MARKETING VIRTUAL WORLDS

the industry of Massively Multiplayer Online Role Playing Games

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Executive summary

The purpose of this paper is to assess the existing worldwide market for the online video-game industry, by focusing on two its two most successful products: online games "Everquest" and "Lineage", both being the absolute leaders in their respective local markets. The first game is owned and operated by Sony Online Entertainment, an US-based subsidiary of Sony (Japanese), and currently counts with more than 400,000 users (most of them being from the US). The second game is from a South Korean company called NCsoft, and is the most successful online game worldwide with more than 4 million users (most of which are from Asia). The first half of this paper will analyze common elements to the two companies, such as consumer behavior, distribution structure, and contextual trends. The second part will consist on a detailed description of the companies and an assessment of their main issues. Finally, we will draw common conclusion, and apply our insights for a new competitor.

Lineage: the blood pledge
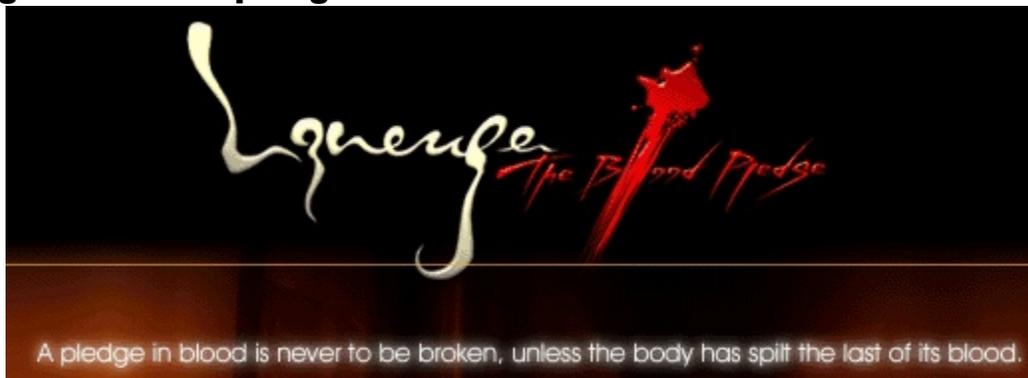
Lineage dominates the Asian online game market with a 47% market share in South Korea alone. Their competitive advantage is based on the quality of their game and supported by a successful local positioning strategy and brand awareness.

The quality is not only based on the game itself, but also in the infrastructure used to make it work, as well as customer support. The online game servers are always on and are perceived to be very reliable.

However, the major weakness of Lineage is that its "game-play mechanics" (its rules) seem too heavily adapted to the Asian culture. In order to provide world-wide service, the product may need to be made more appealing to a wider variety of gamers. Lineage is already present in Europe and the US, however specific market adaptation may be required to further penetrate the Western market.

Everquest

Everquest is the market leader in the US because of its excellent promotion. It is often mentioned in the media as example for an "online game" (in both good and bad lights), and was the first online game to provides innovate "3D graphics" (i.e. players can roam in a three-dimensional virtual world). Although other games have tried to copy its success, it remains the undisputed leader in terms of active subscribers. This may be due to the fact that players become addicted to the numerous challenges that the game offers. Furthermore, Sony Online Entertainment enjoys a significant competitive advantage as being the subsidiary of a well-known multinational, and thus can profit from its marketing muscle. Although Everquest is originally a "personal computer" (PC) game, it has recently been adapted to another major Sony product, the game console Playstation2, in an attempt to diversify its market.

However, Everquest has major drawbacks, some of which being common to other US online games. Players often feel that they require some sort of guidance to figure out what to do in the game, and feel that they are not having enough support from game developers. This lack of service after purchase can be infuriating since players are also require to purchase additional updates ("extensions") to the game in order to fix major problems and have additional challenges (quests, items, etc.).

Application of findings

Based on each product strengths and weaknesses, we recommend different strategic moves to further expand the online game market, and to maintain leadership position. In light of these recommendations, we will provide the framework to create a new competitor, "MagiLore Interactive" (MLI), which would create a game targeted to the underserved niche market of young pre-teen children.

Although the game-play will be oriented to children, it will bring enough educational elements so that it can appeal to parents and educators as well. The game would be available through many purchasing model, including a subscription that allows parental control.

This game would be handled following a five-year marketing plan, which successful control will allow the company to grow and expand its offering. This plan culminates our study of insights gained by analyzing the two best performers of the online game industry.

Tutorial: the world of Online Games

Games are as old as humankind. For centuries, players have matched wits using Chess, Go, Senet, and other variants of collective entertainment. Some of these ancient "board games" even gave a challenge to a single player. With time, a limited set of games have acquired high status in the eyes of society, as they are perceived important for intellectual development. However, all games, however popular, share the same principle: they are played following a certain set of rules, which define a playing area (the board), objects manipulated by the players to represent their positions (the pieces) and processes to dictate how the players can interact with the both the board and the pieces. Infinite variations are possible on these rules, for example the board may not be physical (i.e. a card game), or the pieces may be merely represented (i.e. a game played on paper).

Compared these venerable ancestors, "videogames" are newborn. They appeared in the public light around 1969, with the introduction of Nolan Bushnell's coin-operated entertainment machines. Bushnell is the founder of Atari Inc, and is considered the "Father of the videogame industry". These machines ran simplified versions of programs developed by computer science students for their own entertainment. The first machine ("Computer Space") was not very popular, but the second, "Pong", was so simple to operate (the instructions were: "avoid missing ball for high score") that it attracted thousands. These primitive games only allowed two players to compete against each other, following a pre-defined set of rules. They can thus be seen as the electronic version of a board game.

Since this primitive introduction, videogames have become increasingly complex. They have integrated elements from very different fields, from Artificial Intelligence and Audio to Art and Literature. But at the core, they remain an evolution from ancient board games with similar mechanics. The "board" has evolved into a "game world", but it remains a defined space outside which the game cannot take place. "Pieces" still move inside this "world board", however they may be controlled by human players or by a machine. As a result, the machine constantly provides the user with a set of changing stimuli, to which the player responds by interacting with a defined interface (keyboard, mouse, "game pad", etc.). The outcome of the game rests on these interactions, although it may include some elements of randomness.

These interactions happen faster than in a traditional board game, so fast, in fact, that playing may be as involving as a sports match. Competition sports also rely on a defined set of rules, but allow for a much wider spectrum of interactions. For these sports to be enjoyable, the players have to know what actions are allowed and what feats increase their score. Similarly, a videogame requires a set of rules that not only provide an objective, but also an interface to take action on the game world. As a result, the way in which a videogame rules are defined can make the difference between fun and boredom, in the same way that putting a group of people in a square field with a football will not be a fun experience if nobody in the group knows how to play soccer and can explain it to the others.

There are many kinds of videogames, or "genres". Some of them require fast responses, other favor intellectual development, and some of them even have storylines inspired from classics in literature and cinema. Most videogames create a "make-believe" world as a "game

board", and provide a basic storyline. Many provide an adventure to carry out, but some of them allow the player to precisely define which role she or he will have in such adventure. These are called "role-playing" videogames (RPG), and are an electronic evolution of "paper RPG" games of the same nature (such as "Advanced Dungeons & Dragons"). The player is free to choose a name and characteristics for a virtual representation of her or himself, an "avatar". The strengths and weaknesses of the avatar are assessed by a certain number of numeric skills, which may evolve as the player progresses in the game world. As time goes by, the Avatar will traditionally gain "experience points" (XP) as well. XPs are gained in different ways depending on the game, as a reward for accomplishing certain tasks, such as finding a particular object, completing a quest, or defeating enemies. To aid players in their adventures, the game allows the acquiring of diverse equipment and abilities, such as weapons, armor, and even "supernatural" magical powers. Among the forefathers of the genre, we can find the early "Ultima", created by Richard Garriot in 1980, which spawned ten sequels during twenty years.

The first Ultima game (1980).

These RPG games were solely played "against" the computer, and thus they lacked the richness of human interaction that could be found by playing a table-top "paper RPG" with friends. Thus when the Internet became widely used in the late 90's, creating multiplayer RPG videogames was a natural evolution. In 1997, Richard Garriot reaffirmed his status of innovator

by introducing "Ultima Online", which allowed thousands of player Avatars to simultaneously coexist and interact in a single game world. No previous game or sport had ever allowed so many participants to be on the playing field at the same time. Therefore "Ultima Online" is considered to have created a new genre, the "Massively Multiplayer Online Role Playing Game", or "**MMORPG**" for short.

Seventeen years later: Ultima Online, the first MMORPG.

MMORPGs vary from the traditional videogame economic model. Although most of do require the purchase of the game software (as any other commercial game), all of them also require players to subscribe to the publisher to obtain access to a "server". Actually, the synchronization of thousands of users in a single game world can only be accomplished if all players connect to a single central location (the "server"). The server is owned and operated by the company that publishes the game, and contains all information regarding the game world (even Avatar information, to prevent cheaters from modifying their skills). Players create an "account" in a given server, and pay a certain monthly fee for access. Pricing and policies vary

depending on the specific company and the specific game. To keep players interested (and subscribed), MMORPGs are regularly updated to introduce new storylines, quests, and fixes (if there is a "bug" in the program). Some go further and have company employees connect to the game world as a powerful Avatar that acts as both an arbiter and a host. These avatars are usually called "Game Masters" (GMs), a name deriving from "Paper RPGs" in which one player is a dynamic story-teller making the others play.

After the release of Ultima Online, several publishers attempted to sell their own brand of MMORPG. Many have failed, but in the United States one has surpassed the success of Ultima Online. The game "Everquest", owned by an American division of Sony, currently counts with more than 400,000 monthly subscribers. However, the most-played MMORPG in the world, although relatively unknown in the US, counts with much more: "Lineage: the blood pledge", created by South Korean company NCSoft, possesses 4,000,000 subscribers worldwide. Each one of these players subscribes with at least $10 per month, so a successful MMORPG can be a very profitable venture even if there are high development costs.

Lineage: the most successful online game worldwide

Everquest: the US market leader and the first 3D MMORPG released.

A players' perspective: strengths and weaknesses of MMORPGs

Strengths	Weaknesses
(salient benefits particular to the game genre, some apply to the videogame medium as well)	*(these can be offset by careful planning of the game's mechanics, handled in different ways)*
Thousands of players interact in a unique game world.	Different time zones may create hourly variations of simultaneous players.
Medium allows complex storytelling, and compelling quests to achieve with other players.	Playing such games require much more time than "offline" games.
Avatars can be shaped to whatever the player wants, encouraging imagination.	Players need to connect regularly to avoid being left behind in their Avatar capabilities.
Experience is rewarded by larger freedom of exploration and even respect in the community.	Novice players may take a long time to achieve such status, and are largely disadvantaged against experienced players.
Encourages teamwork of players, creating small communities (usually called "guilds")	The social interaction with an "online" peer group makes MMORPGs psychologically addictive.
Game world and player interaction provides escapism into a parallel world, which can relieve stress brought by the "real world".	As with any other form of escapism, regardless of the medium (e.g. books, movies, etc.), it can be negative if abused (e.g. Cervantes' Don Quijote).

Distribution structure of the industry

Early computer software was distributed in "zip-lock" plastic bags containing a floppy disk and a page of photocopied instructions. Meanwhile, "Penny-Arcade" machine, which provide entertainment for a set of quarters, appear in different locations. Shortly after home "video game consoles" attempted to bring dedicated gaming machines to households. However, much later videogames appeared in very different mediums, mostly portable machines. However these machines can be discriminated in previous hardware categories.

Different software types serve these hardware types. Since primitive hardware was non-specific, the first software was "rewritable storage-based", in the sense that it was served over a rewritable storage medium (tapes, floppy disk). Some games even made use of this "rewrite" ability to provide innovative features, such as "saves" (allowing to quit playing and restore at a specific point), or persistent customization options features (naming the players in a soccer simulation). However, a major disadvantage of this medium is that they are often standard and thus are easy to duplicate ("pirate").

The other type of "early" software was "embedded" software. In this case, the game is written directly into the silicone "Read-Only Memory" chips of the machine, and cannot be changed. This method was and is still used for "arcade" machines. Every manufacturer is free to build the microchips that they want, so this method made duplication harder and gave a more durable media for the software (some early arcades still work, even after severe "wear and tear").

"Embedded" software evolved into "cartridge" software. "Console" machines were dedicated hardware that provided household alternatives to arcades (early games were simple "ports" (conversions) of successful arcade titles). The software was provided into mass-produced "ROM" chips, encased into sturdy plastic cases. These were and are still called "cartridges". Since manufacturing a chip can be expensive, and these units are destined to mass-consumption, console companies tend to be the only ones to manufacture cartridges (to reduce costs by volume produced), factory-written with specific game programming. Some companies (Nintendo) even make a profit out of selling these to "publishing" companies. Ultimately, the major difference between "cartridge" and "embedded" games is that the former can be replaced by swapping a (relatively) inexpensive cartridge; while the latter simply cannot be replaced (thus the cost of replacement is the whole machine).

media delivered to the final consumer

Machine	Rewritable Storage	Embedded	Cartridge	Optical Disk	Online
Computer	●			●	●
Arcade		●			
Console			●	●	●
Cell-Phones		●			●
PDAs	●		●		●
Interactive Displays		●			

Note: in time there have been attempts to market hybrids, but they are not significant enough to be included.

Today we have some other hybrid media, but they fall into the previous categories. Optical disks (CDs, DVDs) have become the new standard, and have replaced cartridges, tapes and floppies in most machines. "Rewritable" parts are still supported, but are limited in size and happen in dedicated hardware that is used for many games (hard disk drive, "memory card" [a special rewritable cartridge], etc.). Some "embedded" machines use Optical disk technology, but we will not consider these under this category since the final user will not be able to swap disks.

Finally the last media to appear is "online" distribution. This is not based on any physical media, and the game is directly delivered ("downloaded") to the target machine (the "client"). Computers have had these games for a long time, and now some cell-phones and consoles are starting to develop applications. The main issue with online distribution is duplicability for "generic" (non-dedicated) machines. But in some cases, this duplicability may prove useful (e.g. for MMORPGs, if the game is free and players pay for the subscription only).

