



# **Blizzard Entertainment:** The Massive Multiplayer Online Gaming Market

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## **Introduction**

In 2004, Blizzard introduced the game *World of Warcraft* (WoW) into a slowly growing massive multiplayer online role-playing gaming (MMORPG) industry. WoW quickly gained an unprecedented subscriber base and now holds a dominant market share. In June of 2008, Blizzard announced plans for a next-generation MMORPG, to be set in a different storyline from WoW. Blizzard must ensure that it remains dominant by defending against threats from competitors and by seizing opportunities unique to its position in the market. In this industry, a more popular game can gain popularity quickly and establish itself just as World of Warcraft had done before. How can Blizzard build on WoW to ensure the success of its new venture into the MMORPG market? What steps can Blizzard take to hold on to its player base, momentum, and profits? How can it make its next game even more successful, continuing the legacy of Blizzard games that lead the market?

## **Opportunities**

Blizzard's sources for opportunities in a new MMOG are derived from three main factors. First, its current position at the front of the MMOG market allows it to set trends and start in front of the learning curve. Second, its previous successes in the field of computer gaming have earned it a stellar reputation, garnered a loyal fan base, and created rich lore from which to draw plot ideas. Finally, the nature of the MMOG market pays large returns for companies taking advantage of high economies of scale.

In making a new MMOG, Blizzard can leverage the many advantages that come with being an industry leader in a market with high switching costs and network externalities. In the early days of WoW's release, frequent server crashes rendered the game nearly unplayable, with major bugs and game balance issues persisting for months thereafter. Any new release suffers from these common problems, but Blizzard is one of the few companies in the MMOG market with a large amount of experience in this area. This is significant in the success of their new MMOG insofar as customers are reluctant to commit a large amount of time to a game which may lose its player base through poor management. MMOGs are notorious in the gaming community for their addictive quality and large time commitment. These factors, plus the high switching costs inherent to the MMOG genre, yield a player base which is more risk averse than average.

Blizzard's reputation and success in previous games allows it to pursue unique avenues of attracting subscribers to its new MMOG. The MMOG market is a relatively static market, characterized by high switching costs and network externalities. This is due to large sunk costs of time involved in character development and the advantages of social connections and player reputation. As a result, attracting subscribers in the early stages of a release is one of the largest hurdles for a new game to overcome.

Blizzard's stellar reputation guarantees that its new MMOG will enjoy a substantial honeymoon period upon release. Customers will be automatically drawn to the high quality of a Blizzard game, and they are likely to be more tolerant of the game hiccups that invariably occur upon release. To incentivize customers to switch from WoW to their new game, Blizzard should offer a bonus to players coming from WoW. This could take the form of a monetary incentive such as a reduced subscription fee for being a subscriber of both games, or a temporarily reduced fee for previously being a subscriber to WoW. Alternatively, it could be an in-game cosmetic effect such as a piece of equipment, or a cosmetic pet that accompanies the character. Giving any in-game benefit beyond the cosmetic is likely to do more harm than good, as inequalities in treatment has lead to extreme gamer dissatisfaction in the past. Blizzard should also continue its current "Recruit a Friend" program to allow current subscribers to receive monetary benefit for signing up friends. The release of a new game is an unrivaled opportunity for recruiting new customers to the base, as the perceived barrier to "catching up" is no longer a factor. Blizzard should not miss the unique opportunity of a new release to encourage new players to subscribe.

One of the often overlooked aspects of Blizzard titles is the rich lore that accompanies them. WoW's early success in attracting subscribers certainly benefitted from players eager to continue in the storyline established by previous titles in the franchise. However, Blizzard should not feel obligated to force its next MMOG to continue a preexisting storyline. The benefits to a rich back story help to attract customers at first, but this will not be a problem for its new game. If it does decide to start a new storyline, it should either hire authors to craft lore books to accompany the release, or release books in anticipation of the release. A significant portion of the MMOG

player base is sensitive to the role-playing aspect of the genre, and supporting novels would help with immersion in a new world, as well as provide a source for potential profit.

