It's Game Time... Plug Yourself In...

"VU Games[Vivendi Universal Games, Inc.] strategy of releasing fewer games of higher quality based on bigger, better franchises is clearly reflected in our E3 [the Electronic Entertainment Expo] line-up for 2005," said Bruce Hack, CEO of VU Games. "Blizzard's masterpiece franchises, StarCraft and World of Warcraft (WOW), are a cornerstone of VU Games' business and will be a major focus for us at E3." This was a public declaration of the private challenge Anne Slash, Product Manager for WOW, received some two weeks ago.

Since its debut on November 23, 2004, Blizzard Entertainment's blockbuster game WOW has been the hottest massively multiplayer online role-playing game (MMORPG) in the industry. On March 17 it surpassed the 1.5 million subscriber mark, quite an impressive number for a game that had moderate expectations. The WOW division has been riding high, and Anne has focused on providing more depth for her gamers's enjoyment while also making the front end of the game easy to use to encourage new memberships. It was beyond comprehension that Bruce could expect so much from one small division. Vivendi Universal Games was bleeding money and now it was Anne's job to build a flagship franchise out of a relatively new game. With Bruce's press statement, corporate and industry expectations were mounting.

Enter the Hero...

Blizzard Entertainment was founded in February, 1991 by Mike Morhaime, Allen Adham and Frank Pearce. Currently Blizzard Entertainment is owned by Vivendi Universal, a telecommunication conglomerate that has positions in television, film, music, interactive games and telecommunications.

From its inception Blizzard has employed a staff of game enthusiasts. As a company, Blizzard makes products for gamers by gamers and is best known for the blockbuster hit StarCraft, as well as the extremely popular Diablo and Warcraft series. Gamers took notice of Blizzard after its break through hit Warcraft I which was released in 1994. Warcraft I was championed for its attention to fundamental Dungeons and Dragons (D&D) rules which appealed to a large role-playing subculture. This success was followed by the respective releases of Warcraft II and III. Warcraft II has been regarded as the best role-playing-game (RPG) ever; it is admired for realism, attention to detail, and, most importantly, the creative strength of all aspects of the scenarios.

Blizzard launched into the online gaming industry with Battle.net (a free service) in January 1997, with their action-based role playing game Diablo. When the company announced the upcoming release of an online version of Warcraft, named WOW, game enthusiasts became ecstatic. In fact many fans created websites dedicated to the product. Fans followed the development of the product so closely that a Beta test that allowed online participants to test the game (so engineers could find flaws) had to be shut down
due to server congestion. With the WOW release Blizzard Entertainment set the record for first day sales of a personal computer game with 240, and 280-thousand units being sold in the United States and Europe respectively. WOW is slated to be launched in a number of countries throughout Asia later this year.

**Our Realm**

Today, with the expansion of the internet and rapid adoption of broadband technologies the online gaming industry is thriving. The total Online Game market is expected to grow from just over a billion in 2003 to nearly $4 billion by the end of 2008. According to NPD Group and Nielsen//NetRatings May 2004 measurements, genders are nearly evenly balanced, with males accounting for a slightly larger portion (53 percent) of the 46 million online gamers population. From a demographic standpoint, it is a bit difficult to pinpoint the typical MMORPG player.

The industry growth is currently fuelled by increased subscriptions to MMORPGs (Massively Multiplayer Online Role Playing Games) the progeny of the Multi user dungeon (MUD) genre and a subclass of MMOG games. These games allow many users to simultaneously interact with each other in a highly social and structured virtual world by assuming one or multiple identities. These games historically viewed as a form of child entertainment, now have a significant economic impact. According to economists, gaming activity has a gross economic impact equivalent to the GDP of the Southern African nation of Namibia.
Why do people game?

As gaming worlds become more realistic and pervasive, they offer a huge potential in social, economic and political realms. Unlike, most computer games that appeal to a particular audience, these online games have a wide appeal not only in terms of demographics but also in terms of motivations. This diversity underscores the huge potential of this industry. Extensive research has been conducted on the hows and whys of MMO Games. When asked why they play, gamers give a variety of responses:

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**Escape the "real world" or live a fantasy:** MMORPG and online games in general seem to be stress-relieving activity. The MMORG's not only provide them with the escape from reality but also provide an environment or world they would prefer to live in, instead.