Key Players of the Industry's Supply Chain

From all this description of available media, we can infer what types of companies are the players on the supply chain of videogames:

Suppliers:

Media manufacturer provides the support on which the game will be made available. External contractors (programmers, musicians, graphic artists, etc.) provide skills that are missing from the original team; and finally licensing companies (movies, products, celebrities, etc.) can provide funding or content for creating a new game.

Content creation and promotion:

A game cannot exist without a "Developer", which can be a single person or a development team with complimentary skills. The work of this team is sold (and is therefore owned) to a "publisher", which provides marketing "muscle" for the game and may even make strategic decisions on which games should be published for which market. The biggest publisher

(and the company with most profits in the industry) is Electronic Arts. Finally, dedicated press journalists provide an opinion (available to the public) on the game, which may positively or negatively affect the promotion of the product.

Delivery to final consumer:

*S*ince videogames are consuming goods, they are often distributed through traditional channels, implying the existence of wholesalers and retailers in the supply chain. However, these may be dedicated, in the sense that they only market videogames. For example, some wholesalers specialize in "arcade" games, selling the product to restaurants, bars, clubs, and other "entertainment place" businesses.

The "online" delivery follows a different path. In this case, retailers are replaced by internet and cell-phone service providers.

Final consumer:

There are many types of consumer, aside from the "average individual player" (see below for a detailed report on consumer behavior). Many businesses operate "entertaining places", and these can be minor or major consumers of videogames products. These of course include some restaurants (the "Chuck E. Chesse" chain was founded by the "father" of videogames and Atari Corp., Nolan Bushnell), bars, nightclubs, and movie theaters which could be described as "generic" business clients. However there are also very "specific" business clients. These are the infamous "arcade" rooms (which gained and retained a bad reputation for being associated with gambling when they were introduced), in all their forms, and a rather new development, "cyber

cafes" (or "PC rooms") which allow players to engage in multiplayer entertainment at a low price (i.e. they don't need to buy a computer).

As a final note on distribution, it would be interesting to mention what we observed (in stores) to be the price structure of videogames in the United States. Games are first published at a high "introductory" price ($40 to $60), and most games for a specific platform (hardware) are published at similar prices. These would be the "growth" stage prices of the industry. Next, we see many older titles republished under the "classic", "special collection" (etc.) labels, usually at half of the introductory price. We assume these are the "mature" prices for the industry. Finally we find some even older titles at very bargain prices, sometimes going below five dollars. This would be the decline stage, as retailers try to empty their inventories. The total lifespan of the product will vary depending on its popularity on first-time players, so most games will have short lifecycles.

This distribution structure is common to all markets. However, there some notable regional differences, most salient in how every market reacts to new "platforms", or hardware on which the videogame will be run.

Worldwide Macro-Environmental Trends

In the US, online gaming is very likely to increase as computer proficiency rises in new generations and game consoles provide inexpensive alternatives for online gaming hardware. Market leaders are pushing for technological innovation, although the actual (2003) depressed economy may limit their initial success. An example of this is Microsoft's introduction of new

platforms, such as the "tablet PCs", which are aimed at enhancing computer laptops' usability. In a similar note, all major network adapter manufacturers have introduced wireless network devices, and there are plans to outfit airports and schools with hardware to allow remote connections. In other words, Internet-enabled machines are becoming increasingly portable, although they are mostly large units aimed primarily for professionals and thus are less likely to be used for complex online gaming.
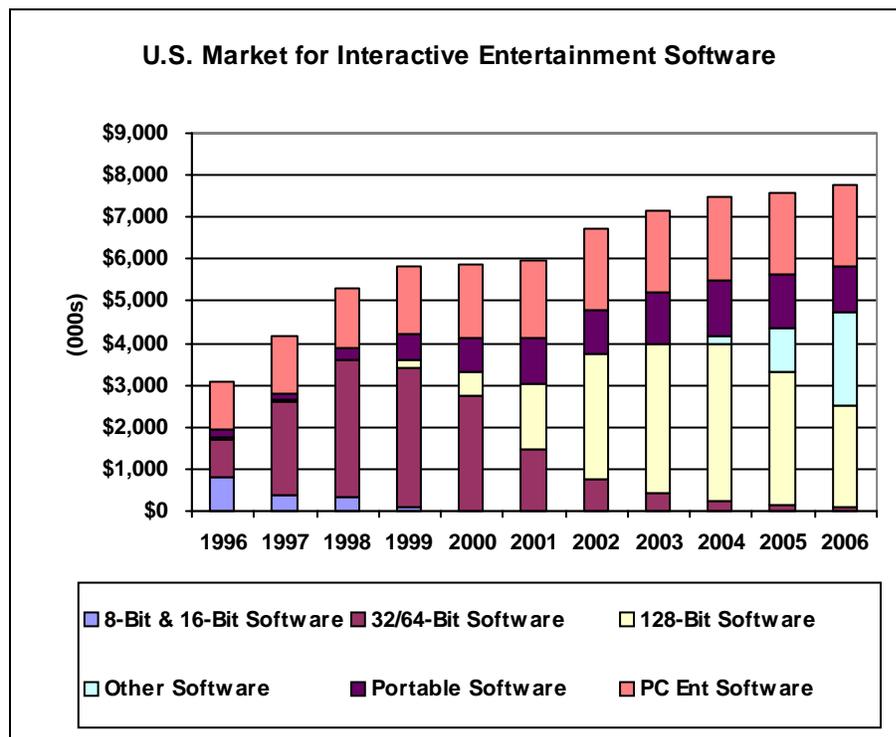
U.S. Market for Video Games and Interactive Electronic Entertainment
(all categories, online and "offline")

In Asia, the Japanese technological pop culture is the dominating influential force. Japanese are very fond of small portable electronics, and most of its consumers are worldwide innovators, while consumers in neighboring countries are early adopters when following Japanese trends. However, South Korea has further developed its Internet infrastructure and ranks first worldwide for population Internet usage. It is likely that we will see these two trends combine in the future, with the appearance of smaller, more portable wireless devices that can

access the Internet at higher speeds and thus offering access to a higher range of services than today, which will definitely include online gaming, at least as an additional "strong point" for hardware advertisement.

Europe currently experiences a mix of American and Asian technologies. The reduced number of competitors in most technological industries has resulted in a larger push for product innovation than in the US. As a result, cell-phone technology is almost in par with Asian developments, while the US consumer wireless phones are still lagging behind. Furthermore, in Europe, "broadband" is the preferred form for Internet access since telephone companies do not offer free "local calls" like in the US. However, the penetration of broadband is limited in area, as companies concentrate in small regions and there is little drive for competitors to enter "niche" under-served areas. A telecommunication oligopoly has created a higher barrier of entry than in the US. As a result, online gaming may have more difficulties to establish itself as mainstream entertainment in the Old World.

In South America, technology is still a luxury. Although many households see the purchase of a computer as a necessity for education, the market is not ripe for software direct sales or subscription models. In Brazil and Argentina, the illegal distribution of copied software is so widespread that there is printed newspaper advertising offering 30-minute home delivery. The situation is even worse in poorer countries, such as in Africa or parts of Asia. These countries are still behind in Internet usage, although volunteer community efforts are starting to appear. For example, in Laos an engineer has developed a network of inexpensive computers,

powered by bicycle-charged batteries, to provide farmers a way to communicate with the outside world.

As a result, we can consider MMORPG gaming to remain an exclusive "first world" entertainment in the near future. Innovations in this field will be limited by what companies perceive as potential user base, thus we will likely see major product innovations in Asia, medium to high innovation in the US, and moderate innovation in Europe. Of course, a moderate innovation can be balanced by the importing of "foreign"-developed but "proven" ideas into the local marketplace.

Consumer behavior: profiling the "gamers"

We can identify different types of consumers affected by videogames. These categories are age and gender neutral. The stereotype of a gamer is of a young male, and they account for the majority of the gamer population, however as video games gain social acceptance female and/or older gamers are increasingly appearing. The categories are also independent of computer proficiency, as some frequent players may barely know how to use a computer and some computer experts may not have an interest in playing videogames.

Consumer Type	Frequency of play	Games played	Main drive for playing a game	Desired game features
Athlete Gamer	For a living	Few	Money: earns a living out of playing videogames.	Game should lead to monetary rewards.
Professional Gamer	Very often	As much as possible	Art: considers games to be a unique medium to explore.	Game should have something new or unique.
Hard-Core Gamer	Very often	Few	Repeated fun: repeatedly engages in the same game.	Game should belong to the preferred styles.
Seasoned Gamer	Often	Few to Many	Hobby: looks for interesting game to play.	Game should be "fun" to play.
Social Gamer	Occasionally	Few to Many	Friends: plays to participate in an activity with peers.	Game should allow interaction between players.
Unaware Gamer	Occasionally	Few	Pass-Time: frequently plays with cell-phone or PC small games ("solitaire", etc.)	Game should be simple to learn and quick to play.
Non-Gamer	Never	None	Unawareness: not familiar with medium, may feel alienated by it.	Game should be easy to understand.
Worried Parent	Never	None	Against the use of videogames by children.	Game themes should be "safe" for children use.
Gamer Luddite	Never	None	Considers games to be "evil" and that they should be banned.	None.

Category Descriptions

The *Athlete gamer* strives to maximize his or her performance in a particular gaming product or product family. The performance may be measured in various dimensions, ranging from game victories to immersion in the game word. Professions of athlete games include: Tournament athletes (strive to win multiplayer tournaments), Avatar-raising Athletes (raise then sell their high-level Avatars, items, or game access), Corporate athletes (Game Masters, "Virtual World" Hosts), and Journalist Athletes (write for a game magazine).

The *Professional gamer* is concerned with the whole spectrum of the videogame medium. Although they may have preferences for a certain style, they are interested in discovering and purchasing innovative or "cult" games, and often own large videogame collections. They may or not have a profession related to videogames. However, they vary their interests to a broader spectrum than the Athletes or Hard-Core games, and may be interested in wider game product features such as storyline, graphical or musical achievement, interactivity, etc. Types of Professional gamers include: "Professional" Collectors (collect games of a certain type in many systems, or games for a given system), Professional Journalists (write about videogames but are not limited to a given genre), Professional Developers (create games and play different games to discover new trends) and "Professional" Hobbyists (collect games that are fun to play, varying in style).

The *Hard-Core* gamer may well be the driving force of the gaming economy. They tend to have a strong preference on a limited set of games, and will repeatedly engage in matches in such games and buy similar games. The most popular games for this category are games that allow multiplayer confrontation in some kind of virtual arena. Hard-Core gamers hone their skills to attain a maximum number of victories, "frags" (kills), or levels. Types of Hard-Core (HC) gamers include: HC Player Killer (derives pleasure from killing other player's Avatars, regardless of the game style), HC Tournament player (aspires to participate in large competitions to recognize their level), "LAN Party" HC (will meet with friends to network computers and have a local multiplayer experience), and HC buyer (will buy only games of the preferred genre).
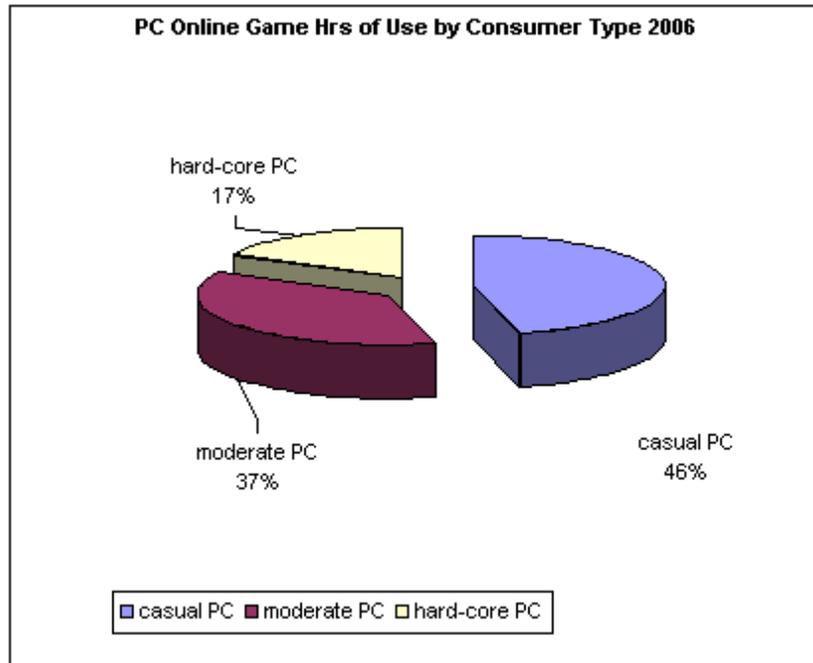
DFC Intelligence Game Industry Forecasts for PC Gamers in 2006

The *Seasoned* gamers are persons that spend less time on videogames than the previous categories. They still perceive themselves as "gamers", although they may vary their genre of play and look mostly for a fun game to play without consideration of the game style. As with the Professional gamers, seasoned gamers may pay more attention to the game's storyline, media, and interaction, as this mix defines the gameplay which makes or breaks the enjoyment of the gaming experience (in other words, a badly designed interactivity will ruin a game, regardless of how good its graphics are). They also are a large part of the gaming population, but do not buy as many games as the Hard-Core gamers and are easier to influence to try innovative products. As a result there are not many defined sub-categories of seasoned gamers, although they may be ranked by frequency of use.

The *Social* gamer may not even own a gaming system, or will own one for the only purpose of playing "social" games that attract a high number of peers. Examples of these games include "dance" games in which players compete in matching a set of dance steps on a sensitive floor mat, or "tournament" games that allow four to eight players (in average) to compete among themselves. Of course, for this type of gamers the major drive is peer pressure, as playing certain games will allow them to "fit" into their communities. Some games have been developed specifically for this niche, for example Nintendo's "Pokemon" series of games can be played alone but may be only fully completed by interacting with other real players to exchange information.