We believe that Blizzard should borrow from the success of one of its arguable competitors, *Second Life*. The business model of *Second Life* is centered around allowing users to pay to be able to create content, and then sell that content to other players. For example, one could pay dollars to buy in-game currency, and then use that currency to design a hat. That hat could then be sold to other players for in-game currency. While it would be impossible for *Second Life* to copy Blizzard's game design of killing monsters in dungeons, Blizzard could easily allow for customers to be able to use design tools to create content for other players to use. In fact, Blizzard already encourages programmers to make customized user interface (UI) modifications to supplement shortcomings in the in-game UI. Expanding this vein of user-generated content would be a relatively cheap and highly profitable enterprise, which would have the doubly beneficial effect of attracting a new type of player to the game while simultaneously enhancing the in-game experience for its base at a low cost.

Blizzard should rely on its large economies of scale to advertise services to its players at a lower cost or higher quality than its smaller competitors. The structure of the MMOG market is particularly prone to exploiting these economies of scale due to the low marginal cost of distributing in-game content and maintaining hardware. One of the models of MMOGs is producing new content in the form of downloadable patches or expansions. WoW has been able to release much of its new content in the form of free patches. In contrast, competitors such as Everquest are forced to charge its subscribers for new content in the form of expansions. Because the marginal cost to distributing new content is low, a company with substantially more revenue can afford to spend proportionally more on providing new content, either choosing to provide higher quality or lower cost to its subscribers. Blizzard's next MMOG should continue this model of free, high quality content as charging money for each update could alienate price sensitive subscribers.

In an effort to more fully leverage economies of scale, it should consider further expanding any services it provides at a low marginal cost. One potential area of low marginal cost service

expansion is in the *metagame*, or any activity pertaining to the game which does not involve playing the game itself. Studies suggest that players spend up to one third of their time playing the metagame, which includes activities such as chatting with other players, looking up strategies, reading online forums, or buying and selling items for in-game profit. [1] Capitalizing on the social aspect of MMOGs, Blizzard should consider adding chat support for players not directly in the game. This could be accomplished by having an instant messaging client unique to a player's server or in-game friends list. Additionally, Blizzard could allow for some kinds of participation in the game to happen remotely, such as buying and selling on the auction house. While sustaining a high initial cost of development, these services would be relatively inexpensive to maintain and distribute.

Another unexplored avenue for profit in a new game potentially lies in price discrimination. Currently in WoW, there exist servers of different rule sets to cater to players of different preferences. However, the pricing scheme for all types of servers is the same, which tempers the differences that currently exist among them. For example, on the Role Playing type of server, performing actions and speech "in character" is technically mandated by the rules, but this rarely enforced. Blizzard could give players the opportunity to pay more for specialized server services, such as a strictly enforced role-playing server. Another requested niche in WoW is an "age 18+" server, to combat the perceived immaturity of younger players. Blizzard's new MMO could achieve higher profits by extracting more rents from higher valuing customers in a win-win situation. In addition to specialized servers, Blizzard could offer a fee-based name reservation service for players wishing to save their player name from WoW to its new MMOG. This program would have the added benefit of encouraging players to switch to the new game early.

## Threats

Due to its position at the forefront of the MMOG market, Blizzard must defend itself from competitors by responding to any strategies that threaten its market position. To accomplish this, it is necessary to define its business and determine what constitutes a legitimate competitor.

Does a similar genre, payment scheme, storyline, or graphics requirement signify a competitor?

In the absence of the knowledge of specific competitor strategies, a robust method of responding to threats is by working to broadly appeal to the average customer. The game needs to be balanced in several different ways, including the level of difficulty, return of time investment, and appeal to players interested in Player versus Environment (PVE) and Player versus Player (PVP) combat alike. This strategy is generally vulnerable to specialized companies appealing to niche, high value customers. However, the large social network externalities and high sunk cost of character investment yield a high enough cost of switching as to have prevented this from occurring thus far.

It is essential for Blizzard to identify its competitors properly, as a failure to do so could result in wasted resources or a threat gone unnoticed. We should not automatically assume that games with similar pricing schemes are competitors. Some important variables for MMOGs include setting, graphics quality, payment scheme, socializing ability, the amount of skill and time required for certain activities, and purchasable rewards. Fundamentally, Blizzard should be concerned with how much profit a potential competitor could siphon away from it. This implies that even a popular game with many subscribers should not be considered a threat if it appeals to a different base. In particular, the MMOG industry is very demanding of time but not as demanding of money. Most people do not have the time to play two concurrently, so we consider anything that takes comparable time from a potential WoW player's computer gaming life to be a competitor.