**Have fun:** Entertainment is one of the prime motivations why a gamer to choose to play.

**Socialization:** Socializing may not be the initial reason why people choose to game in the first place, but certainly is the reason why people continue to play. Gamers find friends and form meaningful relationships while gaming. About 40% of players feel that their online friends are comparable or even better than their real-life counterparts.
**Achievement:** Over time, gamers can experience strong positive feedback as a result of their efforts in the gaming world that can be quite therapeutic.

In a survey of 2853 gamers done by Nick Yee, 56% of current players said they would not switch to a new game. From various gamer accounts one can infer that gamers usually stay tied to one particular MMORPG at a time, mainly because RPG's are progressive, immersive and more like a parallel life and rewards in this parallel world come through investment of time.

There has been much debate regarding the time spent playing MMORPG; the possibility that these types of games can lead to addictive behavior has been widely debated. While it appears that in some cases gaming time comes at the expense of work or family time, data suggests that TV may end up being the big loser: gamers tend to watch less TV on average.

Gamers may quit due to several reasons. The main reasons people may switch from a particular game are boredom and repetition. Several gamers reported they quit MMORPGs altogether because the role they played became too demanding or their virtual world became analogous to the real world or failed to provide the fantasy they expect.

**The Enemies**

The top competition of Blizzard Entertainment are Sony Online Entertainment (SOE), NCSoft Corporation, Square Enix Corporation, and Electronic Arts (EA). Sony has popular titles such as the EverQuest, PlanetSide, and Star Wars Galaxies. NCsoft Corporation is an online game company based in Seoul, with the largest share of the market with the hit title Lineage. Lineage hosts more than three million subscribers, primarily in Asia. Other NC soft titles include City of Heroes, Lineage II, and Guild Wars. Square Enix Corporation controls the hit Final Fantasy while Electronic Arts operates Ultima. There are a number of other smaller companies competing for share in the MMORPG market.

Beyond the top few competitors the online gaming market is large and fragmented, with over 200 online games accounting for approximately 75% of the market. Of these games, a limited number have greater than 100,000 participants. Competition is quite harsh in this market with a new or updated game versions being released once a month. Word of mouth has an enormous impact in this category, causing membership of certain games to spike and/or crash with astounding speed and intensity.

Currently, almost every MMORPG has a dual pricing structure. First, there is a price for acquiring the basic software (CD/DVD box set or download). With this purchase the user generally gets 1 month free membership. Prices have ranged as high as a retail price for WOW of $49.99 on Amazon; however, because of increasing competition, many games have begun to offer rebates, deep discounts, and even free software. On average the initial purchase price for most competitors is approximately the same as the cost of a one-
month subscription. Monthly subscription fees also feature continuity discounts for purchases of long-term (greater than 3 months) subscriptions.

Although the MMORPG market is highly fragmented and dynamic, a few key competitors have developed reputations in certain areas. Blizzard has leveraged VU's experience in entertainment and is known, at least among veteran gamers, as a master of themes and stories in MMO's. NCsoft has demonstrated with Linneage a strong technical expertise that results in relatively fewer bugs than the other competitors and superb visuals. With launches of games such as EverQuest Sony demonstrates once again their skill at brand-building to acquire new customers. However, brand perceptions in this industry are hardly stable given the fact that 1) a large number of new users are entering the market every month, and 2) word-of-mouth among users regarding a specific game can change perceptions radically and quickly.

**Variables**

Market research has shown that the variables that gamers used to decide amongst MMORPG alternatives roughly fit those presented immediately below. The simulated case study presents importance and perception ratings as they are ranked by customers, from 1 to 10 where 1 is the worst rating and 10 is the best rating.

**Price:** Price perception and importance data are collected on a 1-10 scale just the same as other perceptions, where 10 is best and 1 is worst. So a high score on price suggests that the actual price is perceived as low relative to the value.
WOW SIMULATION CASE STUDY

**Need for Socialization:** This variable captures perceptions and importance ratings around the social aspects of online gaming - the ability to interact with other players, form relationships, etc.

**Need for stories/themes:** This variable captures perception and importance of the storyline and act basic theme of the game, richness of characters, settings, and plot.

**Need for escape:** This variable reflects gamers' need to get away from their day-to-day lives and immerse themselves in a fantasy world where they do not have to worry about mundane or possibly distressing real-life issues.

**Visual/technical excellence:** This variable captures perception and importance around the user interface, including quality of animations, ease of moving around, lack of bugs, etc.