The *Unaware* gamer is somebody who will not perceive themselves as a videogame player, yet frequently utilize videogames as a way to "kill some time". This kind of person will often play games that either are a computer simulation of a famous board game (chess, go, checkers, backgammon, solitaire, poker, etc.) or a simple "widget" that is fast to play ("minehunt", "snake", etc). This category is increasing as videogames appear in many portable devices (cell-phones, organizers, laptops, etc.) and users try them out when they have to wait (commuting, etc). This category can also include "gamblers" that use a computer to play at "online" casinos for real money. This category seems to be the main target for Sprint PCS's line of "Vision" phone products, which enable users to download and play colorful small games on their cell-phones.
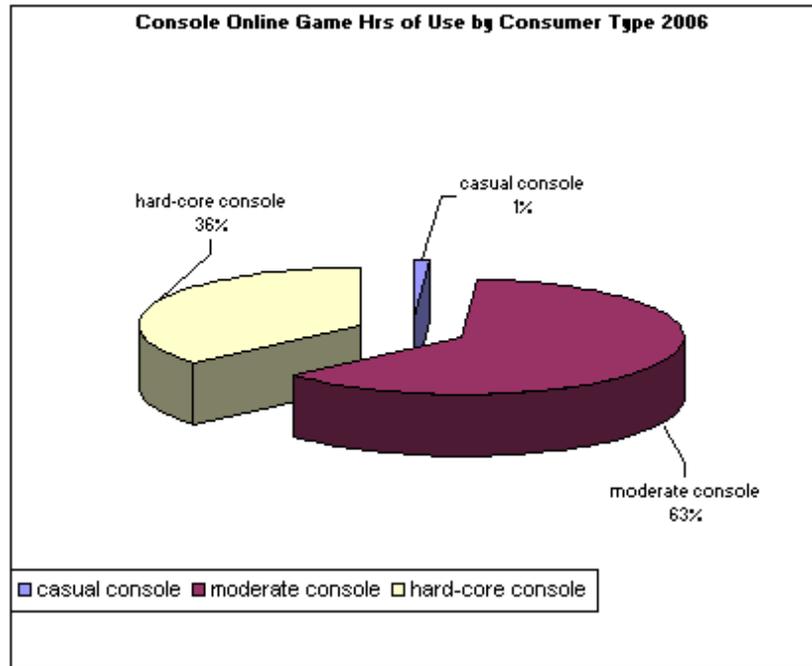
DFC Intelligence Game Industry Forecasts for console Gamers in 2006

The *Non-Gamer* category consists on people that do not see any interest in video-games, not even in small "widget" games. However, these tend to be users with high levels of computer proficiency, which see simple games as too limited and larger games as a waste of time (the assumption is that most computer users will once in a while try out a simple game, which would place them into the "Unaware" category). This category also includes people with very low proficiency in technology, which will regard videogames as an alien, inaccessible, and incomprehensible medium.

The *Worried Parent* category includes Non-Gamers that go to a step further and are militant about a certain issue related to videogames. They are part of specific interest groups which for example demand the banning of certain content in videogames. Interestingly enough, they tend to place the blame on videogames on exactly the same topics for which television and

cinema was blamed a few decades ago. Also, the same traditional patterns apply, as violent content seems to be less scandalous than nudity content. People in this category may be victims of media-induced hysteria, as videogames are, as any kind of new medium, an "easy" scapegoat to be held responsible of many societal problems. The problem may stem from the fact that they perceive video-games to be a medium that is only destined for children, although videogames have targeted much wider audiences since their invention (first computer-proficient college students, then bar/pub patrons, etc). Some companies have tried to provide games with "appropriate" content, targeted at certain interest groups. Unfortunately most of these games that do not fall into the "edutainment" category are ridiculed by most gamers, as they fail to provide any serious or even coherent form of entertainment, as a result of very poor product quality. However, the issues that concern people in this category can be addressed by establishing certain controls, such as the ESRB (Entertaining Software Rating Board) rating system currently in place to rate videogame content.

Finally the *Gamer Luddite* category can be classified as being against videogames in any form. They go a step further than "Worried Parents" in the sense that they not only think that videogames are not suitable for children, but unsuited for any other kind of user as well. As a result they will be more aggressive militants, not satisfied with special products or special rulings. Their passion may come from a failure to understand the medium or a desire to please a certain group of people. This category includes politicians and lawmakers that attempt to make short-sighted rulings (such as the banning of all form of public videogames in New York in the 80's, as they were assimilated to gambling machines), lawyers that try to use videogames as a defense in murder trials (claiming they induce madness), and journalists claiming that games can create

epilepsy in people that are not epileptic and do not have any predisposition to it. The majority of Gamer Luddite claims are unfounded according to recent research done by communication experts; however they touch sensitive issues and enflame the hearts of militants.

Application of categories to MMORPGs

The frequency of use is function of how many other games are played, and how much time overall is dedicated to gaming. Within a defined time period, the more games played signify that each game is played to less frequently. Thus a player that tries many games such as the Professional Gamer will not spend too much time on an Online RPG. Similarly, the likelihood of trying out a new game is function of peer influence, how many other games are played, and perceived product involvement. At the same time, more "occasional" gamers that like to interact in virtual "chat rooms" are more likely to use MMORPGs with a higher frequency, as they provide a more interesting, new, and fun way to "chat" with other people.

Category	Likelihood to try if unfamiliar game	Usage frequency if familiar game	Likely point of purchase
Athlete Gamer	High (if hired)	High	Special retail, Online
Professional Gamer	Low to medium	Low	Special retail, Online
Hard-Core Gamer	Medium	High	Special retail, Online
Seasoned Gamer	Medium	Medium	Both
Social Gamer	Medium	Medium to High	Generic retail
Unaware Gamer	Low	Medium to High	Generic retail
Non-Gamer	Low	Low	Nowhere
Worried Parent	None	Never	Nowhere
Gamer Luddite	None	Never	Nowhere

Concerning the likely point of purchase of the game, "Special retail" (online or "brick" stores) include stores specialized in a certain areas, such as consumer electronics as a whole or videogames in particular (Best Buy, CompUSA, Electronics Boutique, Gamestop, etc.). "Generic

retail" includes other stores that may carry videogames, such as generic toy stores (Toy R' US), bookstores (Amazon.com), and supermarkets (Meijer). "Online" points of purchase are both types of stores, with the characteristic that they can be accessed via the Internet. They may provide direct delivery of content to consumer's hardware ("downloading" information via the network), or provide mail-order delivery of a physical product (CD, retail box, etc.).

Other considerations about MMORPG consumers

Consumers available for these games are limited by several factors. These are mostly economical, although some of them may vary due to different psychographic elements: In the USA, it seems that computer buyers are mostly people with high levels of disposable income, while in other countries such as South Korea, a computer is more regarded as a necessity (e.g. for a child's education) than in the US.
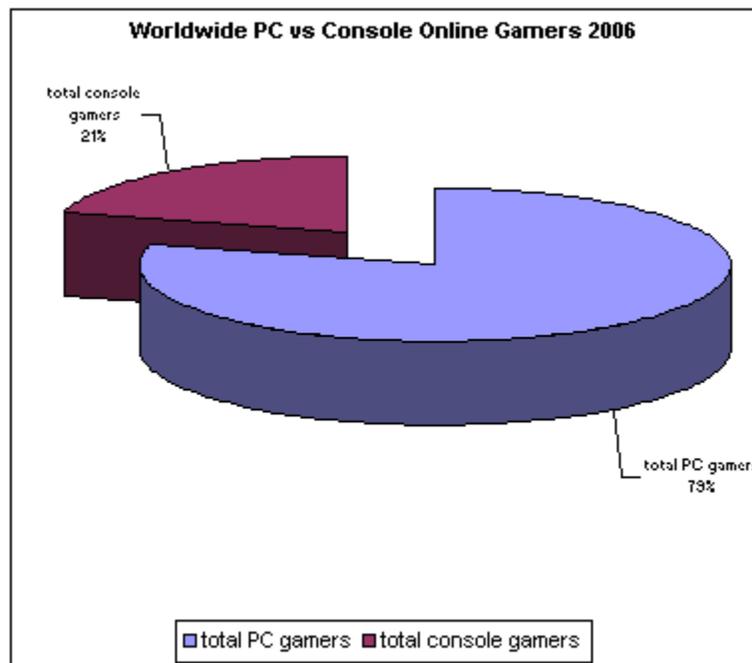
DFC Industry Forecast, US online gamers for 2006

Therefore when having to choose between buying a car or a computer, an American would more likely choose a car, while a South Korean will choose a computer and other associated elements, making the latter more likely to use online games. This may seem unusual given the fact that the United States counts with more than 30% of worldwide personally owned computers. However, in many Asian countries several locations known as "PC Rooms" or "Cyber-Cafes" have appeared. They provide inexpensive access to computer hardware and fast internet connections, which non-computer owners avidly seek as they are required for a complete "real life" social interaction. Thus South Korea has a wider public awareness of Internet usage than the United States.

Furthermore, because consoles require a separate Internet access for online gaming, it is likely that console users will own a computer, even if the computer itself is not used for online gaming. The reason for this is that the current high prices of broadband may be too high to justify a subscription for console gaming only, unless the console provides some basic "office" services such as e-mail. This has been done in Japan by Sega with their very last console, the "Dreamcast". However sales were far below expectations and as a result Sega abandoned the home console hardware market, to concentrate on software only.

Statistical data (Time Almanac, 2003) proves that internet access and computer ownership is much more likely as levels of income increase. We can therefore infer that likelihood of usage for an Online RPG increases in correlation with the availability of household disposable income and level of education. Because of this, users of MMORPG are likely to be

interested in other purchases that require education and disposable income, unless of course there

is a nearby inexpensive access solution such as "PC rooms".

List of equipment needed (estimates)

Type	Computer	Console	notes on prices
Gaming System	$500 to $2000	$100 to $300	Depends on brand and features.
Network adapter	Free to $50	Free to $100	May be included in system.
"High speed" Internet access	From $30 to $100 *per month* (observed median is $50)		Depends on location and line data transfer capacity.
Game software	Free to $60	$20 to $60	Free downloads may be available for computers. Unit price depends on game novelty and popularity.
Game subscription	Free to $20 *per month*	$5 to $20 *per month*	Depends on company. Some games are free since they do not need central company servers.
Total (averages)	$1555 "fixed" + $60 per month	$290 "fixed" + $63 per month	This is for only one game, hardware may have other uses.

Other drives to join and remain in an MMORPG

Aside from the "type drives" described earlier, we can globally summarize the incentives

to try an online RPG to the following three factors: Entertainment, Peer Pressure, and Escapism.

In the first case, the main drive is seeking a new type of entertainment that traditional "offline"

(one-player) games cannot provide. The enhanced entertainment is created by interaction with

other players. In the second case, peer pressure can exist in both the "real" and the "online"

world. As with reality, an online user can experience feelings of group belonging with other

users with similar "web surfing" habits, which communicate via online "chat" or online forums

(bulletin boards). Finally, the third case sees a motivation created by the wish to explore a virtual

world, which is similar with the amazement of discovering an imaginary world while reading a

fiction novel. However online worlds may be much more compelling, as the suspension of

disbelief is enhanced by the game's interactivity.

When considering drives to keep playing in an online world (as opposed to experiment for the first time), "escapism" may be the strongest drive. Players may be motivated to stay online by their "virtual life" experiences (do not confuse with "Avatar experience points", which is only a game statistic): since the virtual world is constructed by interaction between real people, they often create fun or interesting situations which are fondly remembered. They can also create or break real social bonds. For example, when the player of a relatively known Avatar died from a car accident (in the real world), all guilds in the game declared a "1-day truce" and congregated online in a specific location to mourn the death. In a more positive note, when two players that originally met in Lineage married in the real world, a virtual wedding was held inside the game as well.

As a result, online gaming is actually a new a social element that opens doors for marketing. There are advertisers leveraging relationships with online game creators to promote their brands: for example, "The Sims Online" includes a virtual "Mc Donald's" restaurant. However, game advertising is nothing new; it has been done before for example in soccer simulations. The difference is that now a player can "virtually consume", which may affect their real consuming behavior.

NCSoft: the undisputed worldwide leader

NCsoft, headquartered in Seoul, South Korea, is the world's largest independent online game company. Since its establishment in 1997, NCsoft leapt forward to become the world's leading online game software company. In Korea, its blockbuster hit game Lineage commands a 47% market share and attracts the greatest number of concurrent users in the world. Currently there are more than four million active subscribers playing Lineage worldwide, a number that is many times larger of the subscribers for the second largest online game (Everquest).

Lineage screenshot (interface not shown)

Main Issues

The challenge for NCsoft is to repeat Lineage's success beyond its home territory. Initial signs are encouraging: since it launched the game in Taiwan, NCsoft has earned $3.5 million in royalties and lured 75,000 gamers at the same time. Due to this positive response in Taiwan,

NCsoft and a company named "Gamania" set up a joint venture in Hong Kong to start marketing Lineage on this new location. This venture serves the purpose of a bridge for advancing into the Chinese market, thus has important market potential.

To maintain and improve its market share and revenues NCsoft needs to keep expanding overseas, for two reasons. First, the local market, Korea, is highly penetrated and competitive; some experts in the area are already saying that this market is saturated. Second, it is in the international markets where NCsoft can receive a higher margin. In the local market, the company has to distribute its product mainly through trough "PC Bangs" (lit. "PC rooms" or "cyber-cafes", places which provide inexpensive access to PCs, videogames, and the Internet), which yield a relatively low margin for NCsoft. Subsequently, in order to be successful NCsoft needs to address the following issues in respect to its international operations:

1. How to replicate the Korean success worldwide?

Could the Korean online gaming phenomenon translate to the U.S. and other countries? If so, how could NCsoft replicate it? While the U.S. market leaders count on the retail sales of the game software to cover the initial cost of development, and the monthly fees to cover operational expenses, the Korean online gaming revenue model encourages mainstream adoption by lowering initial barriers and costs. Online games are available to a wide audience at a low price. Once "hooked", players may spend heavily on the games, and the required broadband accounts to play them ("broadband" are the premium mass-marketed Internet accesses, many times faster than traditional modem "dial-up" connections).