There are some dominant games in the industry Blizzard should be concerned about, and others it may want to leave alone:

*City of Heroes* has a similar game play model to WoW, distinguished only by different setting, clearly making it a competitor.

*Guild Wars* has a similar structure except that its payment scheme involves an initial cost with no periodic fees. Games with various pricing schemes have been successful, and therefore if the game is popular enough it should be considered a threat regardless of pricing scheme.

*Runescape* is an old game with poor graphics and a low optional monthly fee, which belies eight years of continuing popularity. Despite the fact that *Runescape* is playable in an internet browser using Java, it boasts 1.2 million active subscribers. [Fig 1] Although there are some *Runescape* players who do not have the computing power to play *WoW*, the requirements for *WoW* are reasonable for most machines today. So, *Runescape*'s large subscriber volume makes it a serious competitor.

*Second Life* is a game focused primarily on socializing and appeals to a completely different player base from *WoW*. Even though it has 90,000 subscribers, it is not considered much of a threat. [Fig 2]

*Lineage I* and *II* are very popular in Asia but their popularity has not gained traction in the West. Similarly, Asia is not a very profitable market for *WoW*. As long as Blizzard can ensure that *Lineage* does not expand into the West it will not be a big competitor.

In the MMORPG market, it takes a long time for a product to become obsolete. Having the latest graphics and technology is normally not what makes a game successful. Some system requirements for *World of Warcraft* are a 1.3 GHz processor, 512 MB of RAM, and a 32 MB video card. [2] *Runescape*, on the other hand, has base requirements of a 500 MHz processor, 128 MB of RAM, and no video card required. [3] The graphics are simple, made in Java, and could have been run on many systems a decade ago. Yet it is still one of the largest and fastest-growing competitors to *World of Warcraft*. On the other hand, one could argue that *Warhammer* is one of the most modern MMORPG's available today based on its system requirements: a 2.5 GHz processor, 1 GB of RAM, and a 128 MB video card. [4] Yet its number of active subscribers declined from 800,000 to 300,000 in a period of three months. [5][6] As *Warhammer* shows, a game with the latest graphics will not necessarily be successful. This evidence demonstrates that Blizzard should not respond aggressively to a competitor just because it has superior graphics. However, Blizzard should certainly respond to a fast-growing game even if the technology it runs on is outdated.

Blizzard should use their next generation MMOG to create a balance in the types of players they serve. This positioning will prevent another competitor from focusing on specific player types and stealing that player base. A problem with any large game like WoW is the difficulty created in attempting to serve the various types of players that enjoy the game. With so many different types of gameplay, it is very easy for a competitor to differentiate themselves from WoW in an attempt to slice out part of the market for themselves. This problem can be characterized by a classic Hotelling line. One particularly important dimension for the MMOG market is the Casual vs. Hardcore line. The Casual play-style involves logging into the game for shorter periods of time and more randomly spaced intervals whenever an individual has free time to devote to the game. This player may not always be able to find other players to group with to complete game objectives. The Hardcore play-style involves logging into the game for longer durations at predetermined times with a large number of friends, so that they can achieve difficult group tasks together.

Although Blizzard has found ways of offering both of these play-styles the opportunity for progression, gamers continue to debate to whom Blizzard caters more. The current amount of contention between Hardcore and Casual players evidences room for a new game to differentiate along this criterion. Conventional wisdom would dictate that the best way for Blizzard to protect the majority of their player base from a competitor would be to differentiate their new MMOG from WoW such that each game focuses more on providing better gameplay for one play-style over the other. However, in the five years since WoW's release, no competitor has been successful in breaking WoW's hold on either player base. This suggests that there are additional factors which support Blizzard's stability in appealing in a broad manner to many kinds of players.

