forget that loyal, old audiences from previous successful ventures are a captive market that can be rediscovered and reinvigorated through new product developments.

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