Korea has the highest broadband penetration of not only Asia, but also of the entire world, at 60%. The U.S., on the other hand, has a current broadband penetration rate of below 20%. Nevertheless, NCsoft thinks it can accelerate the diffusion process for broadband access.

The same sort of success is possible in the U.S. if the service providers and content producers work together in marketing and distribution and follow the Korean model. In short, the more popular online games become, the greater the broadband penetration is likely to rise.

2. How to deal with cultural differences?

Contrasting Lineage and EverQuest shows the differences between the Confucian and Western cultures. In Lineage, players adopt characters in a predetermined social hierarchy and rank, and they have no qualms about taking subservient roles (leaders look for followers, followers seek out leaders). Lineage, then, lends itself well to coordinated attack strategies, as most endeavors are group-oriented, with gangs that often number in the hundreds. In contrast, in EverQuest, the objective is character development and item acquisition. Valued game items, including fully developed characters, have appeared on the online auction site eBay for hundreds of dollars.

The appeal of playing Lineage is working as a team. In contrast, the players in the U.S. are more turned towards one-on-one competition more and excel at these types of games. Online game experts assert the objective of South Korean gamers is to be included in a group, while in the United States the thrill is to be the "last person standing".

3. How to deal with the potential risks in entering other markets?

Potential risks and uncertainties include, but are not limited to, the uncertain growth rate of online game market in China, any failure to successfully launch the Lineage game service in China and users' acceptance of the Lineage game service. In addition, NCsoft faces risk regarde its partner's (SINA's) historical and future losses, limited operating history, as well as elements in the national context, such as an uncertain regulatory landscape in the Republic of China.

4. How to adapt the marketing strategy to fit every specific market?

In the same way that different markets bear different cultural characteristics, they also have different structures, mechanism, and regulations. To be successful, NCSoft may have to adapt its product locally, or operate through external local companies that have deeper knowledge of the local market.

The Korean Market

The Korean electronic games market is rapidly emerging as one of the most dynamic in the world. More than 22 million Koreans go online every day with 57 percent regularly visiting gaming sites, according to Net Value Korea (a company that monitors four Asian markets including Korea). Yet this market is only beginning to receive serious attention from most foreign game companies. The Korean game market remains new and largely misunderstood by most outsiders. Foreign game developers tend to associate Korea with the Japanese game market, which is significantly different. Korean gamers have distinct preferences and playing patterns, which dictate a radically new approach and thus require a tailored entry strategy.

While the wide popularity of MMORPGs is what sets the Korean game market apart the most from other countries, sales figures for PC games are unparalleled around the world as well. Korea accounted for 40% of worldwide sales for "StarCraft" and 30% for "Diablo II". "Warcraft III" sold 330,000 copies with the first 20 days following its release in July 2002 (all three games were created by US company "Blizzard Entertainment", a division of Vivendi Universal Publishing). The country also counts with over 32 million of mobile telephone subscribers, from which over 50% use high-speed wireless Internet services. Korea's three mobile operators consistently record well over 85,000 "phone games" downloads per day ("download" is a technical term indicating transfer of software from the source company to the client's machine).

South Korea has become well known in the tech industry as the world's most wired nation, at least on a per capita basis. With 61 percent of online users are already playing computer games, South Korea is also the world's most devoted digital playground. Some wonder whether South Korea has a unique combination of cultural and economical ingredients that makes it an unmatchable model.

To allow many people to connect in order to play against one another in the same game, the primary requirement is to have high-speed access to the Internet. Stimulated by government incentives, South Korean telecommunication companies have given the country the world's highest broadband penetration over the past six years: more than 60 percent of the population, as opposed to 7 percent in Europe and 20 percent in the United States. The fact that many broadband connections are relatively inexpensive is also a major incentive for players to subscribe. In South Korea, high-speed Internet access costs as little as 30,000 Won (about $25) a

month, whereas the typical U.S. price for the same access speed is $50. Furthermore to the government stimulus, the broadband penetration has been helped by the demographics of the country. South Korea is smaller than the State of Michigan, and around 70% of the country's population lives in just seven cities, easing the financial risks of mass rollout.

But the most important element may, in fact, be cultural. The daily socializing occurring in "PC Bangs" is the key to understanding the success of online gaming in South Korea. Online game is an accepted place to meet with friends and socialize. Gaming culture in Korea is very much both a virtual and real-world social phenomenon. There are 22,000 PC rooms across the South Korean urban centers, and with 25 percent of the population living in Seoul, gamers can chat online with fellow players and meet face to face with relative ease.

Online games, which generate revenue from the subscription fees paid by players, is one of the fastest growing sectors of the interactive entertainment industry in the world, especially in Korea. In particular MMORPGs are truly the "mass-consumer" form of online games in which hundreds of thousands of players interact with one another concurrently online. This type of games focuses less on eye-hand dexterity and more on interaction with real human players in real time. The games create a loyal following with significant network effects, as more and more gamers form communities and relationships with one another.

As mentioned before, the Korean government has seen a good chance for the online-game industry to emerge and become a key export. The government has delivered several programs in which they train people to design, program, and market online games. The

government has also set up a $12 million fund to incubate game companies and selects a promising gaming proposal each month to help develop into a marketable product.

Additionally, the Ministry of Information and Communication (MIC) is pushing ahead with the "Global leader, e-Korea project," aimed at upgrading the country's information technology infrastructure, which provides the foundation for Korea's vision of becoming a digital hub in the Northeast Asian region. The ministry is also pushing for greater cooperation in the Asia Pacific region in the IT sector so that Asian countries' information and communication networks can become interlinked and fully utilized.

With the info-tech industry charging ahead on the export front, the ministry projected that CDMA (code division multiple access), broadband Internet, SI (system integration) and other key technology sectors combined will post $51 billion in exports and a trade surplus of $15 billion this year.

Under the new slogan of "Global leader, e-Korea," MIC plans to channel investment funds valued at 12.75 trillion Won from both the public and private sectors into the info-tech industry this year, while accelerating research and development projects for the digitalization of the public sector in the first half.

Thanks to the rapid build-up of infrastructure spearheaded by the government, Korea's IT industry is now the nation's highest growing industrial sector. The growth-oriented industry produced goods worth 150 trillion won and accounted for 12.9 percent of the gross domestic

product (GDP) in 2001. And the country's export of info-tech goods amounted to $38.4 billion in 2001, up from $30.5 billion in 1998.

Other leading Korean companies are visualizing opportunities in network games as well. Samsung Electronics, for example, is sponsoring the World Cyber Games, which it describes as the Olympics of online gaming. It is also developing online games to promote its DVD players, digital TVs, and personal digital assistants. Other big companies such as Hyundai, SK, Telecom, and Korea Telecom are eyeing to enter the game industry.

NCsoft in Korea

NCsoft was established in 1997 as a systems integration company.   From 1998 to 2001, the company has experienced a growth period in which it launched its multiplayer online game Lineage in Korea. By December of 1999, Lineage set a record of over 1 million accumulated accounts. From 2001 to 2003, NCsoft has been in a leaping stage, expanding internationally through subsidiaries, partnerships, strategic alliances and joint ventures.

As the next three tables demonstrate it, no company is making better use of Korea's broadband fever than NCsoft. Lineage is so popular that 110,000 players sometimes log on at once. This popularity had led NCsoft to post revenues of 124,735,958,000 Korean Won, or approximately US $95 million in 1991. Although in 2002 revenues did not match those of 2001, the company had a higher net income. NCsoft's success has made it one of Korea's "hottest" stocks. Shares rose 96% in 2001, outperforming the rise of 41% of the tech-rich KOSDAQ (the Korean equivalent of NASDAQ).   When comparing to the industry numbers, the company also proves

its success history. For example, in sales growth, while the industry has had a negative growth of 7.73%, NCsoft has grown at a rate of 48.99%.

Profit & Loss Statement					
	1998	**1999**	**2000**	**2001**	**2002**
Sales	725	6,441	46,883	100,425	62,430
Cost of sales	411	1,755	8,663	13,639	8,132
Gross Profit	314	4,686	38,220	86,786	54,298
Gen & Adm Expenses	507	1,755	14,565	73,163	19,243
Operating Income	-193	2,931	23,655	13,623	35,056
Non operating income	56	64	2,383	4,058	2,415
Non operating expenses	72	16	475	5,354	4,799
Income before taxes	-209	2,979	25,563	12,327	32,672
Income taxes	0	467	6,079	2,939	6,868
Net Profit	-209	2,512	19,484	9,388	25,805
(Unit: Thousands of Dollars)					
Source: company records					

Balance Sheet Summary				
	1999	**2000**	**2001**	**2002**
Current Assets	5,644	65,844	96,721	126,769
Fixed Assets	2,480	17,166	23,663	23,679
Total Assets	8,124	83,010	120,384	150,448
Total Liabilitites	2,617	9,992	14,154	15,893
Shareholders' Equity	5,507	73,018	106,230	134,554
Total Liabilities & Equity	8,124	83,010	120,384	150,448
(Unit: Thousands of Dollars)				
Source: company records				

Major Financial Indicators		
	NCsoft	**Industry**
Sales Growth (%)	48.99	-7.73
ROE (%)	42.86	1.1
Debt Ratio (%)	11.81	48.73
Reserves Ratio (%)	6999	350
Export Ratio (%)	12.5	
Source: company records		

Now, hundreds of other game companies are angling to duplicate Lineage's runaway success. In the second half of 2001 alone, five outfits, including Actoz Soft, Taewool, and J.C.

Entertainment, are planning IPOs. Until now, NCsoft dominates the industry, with 47% of the market, followed by Nexon Inc., with a 20% share.

NCsoft Internationally

Currently NCsoft has offices in the United States, Japan, Hong Kong, China and Korea and has active Lineage service in those areas as well as Taiwan. So far, the company has been successful in those markets and is leading the online game market in all the Asian countries that it has gone to. In the future NCsoft plans to expand into Europe, Latin America and South East Asia. The following table summarizes the international expansion strategy that NCsoft has followed:

World Wide Expansion Strategy					
	Taiwan	**US**	**Hong Kong**	**China**	**Japan**
Partner	Gamania	-	Gamania	SINA.com	SoftBank
Investment Strategy	License	Subsidiary	Joint Venture	Joint Venture	Joint Venture
Current Status	On service (Jul 2000)	On service (July 2001)	On service (Jul 2001)	Beta service (Nov 2002)	On service (Sep 2001)
Investment Size	-	W14 Bil	W 17 Bil	W 3.0 Bil	W 4.6 Bil

Taiwan: NCsoft and Gamania Digital Entertainment

The two companies, NCsoft and Gamania, joined forces to establish an online game venture in Taiwan. Since they brought NCsoft's "Lineage" online fantasy game to Taiwan in July 2000, Gamania has picked up more than 950,000 players, who log on to its servers to compete or cooperate with thousands of other gamers. But Gamania's profits have spawned a host of competitors, including local tech giant the Acer Group.

Gamania has its main markets covered. To date, the company has five branches in Asia -

Taiwan, South Korea, Japan, Hong Kong, and China -and North America. In addition to its

flagship product, Lineage, the company has an array of various online games and PC games,

both developed in-house and out-of-house.

United States: NC Interactive

Located in Austin, Texas, NC Interactive is NCsoft's U.S. branch started with a 33 person

staff. Since its establishment in July of 2000, NC Interactive has been in charge of sales,

marketing, PR, customer services, game localization and game publishing contracts for the

United States. Presently, it is servicing Lineage in both the U.S. and Canada. In the future,

NCsoft plans to provide all of its games to be serviced in North America through NC Interactive.

This branch also has been responsible for developing the next generation of online games.

Developers of world-renowned games such as "Ultima" Series, including the first MMORPG

"Ultima Online" - Richard Garriott, Starr Long and vice president Jake Song- are dedicated in

developing their next "big hit" along with 42 other staff. NC Austin is an important

development studio that will lead the future online game industry together with NCsoft's

headquarters in Seoul. NCsoft Corporation is migrating from being a developer and exclusive

publisher of its own game to serve as a publisher for other developers. The US office, directed by

Richard and Robert Garriott, recently inked a deal with San Jose-based Cryptic Studios to

publish their "City of Heroes" game, a 3-D MMORPG in which players are comic-book

superheroes. The news came just after NCsoft closed its deal with US based Sony Online

Entertainment Inc. where NCsoft will provide the service for US leader "Everquest" in select

Asian territories (Korea/Taiwan/Hong Kong). In the US market, NCsoft has also partnered with

"BroadJump" (an Internet Service Provider – ISP) and is trialing bundled gaming services with

major broadband providers. The BroadJump partnership handles billing issues, and NCsoft

provides and maintains the gaming servers, so that the impact on the service provider is minimal.

Because the US market is currently oriented around retail game software and dialup-

enabled gaming (slower than broadband), NCsoft entered the market with a lower price than in

the Korean market ($15/month). NCsoft also has been periodically sending through "normal"

mail a CD for game client updates. In the long run, however, NCsoft expects that the US online

gamers will follow the Korean revenue-sharing model in which the superior gaming experience

provided by broadband will be a driver of broadband services in the market.

Because as to date Lineage has not met the expected results in the US market (2,500

customers simultaneously connected as opposed to 100,000 in Seoul, Korea), NCsoft has started

a new marketing campaign in which price cuts are expected to attract more subscribers, and

speed the diffusion process in this market. As part of price cutting marketing plans, NCsoft

offers a free 45-day use of its online game with a $3 purchase of the Lineage game CD. For

Korean customers to play Lineage for 45 days cost around 40,000 won or $33.