Blizzard should aggressively hire and maintain large content development teams that can bring more content to the player base faster than competitors. A significant portion of the appeal of MMOGs is the continuous release of updated content. As a result, one way to lose customer satisfaction is by failing to provide more content by the time players have become bored with the current content of the game. One of the worst possible scenarios for an MMOG is to have a dearth of content just as a competitor is releasing a well-advertised game. Recently, there was a



clear attempt by Mythic Entertainment to capture a foothold into the new player base that WoW created. Mythic Entertainment timed the release, titled *Warhammer Online*, as WoW began to stagnate just prior to a planned expansion. This combination helped Warhammer spike to nearly 700,000 subscriptions soon after its release. Within a month of Blizzard's second expansion for WoW, *Wrath of the Lich King*, Warhammer's subscription base had dropped over 50% to nearly 300,000 subscribers as previously mentioned. A large fraction of these players had initially migrated from WoW to Warhammer. It is clear that what drives much of the MMOG market is new content, and this new content is why players are willing to spend a monthly fee to play the game. Blizzard must specifically guard against these lulls in player interest by continuing to provide new content at a constant rate. For any MMOG company, it becomes imperative to produce content to keep players engaged. Since it can be hard to release enough content on a continual basis to fight the release of a well-publicized new entrant, Blizzard should actively attempt to increase the size of their content development team in order to produce content faster. This is a reasonable benefit to Blizzard as the economies of scale work against any competitors hiring more content developers since Blizzard already has a large portion of the player base.

We claim that the MMORPG industry is not at all price rivalrous, and as a result Blizzard does not have to worry about competitors undercutting its price. Runescape, for instance, has a free world and a members' world with extra features. There are still many players in the members-only world, and there are many more who play WoW for \$14.99 a month. [7] The most likely reason why price does not make much of a difference is because people spend so much time playing the game that the cost in money becomes negligible relative to the cost of time. The average MMOG player spends 23.4 hours per week playing the game and another 10.8 hours per week on the metagame. [1] Even if this average person valued his or her time as low as \$3/hour, the opportunity cost would be \$440 a month, much higher than the subscription fee. While it is true that there are many people who are unwilling to play games with a monthly fee, it would not be a good idea to go after them. The only profit Blizzard could potentially make from these people would be from advertisements, merchandise, and the initial game purchase. So because the industry is not rivalrous, Blizzard should not worry about a competitor making a similar game for a lower price.

## **Conclusion**

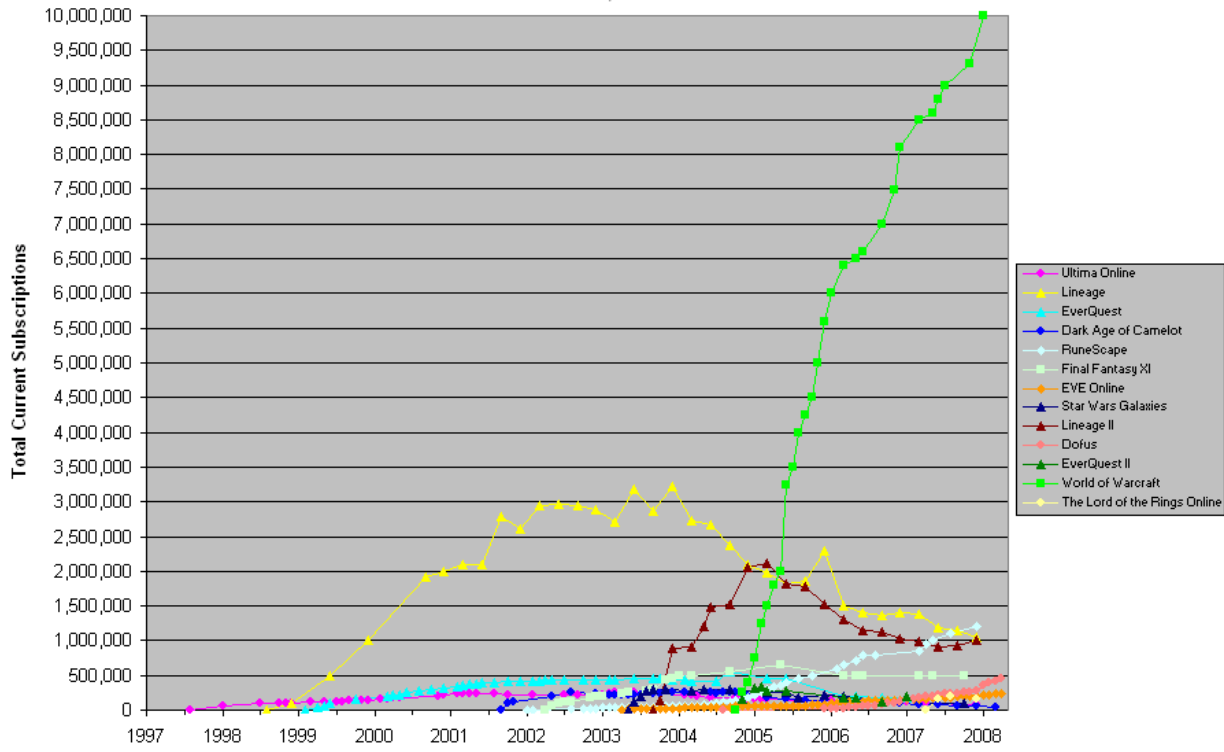
Blizzard has enjoyed high profits and a large market share from WoW for the past four years. Its goal for the coming years should be to maintain this position while having a modified strategy to be successful with its next product. Blizzard's reputation as a high-quality game manufacturer throughout its history as well as its dominant market share give it a unique opportunity to start strong. Blizzard should take advantage of economies of scale in order to create more content for a lower cost. Price discrimination will be an important method for creating profit by establishing a mutually beneficial trade between Blizzard and its subscribers. Blizzard must identify its competitors correctly and respond to any that show potential for growth by aggressively releasing new content. Contrary to conventional wisdom, it has been able to appeal to a large, diverse subscriber base while continuing to gain momentum. Instead of focusing on one side of a particular subscriber preference dimension, it should be more concerned with appealing to a broad base. However, it can only protect itself from specialized entrants by continuing to increase barriers to switching and externalities to social networking. By following these steps, Blizzard's position will not be overtaken easily and it will be able to maintain its dominant market share for many years to come.