### Variable Importance by Customer Group

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Need for Socialization</th>
<th>Need for stories/themes</th>
<th>Need for Escape</th>
<th>Need for visual/technical excellence</th>
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<tbody>
<tr>
<td>Non Users</td>
<td>5.00</td>
<td>4.00</td>
<td>4.00</td>
<td>4.00</td>
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<tr>
<td>Multi-Brand Customers</td>
<td>5.00</td>
<td>7.00</td>
<td>6.00</td>
<td>5.00</td>
<td>6.00</td>
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<tr>
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<td>8.00</td>
<td>7.00</td>
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<td>5.00</td>
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**Variable Perception by Competitor (Exclusive Brand Users Only)**

The following graphic charts variable perceptions ratings for the exclusive users of each of the MMORPG brands. You will find ratings for all customer groups in web software.

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Big Picture Marketing Simulation Case Study Page 6 World of Warcraft
Investments

1. **Price**: Although a two-tiered pricing structure is used, the product is bundled with a free 1-month membership and the initial purchase price is generally the price of a 1-month membership. Therefore, average price per unit sold is the price of a 1-month membership.

2. **Free Week Trial Promotion**: In order to encourage trial among either non-users or competitive users, WoW is experimenting with a free week promotion - ads placed online and in gaming magazines offering 1 free week of play for new subscribers. The cost of this trial offer is about $1/person you want to reach. The media selected for this promotion allows WoW to reach both current and potential gamers; however, some of these people are already WoW subscribers and therefore not able to take advantage of the offer.

3. **New Stories Program**: This print and PR campaign is designed to emphasize the fact that WoW is known for having better stories and themes than Lineage, and features quotes from current WoW users who switched from Lineage. Cost per Thousand (CPM) is estimated at $150/thousand exposures.

4. **Continuous Improvement Initiative**: The rapid growth of the WoW user base has put a strain on game developers and systems programmers responsible for handling customer requests, working on game improvements and fixing known bugs. The director of customer relations has proposed the continuous improvement project as an investment in product development and customer service in order to "get ahead" of growing demand in this area. This project would also include an online promotion targeted solely at current users to let them know that WoW is dedicated to providing the best MMO experience. The requested budget for this initiative is $1.5MM, but many in management feel it would cost more to effectively implement such a program.

5. **"Geek Love" Initiative**: As the online gaming industry grows, competition for programmers has become fierce. The head of R&D has proposed an aggressive recruiting effort aimed at hiring and keeping the best techies in the business in order to enhance the technical aspects of WoW. She thinks this is a much better place to spend money for personnel and training than the continuous improvement initiative.

6. **WoW loyalty rewards program**: In order to increase retention of current users, WoW is considering implementing a rewards program. The program would involve sending promotional items such as discounted sound and video cards, other gaming accessories, and trademarked clothing items (hats, t-shirts) to members based on the length of their subscription. The prizes would be delivered on a monthly basis at a cost of approximately $5/subscriber per month.
Channel Investments

1. **Bookstore Distribution Program:** In an effort to think outside the box and reach non-users, the head of marketing has recommended an aggressive program of distributing WoW through bookstores. Participating bookstores would feature WoW on displays at the store entrances of stores such as Borders and Barnes and Noble. The bookstore channel charges 6% commission on the sale price of the subscriptions.

2. **Adopt a Role Player Program:** Recognizing the strong impact of word of mouth, the company is considering an "Adopt a Role Player" program where current, veteran users are given incentives for bringing new users into the game. These veteran users essentially become commissioned sales people for WoW. The adopt a role player program pays a 3% commission on the sales price of the subscriptions.

**What Now?**

As revenues have grown, so have the number of requests for funding for various projects. Every department head in the organization seemed to have an idea for making the gaming experience better. In reviewing the proposals, Anne sought a way to balance the needs of current members with her need to continue to grow. After all, an astounding number of users were entering the category every month. If she didn't go after them, they would be lost to the competition. Anne certainly wanted to continue to grow memberships, but everybody in the organization was concerned about keeping the current gamers happy. Anne was a gamer herself, and took great pride in the depth of WOW. But she was beginning to wonder whether her focus on these existing gamers was keeping her from capturing a large enough share of this growing pie.

Recently, Lineage and Everquest had begun offering high-value rebates and internet trial promotions. WOW was already priced much higher than the competition and Anne was concerned that this would prevent her from attracting new users. Now that she had established a critical mass of members her fixed costs were covered and her variable costs were quite low...there was certainly room to cut price.

She was also considering two channel options - one of going through bookstores, and another a referral program that paid commissions to current members when they brought in new players.

As she considered her options, Anne wondered whether had time to log on and escape for awhile...