Japan: NCsoft and SoftBank Group

NCsoft entered in a 4.6 billion won joint venture with Japanese venture-fund Softbank to

expand its online gaming into Japan. NCsoft is holding a 40 percent stake and Softbank 60

percent. As part of the agreement, NCsoft provides online game software and know-how, as

well as operational and technical support and access to marketing and advertising. Softbank, in return, provides the infrastructure needed to roll out services for Lineage for Japanese consumers.

There are some barriers, however, for Lineage to penetrate the Japanese market. These barriers largely are due to Japan's lag behind other nations in embracing the Internet "revolution" with its relative low broadband Internet penetration. Because of this Internet usage in Japan is at the lowest level among major industrialized countries.

China: NCsoft and SINA.com

In November of 2002, NCsoft and Sina.com combined forces to develop the huge online game market in Sina's home China. NCsoft and Sina have set up a joint venture capitalized at US$20 million, in which Sina holds a 51 percent stake and NCsoft controls the rest.
NCsoft moved to bring its successful Lineage game into the flourishing and promising Chinese market, which may be on its way to becoming the region's largest market.
According to a July survey by Chine Internet Network Information (CNNIC) China boasted 45.8 million Internet users. Also, according to CCID, a consultancy under China's Ministry of Information Industry, China's online game players are expected to number 9.7 million by the end of 2002 and 14.3 million by the end of 2003. In addition CNNIC predicts that in general the market for online games that is now times made up about 5 percent of the total game software market in 2001, will grow at a much faster pace than the rest of the game industry, becoming a $5.3 billion market by 2005.

In Asia, the total online game market was estimated to be $450 million in 2001 with most subscribers concentrated in Korea, Taiwan and Japan. However, in recent months, China, with its fast growing Internet population (already at 45.8 million users according to CNNIC's July survey) is expected to become the largest market in the region in a relatively short period. SINA is the leading online media and value-added information service ("VAS") provider for China and for global Chinese communities. The company has a branded network of 15 localized web sites targeting Greater China and overseas Chinese. SINA operates three major business lines including SINA.com, an online media and entertainment service, SINA Online, a consumer fee-based online and wireless VAS, and SINA.net, a small and medium-sized enterprises VAS. SINA.net provides an array of services including online portals, premium email, wireless short messaging, virtual ISP, search, classified information, online games, e-commerce, e-learning and enterprise e-solutions.

SINA is a progressive company and it is listed on the NASDAQ exchange. The company has a strong advantage and determination to become the number one player in the online game business in China. NCsoft believe that SINA is the best partner for them to enter the Chinese market and strategically introduce a new and exciting era of online gaming to China. SINA has long been recognized for operating the leading game channel in China. With SINA's unsurpassed strength in online game marketing in China and NCsoft's superior game operations and development capabilities, they have high chances of bringing the leading online game in Asia to China with a service that can exceed their current competitors.

NCsoft's Strategy

NCsoft has an extended and dynamic product line currently consisting on game titles "Lineage", "EverQuest", "Lineage II" (planned), "City of Heroes", "Shining Lore" and "Gameting". Lineage, however, is the star product, being most widely played online game in the world, with a 47% market share in Korea, a 90% market share in Taiwan, and being the second most popular game in the Japanese market.
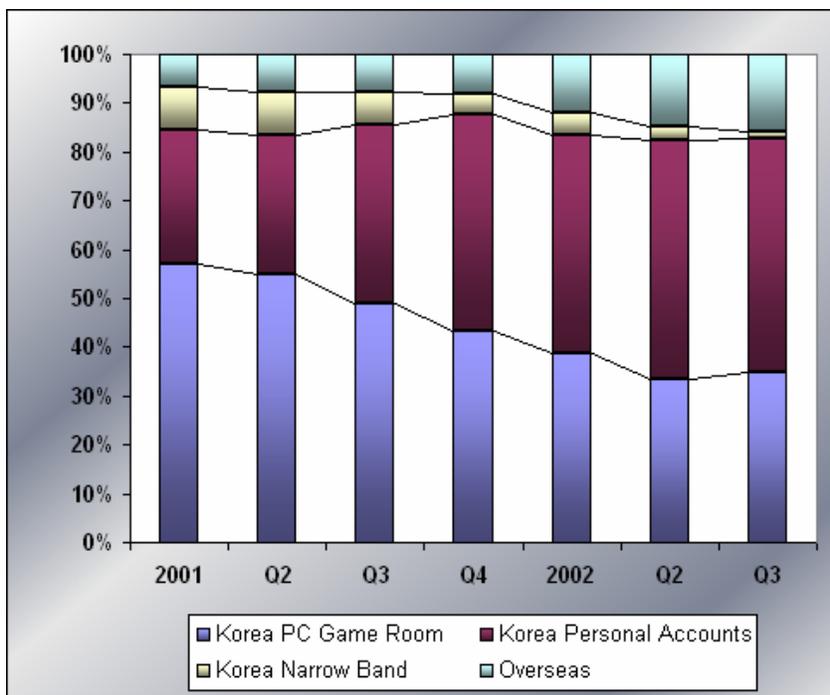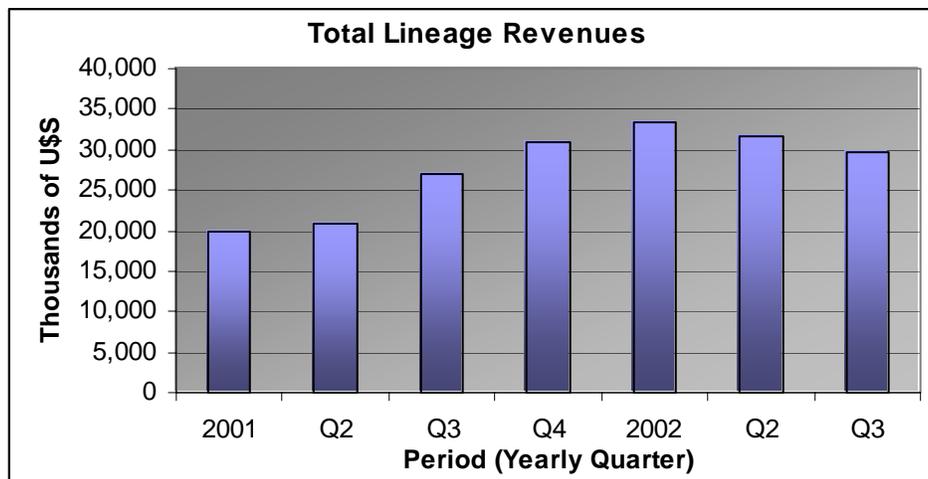
Breakdown of Lineage sales, in percentage of total.

soft has had the most success in markets with high broadband penetration. In the Korean market, which began mainly with players using game rooms, more than 52% of users have now home accounts, paying from $20 to $30 a month for their Lineage subscription. However, the game program is freely available for download from NCsoft or a CD can be purchased at a very low price ($3).

In contrast, in the US the software packages for other MMORPGs have to be purchased from retailers for $30 to $70. The player then also pays a monthly subscription fee of $10 to $20 to play online.

The next table shows the fee structure that NCsoft has locally as well as internationally. The high penetration that NCsoft has gained in the local market has forced it to develop a relatively complete fee structure, so that the purchase of the product is facilitated. Internationally, however, the fee structure is much simpler and is mainly based on prepaid monthly-unlimited usage or units of hours.

LINEAGE FEE STRUTURE IN KOREA

Table figures are according to conversion rates from Bloomberg.com (04/12/03). One US DOLLAR (USD) is equal to *1242.025 SOUTH KOREAN WON (KRW), 120.52 JAPANESE YEN (JPY) and 34.7925 TAIWAN DOLLAR (TWD).*

B2C - Prepaid Monthly Rate per Account Unlimited Usage	
1 month	$ 21.74
3 months, per month	$ 17.18

B2C - Time Coupon Based on Time Units	
Per minute	$ 0.016
3 hours	$ 2.42
5 hours	$ 4.03
10 hours	$ 6.44
30 hours	$ 14.49

B2C -Prepaid Usage Time in Units of Hours - Personal Accounts	
300 hours	$ 64.41
600 hours	$ 120.77
1000 hours	$ 201.28
3000 hours	$ 563.60

B2B - PC Rooms Prices Monthly Rate per PC(IP[1], Unlimited Usage Time, Quantity Discount	
1~5/IP	$ 48.31
6~10/IP	$ 44.28
11~19/IP	$ 40.26
20~29/IP	$ 36.23
over 30	$ 32.21

FEE STRUCTURE OVERSEAS

JAPAN	
1 Month - Unlimited Usage	$ 19.59
10 Hours	$ 4.15
1 Hour	$ 0.332

| **US**	
Prepaid Monthly Rate per Account	
1 Month	$ 15.00
4 Months, per month	$ 11.25

TAIWAN	
12 Hours	$ 0.57
1 Month	$10.61

Sources :   Global – DFC Intelligence (2000 ~ 2002), IDC, 2001 CESA, IDSA(2001), Jupitor Communication

Informa Media Group, Baskerville Communication, Datamonitor (2000~2001)

Domestic – Encyclopedia of Korean Games (2002)

[1]Note: "IP" is an abbreviation for "Internet Protocol Address". It is the unique identifier of any device (computer, console, etc) that accesses the Internet. In this case, billing "per IP" means billing per computer where the game is installed.

The Korean online gaming revenue encourages mainstream adoption by lowering initial barriers and costs. Lineage has around 3 million subscribers out of a population of 47 million, meaning that more than 6% of the Korean population is playing it.

The players traditionally discover broadband and gaming at the Internet cafes ("PC rooms"), which are found on virtually every street corner, and then "graduate" to personal accounts and home broadband subscriptions. In 2000, almost 70% of NCsoft's gaming revenue came from the Internet cafes, while personal accounts accounted for 24%. Two years later, however, personal accounts had doubled, accounting for 52% of revenue.

Revenue Shitf for Lineage
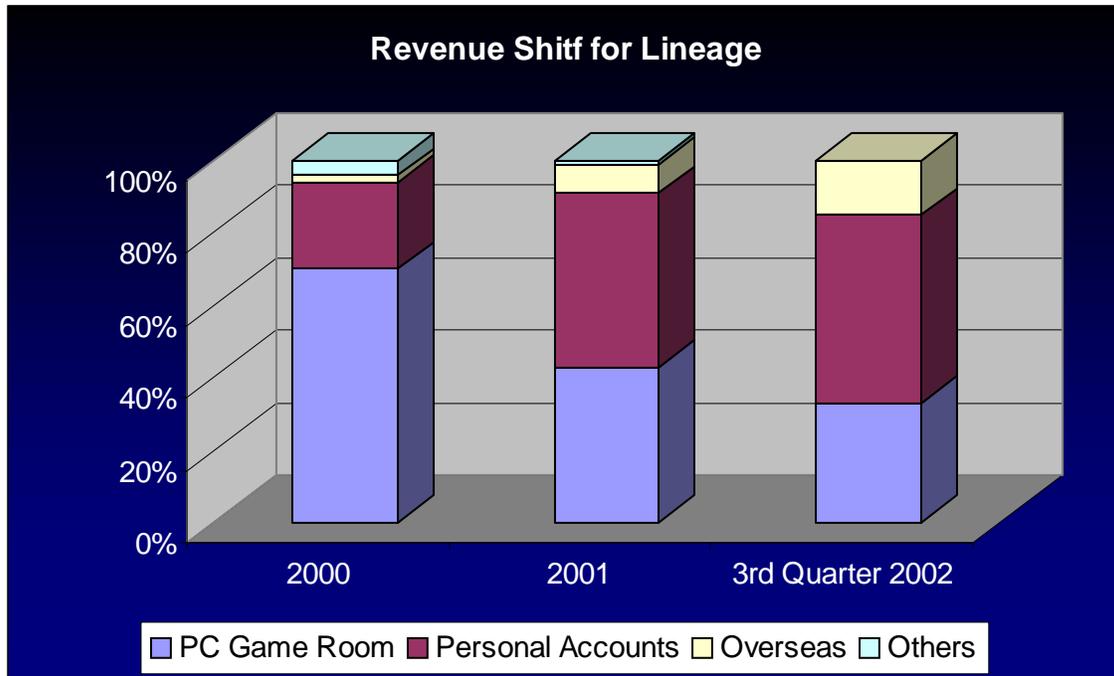
NCsoft has adopted a variety of payments methods for the service, as shown in the next table. For example, a very popular option of payment in Korea for the Lineage subscription is the incorporation of the service fee into customer's DSL bill from providers (DSL, or "Digital Subscriber Line", is one of the existing broadband technologies). Customers can also purchase the equivalent of prepaid calling cards for their subscriptions, and in Taiwan they can even pay for their gaming services with their mobile phones.

Billing Methods, Paying Methods and Game Maintenance & Operations	
Bill by minute per IP (PC rooms)	Scratch coupon payment (Taiwan, Hong Kong)
Bill monthly per IP (PC rooms)	Payment through banks (off-line)
Bill by minute through Infoshop (Neowiz)	Payment using mobile phone
Bundled payment with BB ISP (Hanaro, KT)	Seamless Server Upgrades
Online Credit-card payment	Helpdesk Call Center (24 hours)
Internet banking payment	Game operation by quality Game Masters

While NCsoft lag behind Japanese and U.S. rivals in traditional games, the company has a head start in online gaming. They have experience running servers that handle thousands of

users, all seeking an individual online role. In addition, they have tapped into the gamer mindset by introducing a new free Lineage "episode" (extension) every few months to keep players interested. They are weaker than Japanese and U.S. game makers in graphics and client technology, but their advantage in server technology gives them bargaining power in forming alliances and keeps the player satisfied.

In the meantime, Korean game makers are establishing footholds in Japan and the U.S. Nexon and Digital Dream Studios, Korea's third-largest game company, have agreed to develop titles for Sony's PlayStation2 which allows eight users to play the same game online (these games are not MMORPGs). NCsoft is preparing to launch a joint venture in Japan to modify Lineage to appeal to Japanese users.