## References

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  - [2] [http://www.worldofwarcraft.com/wrath/faq.xml#1\\_20](http://www.worldofwarcraft.com/wrath/faq.xml#1_20)
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# APPENDIX

## MMOG Active Subscriptions 200,000+



**Fig 1 - <http://www.mmogchart.com/Chart1.html>**

Note: Lineage and Lineage II subscriptions primarily from Asian markets

# APPENDIX

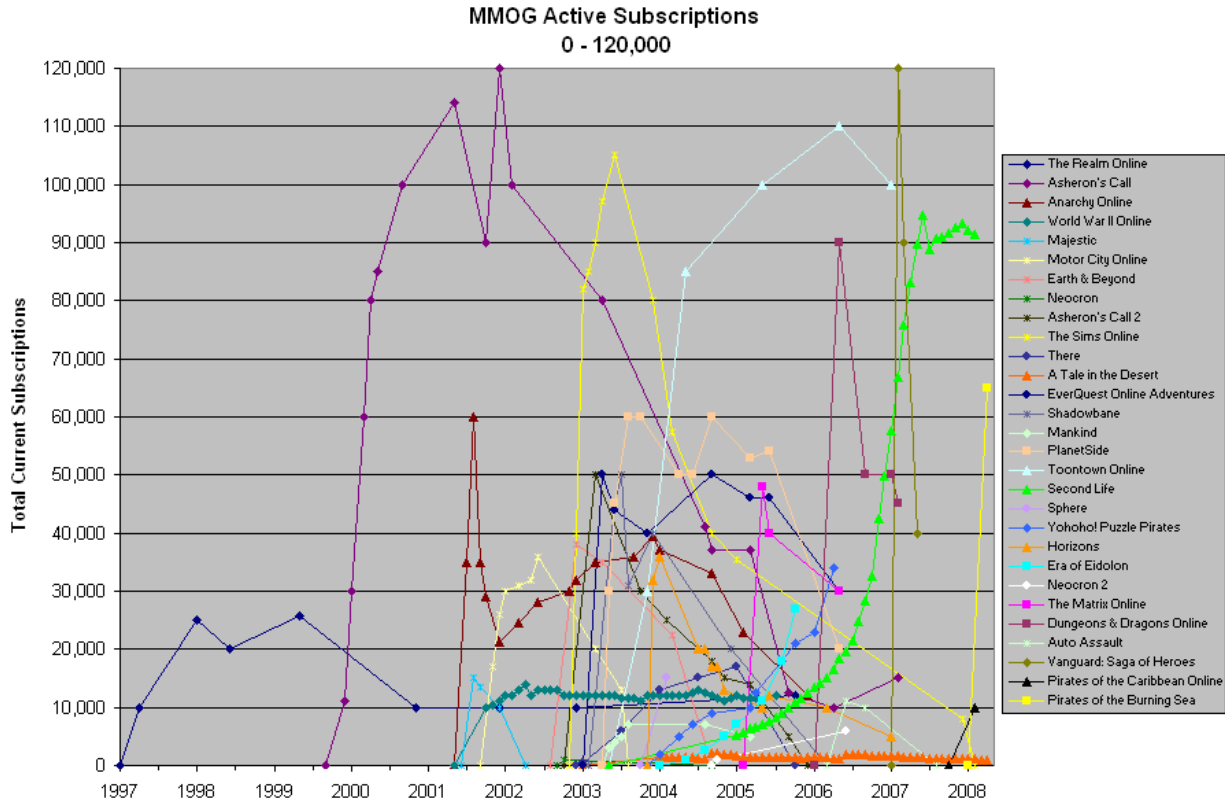


Fig 2 - <http://www.mmogchart.com/Chart3.html>

# APPENDIX

## MMOG Active Subscriptions World of Warcraft

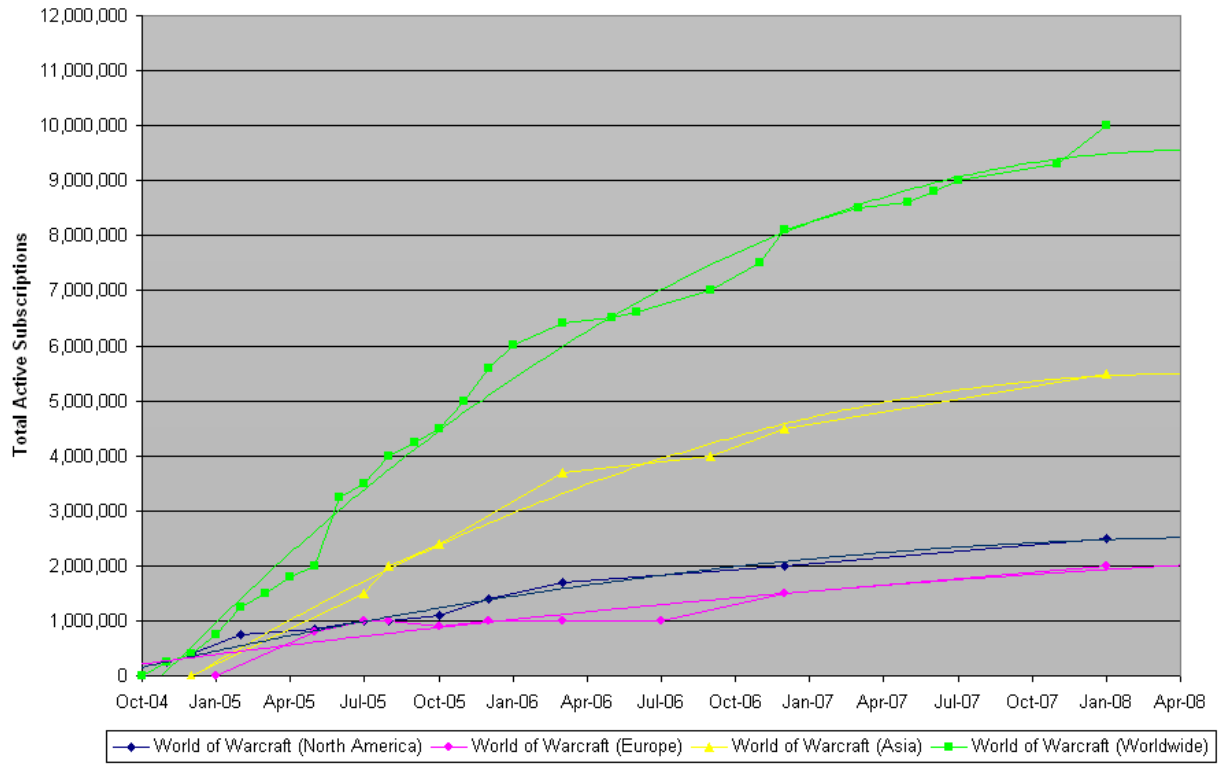


Fig 3 - <http://www.mmogchart.com/Chart11.html>