As part of its strategy to enter the U.S. market, NCsoft recruited Richard Garriott, the U.S. game programmer best known for Ultima Online and 19 others from "Destination Games", to develop new titles. For one of these new ventures, NCsoft paid $33.4 million in company stock and cash for the next-generation Internet game "Tabula Rasa", developed by Garriott's team. The upcoming game is going to be NCsoft's main weapon in its assault on the U.S. online gaming market.

Becoming a global online game publisher

Apart from developing games for itself, NCsoft also strives to become a global game publisher that incubates and services games with high potentials. Examples of this are NCsoft's recent alliances with Sony Computer Entertainment and NetDevil Studios. With Sony Online Entertainment Inc. (SOE), a worldwide leader in massively multiplayer online gaming, NCsoft

entered in a strategic partnership to bring Everquest to the Asian market. As part of the agreement, NCsoft agreed to host Everquest on its game servers in Korea, maintain a robust customer service department and work with SOE on marketing initiatives focused on the Korean market. The two companies expected the game to be available during the summer of 2002 and planned to bring the service to other Asian territories including Taiwan and Hong Kong in the future.

Sony Computer Entertainment Inc. is headquartered in San Diego, California and develops, publishes and distributes entertainment for the PC and online markets. With more than 11 million registered users, SOE's award-winning website, The Station (http://www.station.com) hosts a variety of entertaining games and player communities across all genres. SOE has an array of cutting-edge online games in development in addition to blockbuster hits Everquest and "Jeopardy! online", such as "PlanetSide", "Star Wars Galaxies" and "Sovereign".

This partnership fits well for the strategic objectives of both companies. SOE's objective is to expand its online gaming community by making its great US success game available to customers globally. NCsoft, on the other hand, wants to consolidate itself as a global online game publisher. To enter the Asian market, NCsoft is the perfect partner given its knowledge of the Korean market, its proven triumph with its game Lineage, and its direct access to millions of gamers every day.

With NetDevil Studios, NCsoft entered in a strategic partnership to publish "Wreckage" (working title) in 2004. This massive multiplayer game will introduce a new theme and style that NCsoft other products do not have. The game consists on a post-apocalyptic car combat in a

future Earth setting (similar to the universe of Mel Gibson's "Mad Max"). The technology introduced in this game will allow players the ability to arm and upgrade their own vehicles, group with friends and take on other players in an massive "auto war".

Keeping up with the market preferences: Lineage II

With its hit Lineage dominating the domestic market, NCsoft hopes that its next-generation online game, titled Lineage II, will jumpstart a fresh market for those who intend to go beyond 2D-based cyberspace. NCsoft has almost all core components developed and an alpha version is being tested. The company, which began to develop Lineage II in October 2000, said it is in talks with foreign companies to forge partnerships for Lineage II. A full-fledged commercial version was scheduled to be released in the first half of 2003.

NCsoft said it will introduce Lineage II in foreign markets such as the United States, Taiwan, Hong Kong, Japan and China by end-2003. Lineage II adopts a plot that precedes the imperial period settings of the original Lineage. The new version is mainly about strife and battles between different tribes during the virtual Middle Ages. Unlike the original version, Lineage II gamers will be able to create and mobilize their own countries. Battle scenes are powered by more action sequences and realistic movement, while players can formulate political strategies and economic schemes such as currency and credit systems. NCsoft said 10 programmers, 10 game designers and 50 graphic designers are working on the Lineage II development, showcasing the rich multi-user network game infrastructure in Korea that can compete with foreign heavyweights on an equal footing.

However, such foreign heavyweights still have ground to cover before reaching the scale of NCSoft's success. Its major worldwide competitor is SOE, the American subsidiary of Sony Computer Entertainment, which in turn is a subsidiary of the worldwide Sony Corporation. They are the current North American market leader with their flagship title "Everquest".

Massive Multiplayer Combat in Lineage

The American Competition: Sony Online Entertainment

Main issues

1. How to keep a leader position in the North American market?

Worldwide, more than fifteen competitors have entered the US market. Everquest is currently the market leader, but SOE must be able to maintain its leadership by enhancing its product position in the mind-map of its players to further promote its Everquest brand image internationally. Eventually a good worldwide image of the parent company, gained through a positive customer experience on Everquest-brand games, will allow the company to internationally release under products under the "SOE's Everquest" umbrella. To obtain this, the marketing efforts of Everquest have to increase in markets outside the US.

2. How to create a sustainable competitive advantage?

Although SOE is the US market leader, it is likely to face increasing competition in both the local and international markets. Everquest main advantage used to be its "3D" graphics, however today many competitors display similar or superior graphics. Therefore, in able to differentiate itself from the competition, SOE needs to identify a new competitive advantage to aggressively engage in a confrontation strategy with the "pretenders to its throne". One possible advantage would be the development of a value chain, by creating partnerships with existing content or internet service providers. This strong network of suppliers would allow SOE to defend its leader position with greater ease.

3. How to balance localization and globalization?

SOE needs to find a good balance between the adaptation and standardization of its products. Although SOE's goal would be to achieve high international salience for its products, some product adaptation may be needed to appeal each culture individually. However, doing so may dramatically increase the time-to-market of new developments and may make SOE lose first-entry advantage in some new niche markets.

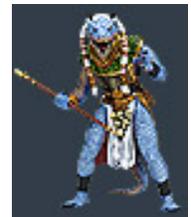## SOE's parent company, Sony Corporation

Combining two words created the Sony company name. "Sonus" in Latin is the root of words such as sound and sonic. "Sonny" means little son in English, which was (and still is) a "fancy" language in Japan. Both words combined into "Sony", a very small group of young people who have the energy and passion to work towards "unlimited creation". Consequently, Sony Corporation has targeted and marketed their products to the young adult crowd that fit the above description. They have capitalized on the fact that most young adults (teenagers, college students and young professionals) possess large sums of discretionary income and would be attracted to use their "fancy" products. They are a huge multinational company with several subsidiaries. Their product line has extended from its initial offering of electronics, among others Sony has created the "Playstation" console lines (two models so far, one planned), and since then develop games. In addition, they own the rights to popular television shows, movie studios, and music companies.

Sony Online Entertainment Inc. (SOE), the online gaming division of Sony, is a worldwide leader in multiplayer online gaming that creates, develops and provides online entertainment for the personal computer, console, and wireless telephony markets. They also host numerous "web"-based games (i.e. accessible through a standard internet browser), and their website Station.com claims to counts with more than 13 million registered users (grain of salt: these are probably not active subscribers, so the actual number is likely to be much lower). Their website also host player communities for numerous genres. Their major games are however PC-based games "Everquest" and "Jeopardy Online", and they are in process of developing a sequel to its flagship product: "Everquest II".

Everquest: an early innovator and US market leader

Everquest is a MMORPG that features 3D graphics and a unique game world and story. The game was originally developed by a company called Verant International, and was released to the public in March 16, 1999. By playing Everquest, the player must be prepared to enter an enormous three-dimensional virtual environment. It is an entirely novel world with its own variety of species, economic systems, alliances, and politics. The player can choose from a variety of "races" (playable species, one being "human" and all the other being different creatures), customize their character, and begin a quest in any number of cities or villages throughout multiple continents. Everquest delivers this with a first-person perspective, and an "elegantly simple" combat system that is easy to learn. It has therefore been a first step for many gamers into a true "massive" virtual world, with a large community of players were they can meet new friends worldwide.

Since it was the first 3D MMORPG, Everquest is the most successful and most persevering game of the genre to date (in the US). Whereas other North American MMORPGs have experienced a decline in players a year or two after their release, Everquest is now in its fourth year and still seems to be healthily growing.

Weaknesses of EverQuest

Although Everquest is by far the most popular MMORPG in the US industry, it has some severe drawbacks. Many of these weaknesses can hold true for the entire online industry.

Paying the Price

Clearly it costs money to keep a persistent online world "up and running". This cost is typically passed on to the consumer in the form of a monthly fee. Added to the cost of the game CD and expansion packs, players can spend up to a couple hundred dollars per year to play an online game such as Everquest. This may seem like a bargain to some, but considering that a consumer can buy up to four or five "traditional" computer games with the same money, which have no subscription fee, virtual persistent worlds are still a though sell.

'Lag' and Computer Crashes

A good connection speed is required to play online games of any genre. This speed depends on both the quality of the player's connection, as well as the hosting server owned by the company. When one of both is overloaded, there is a "lag" in communication, which translates into a lag in reaction in the game world. This lack of reactivity can be fatal for the Avatar in many situations. So although these issues have always plagues online gamers of any

genres, lag in MMORPGs are considerably more frustrating as Avatar require to undergo long hours of combat before they can evolve their skills.

The players usually perceive that MMORPG servers seem to disappear (disconnect) when they are about to complete a long quest requiring more than twelve straight hours of play. This may only be a perceived effect, on average servers may disconnect at different times, however the players vividly remember it if they were negatively impacted. Similarly, if the player's system crashes or their own internet connection malfunctions, they may lose their gaming session. The effects of "lag" is further enhanced by the fact that Everquest Avatar data is kept in a single server, so players cannot dynamically switch servers to look for a faster connection.

Customer support; or lack thereof

No game is without problems, but when gamers are paying a time-based subscription to play, they are expecting mechanisms in place to promptly resolve disputes and deal with technical issues. Everquest's "complaint box" is virtually spilling over, and there seems to be no efforts to answer to all of these questions. Some "game administrators" have been hired, empowered by the company to enter the game world as "Game Masters" (GM) and solve problems as they find them, however players feel that there are still not enough GMs available.

The Infamous "Timesink"

In the mainstream media, Everquest players have a reputation of being a rather obsessive group. However, most MMORPGs do not lend themselves well to a casual hour or two of play. In some games, players may require just as long to travel to a location where there is actually

something to do. By their very nature, MMORPGs are designed to "go on" forever and players can never truly win. Fulfilling quests, finding items, and other game objectives that necessitate seemingly endless hours of play have become known as being major "timesinks". Although these objectives are long by design, gamers are always demanding for more content. Many consider it a good thing if a game requires a long time to complete, because of the retail price of most games, however most game companies only have to focus on the initial purchase for revenue. However, MMORPG companies have to keep the players interested of their revenues will stop flowing in.

Furthermore, if the "timesink" is so long that it prevents players to feel they are advancing in the game, they may abandon the game as it becomes increasingly frustrating.

Buying of Expansion Packs and Patches

Although updates are a commonplace in the PC gaming industry, they are always free. Expansions, on the other hand, are not, so they are expected to bring several new features to the game. In the US market of MMORPGs, updates are often placed in expansions only, and thus expansions have sometimes serious consequences in the player experience. Everquest users constantly complain of having their weapons "nerfed" ("Nerf" is a toy company that produces colorful plastic devices that shoot harmless foam projectiles) when an expansion or an update changes the attributes of an item (i.e. making the item less powerful).

However, MMORPGs are always a "work in progress" because of the complexity, so players have to accept the idea that rules are going to change as time passes, usually with little or no explanation. Still worse, sometimes these changes will end up being mistakes and will have

to be changed back. Then having to purchase an expansion pack to get the next "hot item", when players are already paying to play, is very nearly a slap in the face.

Lineage online comic (excerpt): creating player awareness about updates
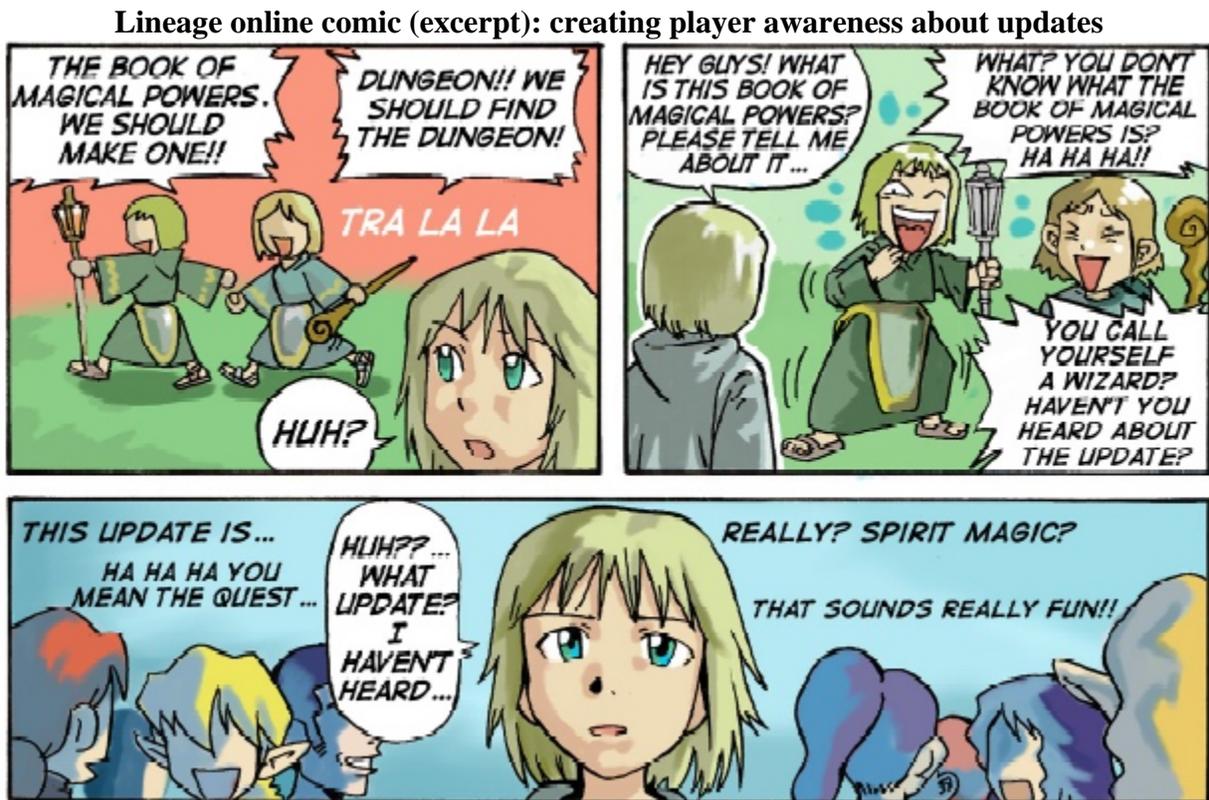
The Rotten Apples: PKs and other nuisances

Player interaction is the core component of all multiplayer games; however in MMORPG some actions may be very inconvenient for other players. A large group of players may amuse themselves by leading large numbers of monsters towards other players, some will try to cheat to gain a rapid advantage, others will seek for ways to bend and abuse the game rules in ways that no game developer could have dreamt of, and finally some will engage in an activity knows as "Player Killing" (PK), which means preying on other players for experience points, usually by

killing newcomer's Avatars. Obviously, all of these actions can negatively impact the experience of players who do not perceive them as fun.

Game Life Span

Since MMORPGs require a central server to be played, it remains to be seen what happens when the hosting company is not having enough players to be profitable. If the company stops supporting the game, players will find themselves with a useless game. In contrast, all traditional "offline" games can be "reinstalled" many years later and still be enjoyed.

However, in spite all these drawbacks, MMORPGs gamers still insist that this kind of the game is "the best thing" to have appeared in the market today, and they believe that the games will greatly improve as developer come up with ways to resolve or at least minimize these issues. Therefore there is strong player retention in spite of these problems.

Everquest worldwide demand

Sony claims to have up to 400,000 active Everquest subscriptions and that this number is steadily growing. As a indicator that this is indeed the case, Everquest set a new record of 118,000 players in March 2003, almost four years after the original launch.

As seen earlier, most videogames traditionally have a short life cycle because they fail to attract new users. However, MMORPGs are slightly different as they are supported by the repeated play of existing customers. However, Everquest may become obsolete, as its technology is already old for a computer game (many advances occur in four years). SOE has thus to prevent a competing MMORPG to replace Everquest in the near future.

SOE Company Strengths

Sony generally carries an image of offering high quality products. Everquest profits of this image and not only is the US market leader, but it is also the most prominent online game in the Western world (surpassing Lineage in celebrity, although this is slowly changing).

One reason why SOE is seeing the fruits of their success is mainly due to the strong management of the company. The founders of Verant Interactive (the company that first developed Everquest), John Smedley and Russel Shanks, are now respectively president and Chief Operating Officer of SOE. The former has over twelve years of experience in the videogame industry, and the latter ten is a veteran as well, with ten years.

These experienced managers have recognized the need for a solid strategic partnership. In January, 2002, SOE announced plans to bring Everquest to the burgeoning Asian market with NCsoft. NCsoft will host Everquest on its own game servers in Korea and eventually will host them in other areas of Asia. This joint venture was realized in the summer of 2002. NCsoft plans to bring the service to other Asian territories including Taiwan and Hong Kong in the near future. As seen earlier, NCsoft, headquartered in Seoul, South Korea, is the world's largest independent online game company with more than four million active subscribers playing its flagship product, "Lineage".

Another major factor to SOE's success is its flexible payment strategy. Most MMORPGs require using a credit card to subscribe, which is charged on a monthly basis. However in 2001 SOE has released Everquest "game cards", which allow the users to play Everquest without the use of credit cards. The game cards work in a similar manner as standard phone cards, and are

available at several retail stores. They can be acquired for $29.99 a unit and provide 90 days of access. Once the service allotment is depleted, purchasing a new card or pursuing other means of subscription is required. This is certainly an advantage to the success of the game, as there are many younger individuals who want to play the game that may not have access or have not yet been approved for a major credit card. Furthermore, it decreases the perceived product involvement, as submitting credit card information is perceived as high involvement by most consumers (since there is no way to know if the monthly billing has really stopped until it occurs).

SOE Strategy Analysis

The headquarters for SOE are located in Silicon Valley in California. This environment is known to house many tech savvy individuals and to be a very creative environment. This allows the creators of the games to live in an environment surrounded by others with similar creative talents. This creativity is required to constantly feed novel content into the game world, as Everquest and Everquest 2 are expected to take a great deal of the player's time. Due to consistent high demand for the game, the company has brought Everquest to a new segment market, its Sony Playstation 2 format. This console requires the purchase of a special "Network Adaptor" to play, and both pieces are sold by Sony. An Everquest game will thus motivate the purchase of such extension (the Playstation 2 is the current market leader for consoles, in terms of units sold). SOE has confirmed that it plans to double its projected Network Adaptor shipments, to a cumulative one million units by the end of its fiscal year in March 31, 2003.

The new Everquest version, "Everquest Online Adventures", does not interoperate with the PC version. Since the launch of this game, the sales of Network Adaptor have surpassed the

sales of its major competitor, Microsoft's X-Box "Live Starter Kit", an extension bringing the exact same function to a rival console. The PS2 adapter outsold it by 62% additional units sold during the month of January 2003.

Sony Online Entertainment understands that it must lead the online charge with great content from its own development studios. This will ensure that the company stays competitive with other online gaming companies. Everquest 2 is planned to debut by the end of 2003. SOE is also investing in the growing online community through the support of user discussion forums, and hopes that these efforts, combined with Everquest 2's new features, will set new standard for MMORPG players, who will then be more likely to be loyal to the game.

A strategy that has worked well in the industry is to offer a free version of the game for a limited time. EverQuest Online Adventures for Playstation 2 follows this model as Sony claims that it presents a free 30-day trial to new players. This allows the company to showcase their offering to try to hook new players to the games.

In addition to free trial periods, SOE also offers accessories and expansion packs to the games to try to increase the interest and the demand for their products. This also allows the company to increase sales as expansion packs are sometimes seen as essential to the success of the player to the game. The Everquest product line for PC offers the following:

- EverQuest: Gold $49.99
- EverQuest: The Planes of power Expansion $29.99
- EverQuest: The Shadows of Luclin Expansion $29.99
- EverQuest Mini Box W95/98 CD $7.95
- EverQuest Official Strategy Guide PC BOOK $16.95.

The first item is a "compilation" of many older extensions, and the cheaper item is the initial version of Everquest without any extension. There is clearly a high price to pay to update the game regularly. But once a gamer starts to play the game, they invest so much of their time, it is difficult to abstain from purchasing an item that will be able to increase its Avatar's strength, increase the chances of advancing levels in the game, or plainly bringing a new storyline.

International Expansion and Localization Strategy

SOE has set their goals to be a true global company. Their website is published in 6 different languages and the active global Everquest subscriber base is comprised of players from 40 different countries. It can be said that SOE's global efforts are in response to customer demand and current increases in global adoption of the Internet.

SOE has already begun the multi-language duplication process for several games. The identical version preserves the look and feel of the game while making it accessible to a foreign language audience. SOE's plans include the use of real-time machine translation of in-game player chat. This will allow players to chat even if they do not share a common language. The combination of localization and advanced translation software will facilitate SOE's position as a worldwide leader in MMORPGs.

To solve the issues of "lag", SOE installed "local" European servers based in the United Kingdom since November 1, 2001. With over 6 million online gamers in Europe alone, localized

servers will offer lower latency (i.e. lower lag) for a heightened interactive experience for this growing market. SOE is slowly adding further servers as each market ripens.

Regarding the strategic alliance of SOE with NCsoft, the latter has also agreed to maintain a robust customer service department and work with SOE on marketing initiatives focused on the Korean market. The two companies released the game to be available during the summer of 2002 and plan to bring the service to other Asian territories including Taiwan and Hong Kong in the future.

The drive towards localization presents a business strategy that is consistent with the data recently released by the International Development Conference. The IDC indicates that more than 50% of current Web users reside outside the United States, and that this percentage is likely to increase to 60% by 2004. Additionally, by 2003 nearly half of worldwide e-commerce will take place outside the United States. SOE's strategy is to be a first mover and capture the market that is currently not being served. Its alliance with the major Asian MMORPG game company has avoided it to engage in a local market share war, as the Korean market is almost saturated.

Of course, all this raises the question of whether SOE can really standardize its product by merely changing the language. Anyone who has tried websites that offer automatic translation will have serious doubts, since a simple translation can have surprising results.

Automatic translation of http://babelfish.altavista.com…		
Original English	*English to French*	*French to English*
Anyone who has tried websites that offer automatic translation will have serious doubts, since a simple translation can have surprising results.	N'importe qui qui a essayé les websites qui offrent la traduction automatique aura des doutes sérieux, puisqu'une traduction simple peut avoir des résultats étonnants.	No matter who who tested the websites which offer machine translation will have serious doubts, since a simple translation can have astonishing results.

The SOE systems will be immediate and live, increasing the difficulty of the translation. How much player conversations will be accurately translated, as well idioms or language-specific jokes remains to be seen.

In addition to NCsoft's partnership, SOE has another interesting exclusive publishing agreement to release Everquest in Mainland China. SOE will bring its already-acquired technological expertise to the partnership while French publisher UbiSoft's online arm, ubi.com, will provide the necessary local infrastructures to host and operate the game.

Everquest Online Adventures for the Sony Playstation 2

Findings: Positioning in the Online Game Industry

To summarize our findings, we realize that both companies have to address the issue of internationalization of their product, both companies need to recreate their local competitive advantage abroad, and maintain their existing market share.

Since existing and potential players can be discriminated not only by geographical location, but also by attitude towards a MMORPG, we can define several clusters for brand territories in the consumer's "mind map". Each cluster will have several factors defining what makes a game desirable.

First of all, the first three categories (Athlete, Professional, Hard-Core) could be regrouped inside a common "heavyweight" cluster, dubbed thus since this cluster would be the more demanding "in-game" product features. They would most probably look for a rewarding evolution of avatars, a game story, and a player community to belong to. Although the Asian culture is more group-oriented than the American, so at first thought a community may not seem too important for the latter group. However, individualistic gamers would be attracted to have prestige in a certain community, but that is only possible if the community shares a common frame of reference. So a game-specific community is needed.

The "commoner" cluster would comprise the second three categories (Seasoned, Social, Unaware). This group is the most open for product innovation, however; as their individual product usage experience grows, they will tend to become members of the heavyweight cluster. For these, a well-established game community will not be so important, since they would not

know enough people for it. This cluster is however where most newcomers will come from, so the game has to provide a "newcomer-friendly" atmosphere. In Role-Playing games, some experienced players will have an "unfair advantage" over newcomers, and will merely hunt their down to gain additional experience, a referred to by players as Player Killing ("PK"). PKs can truly ruin a newcomers' experience, as can be an unbalanced combat system while fighting computer opponents. Here is a personal example: one of the writers was trying out Ultima Online, only to see his avatar killed after five minutes of play by a small unthreatening rabbit, that he had tried to hunt. Although we would perceive low skill as inefficient to hunt a rabbit, it does not justify fifteen subsequent minutes of play attempting to "resurrect". However, the product was at its infant stage, and such system would probably have pleased members of the "heavyweight" cluster.

Finally the "unrelated" cluster comprises the last tree categories (Non, Worried Parent, Luddite). Marketing efforts towards this cluster would seem completely unnecessary at first look, however some of them may be involved in purchasing decisions of the product. Parents obviously would have a say in the purchase of what their young (pre-teen) children want, and significant others may be opposed to the purchase of the game (scared to death by the existence of online support groups such as "Spouses against Everquest" and "Everquest Widows" in North America). However, most of the worries concerning videogames can be summarized in inappropriate content for the user and "addiction". Marketing efforts towards this cluster should then be focused on minimizing the fears of both parts. There would even be niche opportunities in serving this cluster, for example providing a "kids-friendly" online game.

These three clusters are present in any country. However, Asia may count several more users with "heavyweight" brand images in their mind maps, and less "unrelated" images since similar products (videogames) have already gained major social acceptance (e.g. in South Korea, housewives watch TV soccer matches of virtual teams, with "real life" commentators, because they find it more entertaining than "real-life" soccer).

A global position of the product Lineage and Everquest should then take these three clusters into consideration. Cultural values will deeply affect the game-playing style of the user, however, as long as the game allows different styles of play and allows players to intercommunicate through a simple language (basic translation or icons), the game should satisfy groups from many different geographical locations. After all, they are willingly submitting themselves in a suspension of disbelief to enter a virtual world with different laws, customs, and even physics. In other words, what may appear as culturally common in one place may become an "interesting" game culture feature somewhere else. Product Standardization is thus possible, but it requires the product to be of higher complexity to encompass many different user types.

An added feature of a common "iconic" in-game language would be that it would allow an easier insertion into the Chinese market. However, it would be unrealistic to expect players to learn another language (even if a very limited one) only to communicate with other players. The iconic language should then be embedded into some puzzles inside the game, so that their learning brings definite rewards for assiduous players (experience points, special items, etc.).

Taking some distance from the cultural side to focus on a more technical side, we can foresee that both Everquest and Lineage will require heavy infrastructure increase as they user base grows. Although they may be costly to set in place, their cost can be distributed over many games. As each company diversifies their product offering, they may reuse these machines, as long as they can handle the number of users connected.

Thus online gaming companies would have three legs of operation: first, content creation, comprised of development teams, which would focus on building and updating the current game; second, server operation, in charge of building and maintaining the necessary equipment to keep the games running internationally; third, a business department, in charge of promoting the games and making strategic decisions. Because these are different functions within the company, a firm could very well outsource one of their departments to increase performance in one of them.

However, an outsourcing strategy would only be appropriate for a "newcomer" company, in order to reduce their barrier of entry to market. Established performers are actually offering the services of one of their three branches to others. For example, NCSoft offers its existing infrastructure of machines in Asia to allow strategic partnerships in game distribution, which Sony has accepted to make Everquest enter the Asian market. As this is a growing market, there are yet no conflicts of interest in market share.

In the long run, both companies have to be wary about competition. Not only they need to maintain their leader position by keeping and increasing their customer base, but also they have to avoid an eventual competitor to outgrow them, as the market is still growing.

Recommendations for Industry Marketing Mix

Online Gaming Business Models

Traditional Retail Sales	Using peer-to-peer and aggregator services
	Publishers setting up proprietary services
Flat Fee Subscriptions	Basic monthly subscription
	Tiered subscriptions
	Buy at retail/monthly flat-fee subscription model
Pay-Per-Play/Play-Per-Component	Digital collectibles
	Digital collectibles: market players
E-Commerce/Distribution	
Advertising	

Price

Price is important because it produces revenue, while all other aspects of the marketing mix create cost. For the online game industry, there should be a balance between ceiling pricing and value based pricing. A ceiling price is where the price is set as high as the level of differentiation of the product will support it. A value-based price is charging less than what most customers would pay because otherwise the buyer may resist buying.

However, in the online game industry it would be tempting to increase the price of a monthly fee, because of the mainstream image that a player is "addicted to it" and therefore would pay any price to continue playing. Even if this was the case, it would be suicidal for a company to overcharge for subscription, as it will prevent newcomers from joining the game, and the firm would receive a negative public image.

The best pricing type would then be psychological pricing, i.e. setting the price to what the customer is willing to accept for the perceived features, and somehow try to keep production costs well below the price range. A way to do this would be to calculate how many users are needed to arrive at a "break-even" point, and gear marketing efforts towards largely surpassing that number (if the break-even is thought to be realistically attainable of course).

Furthermore, the pricing can follow a three-stage approach to build customer base if the company is a newcomer in the industry.

A PRIMER FOR ONLINE GAMING	
Three-stage model to build customer base	
First Stage	Free Games
Second Stage	Pay-to-Play Non-Subscription Games
Third Stage	Pay-to-Play Subscription Games

Product

The product is the basis of any business; therefore the company must aim to make the product differentiated in features and quality by some means, to make the target market favor the product in some way. There are two effective physical differentiators that can distinguish a gaming product: feature and design. A feature is a visible way to have an added benefit in the game. This can include more realistic graphics, or a more detailed game story. The design comprises the ensemble of product presentation and packaging. This would include the complexity of the game, the number of quests available, the items, the monsters, the goals, and rewards. Without these two aspects, players would soon get disinterested and would refrain from playing the game for long periods of time, if they ever come back. It is therefore important that the company keeps creating new content for the MMORPG.

An exemplae of creating new content: this image shows a new playable "species" for Everquest, released with its latest expansion.

Place

Place describes where and how a company will sell their products. For the online industry, this can happen through the Internet or in traditional "brick and mortar" retail stores. In the latter case, it is important to leverage relationships with the retailer, for example by allowing higher margins, so that the retailer has an incentive to promote the game to its visitors. Retailer and wholesaler margin can be increased as long as the online revenues can generate a good profit, so MMORPGs can easily become the most profitable items for retailers to sell if their final retail price is maintained at Everquest levels ($10 to $30).

It is also possible to encourage the creation PC rooms. A PC Room is similar to an Internet café. It is a commercial business where people would go to use a hardware and software already installed onto the PC. The players will have interaction with other players of the same games and players will be able to shares ideas and opinions about the games played. PC rooms are also a great way to promote a new product and get feed back from the users.

Promotion

There are five main aspects in the department of promotion: Advertising, Sales Promotion, Public Relations, Sales force and Direct Marketing. Mainstream advertising makes it possible to build an image and some degree of preference, but it can only be done if the ads are creative. This is very difficult to achieve, therefore, unless the company counts with experienced advertisers, efforts should be concentrated in the other aspects. Sales promotions do not apply well to MMORPGs, since the prices should be kept at similar levels for long periods of time.

However, Public Relations may well be the most important element in promotion. We can create different approach for every component of what is traditionally referred as the "PENCILS" set:

P	Publications	Publish articles in videogame magazines.
E	Events	Sponsoring events related to industry, such as the yearly "E3".
N	News	Publish favorable stories about the company, its people and products on several news media.
C	Community Involvement Activities	Local activity involvement, such as or addressing the worries of parents of users.
I	Identity media	Have a highly visible corporate logo for immediate recognition.
L	lobbying activity	Favorable influence target market by contacting opinion leaders and product innovators.
S	Social Responsibilities	Give back to the community by sponsoring education.

Sales force can be quite expensive as the company is employing field personnel to travel and hunt for prospect buyers and they are trying to keep existing customer satisfied. For the online game industry this is not a concern as many gamers learn about games through word of mouth and through magazines' articles and advertising. Because of this why the company should focus on advertising in specialized press such as computer magazines. An inside sales force may be something to consider, however, this should also be limited as it is not the main source of awareness to the end user.

Direct Marketing

Some website offer advertisers the possibility to target specific customers. They keep a database of users, updated every time somebody browses the site, and allows displaying advertisements that fits the visitor's interests. Part of the promotion budget can be spent in obtaining services from such database-driven websites; however the websites should be related to the industry for the advertisement to be most effective.

Entering the Online market – MagiLore Interactive

We are going to apply the insights gained by studying the market leaders to estimate the creation of a new competitor in the industry. This last section is a five-year marketing strategy that we would apply given the following assumptions:

The game will be targeted to a niche market: very young first-time players. There are risks inherent to entering the market but if successful the returns can be very high. The market for a unique product will be very cyclical, and it will be important to keep new players entering the game. Furthermore, the players are not making the purchasing decisions, so efforts will have to be done to involve the parents in the game. By young players, we mean pre-teen players under 12 years of age, which are divided into two categories: 7 or younger, and 7 to 12 years old. Because of this age range, the game needs to be two-dimensional so that children will not be confused by the spatial navigation required by a third dimension. Also, choosing a 2D medium lowers the technical requirements of the players' machine, so the initial investment needed for the customer is lower as well. We will choose to license a 2D web technology from Macromedia, "Studio MX", which allows free distribution of the final product (i.e. no royalties) but requires an investment of about $900 per installation. We will integrate a team of three programmers to write the software, and three artists to create content. Both teams will have one experienced member initially paid $50,000 per year and two "junior" members paid around $35,000. The development tools will be bought for seven installations, one for each development member and one for executives.

Our technical infrastructure will be based on the premises that a server machine can host up to 10,000 simultaneous players, costing $3,000 to lease initially, and $500 to maintain every year. The software is going to be written so that many machines can be added to increase capacity. The machines will be leased to an outside company who will physically host them and provide Internet access; however one system administrator, initially paid around $40,000 a year, will be required to maintain the software content of the machines. Each employee will receive a workstation and a desk. We calculate the cost of maintenance, furniture, and supplies to be around $1,000 per employee. The cost of rent and utilities will be equally deduced from the cost of each employee.

Finally game content will be decided among the three executive members of the company, in charge of the marketing, finance, accounting, and other business-specific issues. They will also be in charge of public relations with the outside world, and receive input from their development teams. Each of the members would be initially paid $60,000.

To provide further incentive, all employees would be provided shares in the company. The culture will be one that enhances creativity by encouraging the expression of ideas, concerns, and problems, allowing every member of the small company to see what is going on in other places, which may create insights into existing problems. In time, the original team will grow and if there is no turnover the employees might expect to have more responsibility.

Two – year costs (software replaced every two years)

What	Unit Cost	Total cost
Development tools x 7	$900	$5,400
Office tools x 10	$800	$8,000
Operating System x 10	$200	$2,000
	Total for two years	$15,400

	Total per year	*$7,700*

Yearly costs (salaries and maintenance)

Who	Total
Development team (6 persons)	$240,000
Technical team (1 person)	$ 40,000
Business team (3 persons)	$180,000
Maintenance (4 servers)	$2,000
Other(10 persons)	$10,000
Total	*$472,000*

Three-year costs (computers)

What	Unit Cost	Total cost
Servers x 4	$3,000	$12,000
Workstations x 10	$2,000	$20,000
	Total for three years	$32,000
	Total per year	*$10,667*

Using these figures, we assume the total estimated yearly cost (rounded lower) is of $490,000.

We would set a unit product cost of $5 per month, which is $60 per year, we arrive at a

breakeven point of (rounded above) 8,200 player-subscriptions per year to make a profit. We

have a planned capacity of 40,000 players, however, we could use the extra machines as backups

to maintain 20,000 simultaneous players without "downtime" (i.e. if a server fails, we can switch

to a backup server). This cost however does not include promotion. We could allocate up to

$260,000 for promotion, which would raise the break-even in subscriptions to 12,500 players. At

maximum "backed-up" capacity (20K users), we would yield in a profit of $450,000.

The subscription price is based on psychological pricing. By placing the product at half

of the average subscription rate, we lower the perceived product involvement and offer better

value for parents shopping for "children-safe" entertainment. Furthermore, this low price and the "low threat" of the content theme can attract older players who would gladly try out a new fee. Although these older players may come and go, the cycle in subscriptions is expected since we expect young children to age and want to move on to other products. If the first product implementation is successful, we can expect to launch an extension targeted to older players, in order to follow their evolution of interests and expectations.

The game itself will be an intercultural experience for children. The main purpose will be for them to engage in a worldwide scavenger hunt to obtain various items. The items will be cultural representations, such as local food, art, books, animals, currency, and so on. Some cultural elements will be left out because they may be controversial, such as religion (the game is "laic"). Each type of item is common in a specific part of the world, but they have to be found or harvested. Then, they can be exchanged with other players. Thus the players can choose to be a "treasure hunter" or a "treasure producer". The players communicate through a simple iconic language, which will allow limiting the communication content to "children-safe" topics. Furthermore, players will be able to keep a list of contacts and a map where they can mark interesting locations (or is updated automatically).

Once a collection of cultural items is complete, the team can choose to either build a local museum, or promote their collection to showcase a specific culture. Eventually contests may be held to prize the best collections. The cultural teaching of the game should not only appeal to children who want to discover the world, but also to parents and educators.

Promotion and distribution will work through the distribution of "small-format" CD-Roms (about ½ of the diameter of regular CD-Roms), which contain the game and a unique access key. The CD can be inserted in a PC or Macintosh computer, and it will automatically load the game. The CD is a full-featured key for one part of the subscription model. Many different keys can be produced allowing access for different periods of time, and furthermore each point of access can be monitored to limit the hours of access from a single location. Thus free samples of the game can be distributed, that do not require subscription for one hour. These can be given through joint promotions with companies popular with children, such as fast-food chains, cereal producers and so forth. Furthermore, longer "CD keys" will be distributed through generic retailers allowing a one to two week connection (still at $5). The cheapest price will be obtained through a longer-term subscription ($5 for one month), which will be paid for by parents. Through this service, additional features will be available to concerned parents, such as monitoring their children's activities, allowing them to limit the game access times, and so on. These tools will provide an extra incentive for parents to subscribe their children.

Promotion will have to be done through various channels that appeal to children. Furthermore, some part of the advertising budget will go to qualm the worries of special interest groups. We need to communicate our utmost commitment to create and maintains a safe environment for children to play online, while providing a fun experience (and somewhat educational, although this cannot be advertised too much or children might perceive the game as being "boring"). Another message that can be delivered to parents is that their kids are going to play videogames (in general) regardless of their approval, so we provide a better alternative for them to play.

In-game surveys can be done inside the game (assisted by localized voice acting for children who cannot read) in order to better the experience. Also, we can expect sales to level off after some point, as happened with Hasbro toys in the early 90s. This means that sales are likely to increase exponentially at product launch, but that at some point they will remain the same if the product is not upgraded. Thus we need to ensure that this "leveling off" happens at a number of subscriptions that is beyond our breakeven point, allowing a comfortable margin to invest in other projects and allow the growth of our company by enhancing our products and differentiating the game towards older audiences.

Controlling the Five Year Plan

The effective implementation of a strategy in a service business pursuing a prospector tactic such as ours depends on the competence in marketing, sales, product, R&D, and in engineering because these functions play pivotal roles in the new product and market development.   In this section we will address the structure, different policies, and performance measurements needed to accomplish two different objectives. The first one is to evaluate and interpret current results so that corrective actions can be taken and the second one is to adjust and improve the plan based on the evaluation process and the changes that an evolving context will bring.

The organization's structure, its leadership and the culture play a crucial role in the implementation and control systems. Different strategies emphasize varying ways to gain a competitive advantage. In this case we have a prospector company that needs to attain market share and develop a base group of loyal customers that eventually will bring the desired profit

margins to the company. For this company certain functional areas such as R&D, marketing, and sales are more critical to the success than others. These areas should be the front line of the company and as close to the customer as possible, for example by being present in online user discussion forums. In addition, because success is positively affected by the extent to which customer orientation is an integral part of the company's culture, these areas should be given considerable authority in making strategic decisions.

In order to be a flexible and adaptable, the company should have a structure and leadership that support such demands. Such structure has three different components with equal importance. First the levels of formalization should be low to moderate so that the company avoids a situation in which the policies and procedures become a barrier in the process of decision-making. Second the company should have little formalization so that the leaders and managers have more autonomy and participate in a wider range of decisions. And finally the level of specialization should be high so that the levels of cross-functional conflict are high and well managed to move forward the innovation process.

Now that we have laid down what the structure, culture and policies should be, we can move on to the specifics on how to evaluate and control the operations. We propose that the company uses a scorecard featuring several marketing indicators that might cause some alarm about future prospects. A company's scorecard model like the one presented in the exhibit below focus on not only objective and measurable indicators but also in others that provide deep and meaningful information to the company. In addition to this marketing scorecard the company should pay attention to financial indicators.

Blank scorecard - the last four categories are measured through surveys.

Market Base Performance Indicator	Industry	Year 1	Year 2	Year 3	Year 4	Year 5
Market Growth (units)						
Sales Growth						
Market Share						
Customer Retention						
New Customers						
Dissatisfied Customers						
Relative Product Quality						
Relative Service Quality						
Relative New Product Sales						

Nowadays another important scorecard is emerging as important as the marketing and the financial ones and that is the stakeholder scorecard. This concept involves the idea of the company in a context compose of employees, suppliers, distributors, dealers and the community. The objective is to track the level of satisfaction that important stakeholders groups derive from the company's activities. This information provides a basis for creating win-win relations with the company's stakeholders or partners.

Ultimately, the successful control of this plan will provide a solid base for growth for MagiLore Interactive, allowing the development of new ventures in international niche markets in order to establish MagiLore as a strong global competitor.

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