

The Asian Online Game Wave

-Changing Regional Competition in the Field of Digital Cultural Industries

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Changing industrial competition in East Asia

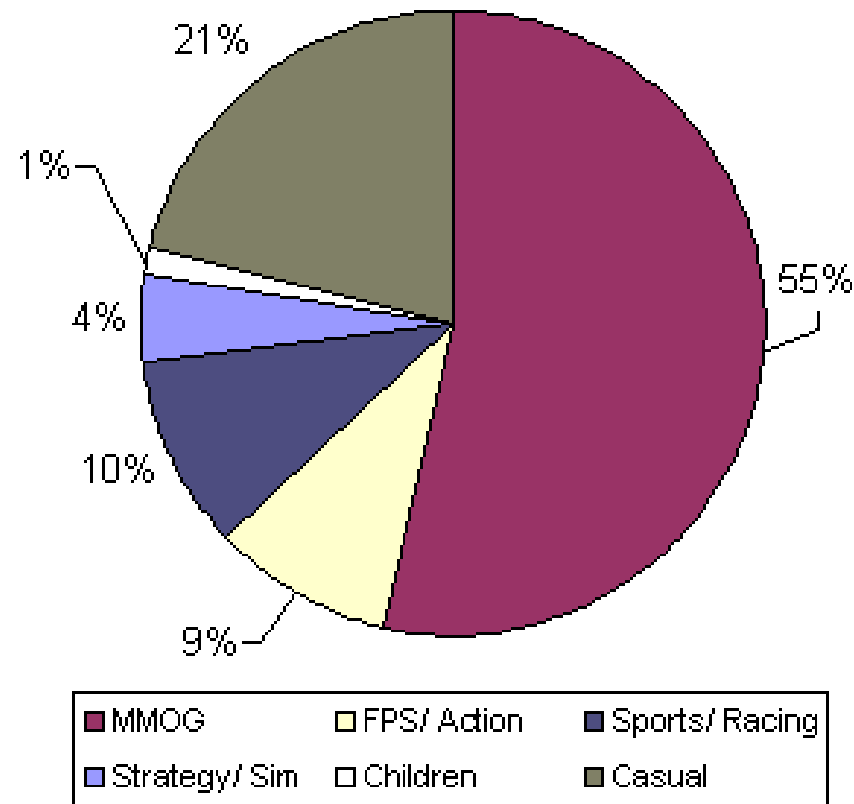
- Japan; the largest economy in the region – has been strong in manufacturing...
- But, fierce competition from other countries in the region, such as Korea and China.
- Lower degree of service sector development in Asia.
- New forms of competition in the service sector in Asia. Ex. MMOG.

The business model is changing

- Large scale investments in ICT
- National industrial policy
- MMOG becomes a complex network service industry
- Product development – more project based
- Increasing areas of expertise – leads to outsourcing and a different economic geography
- Complex competition in East Asia can lead to an overall increase of the knowledge intensive service industry in the region

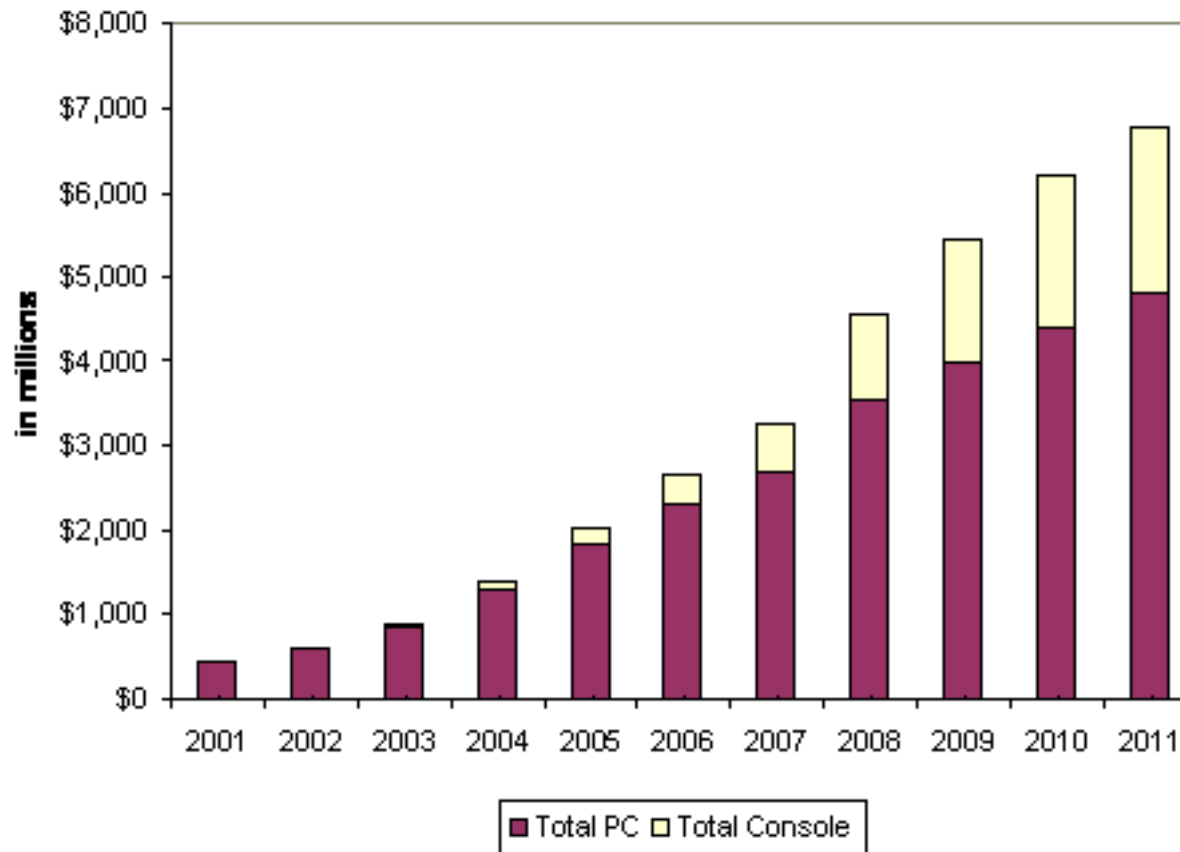
MMOG dominate revenues from online games, casual online games growing fast

Worldwide Online Game Revenue: 2005



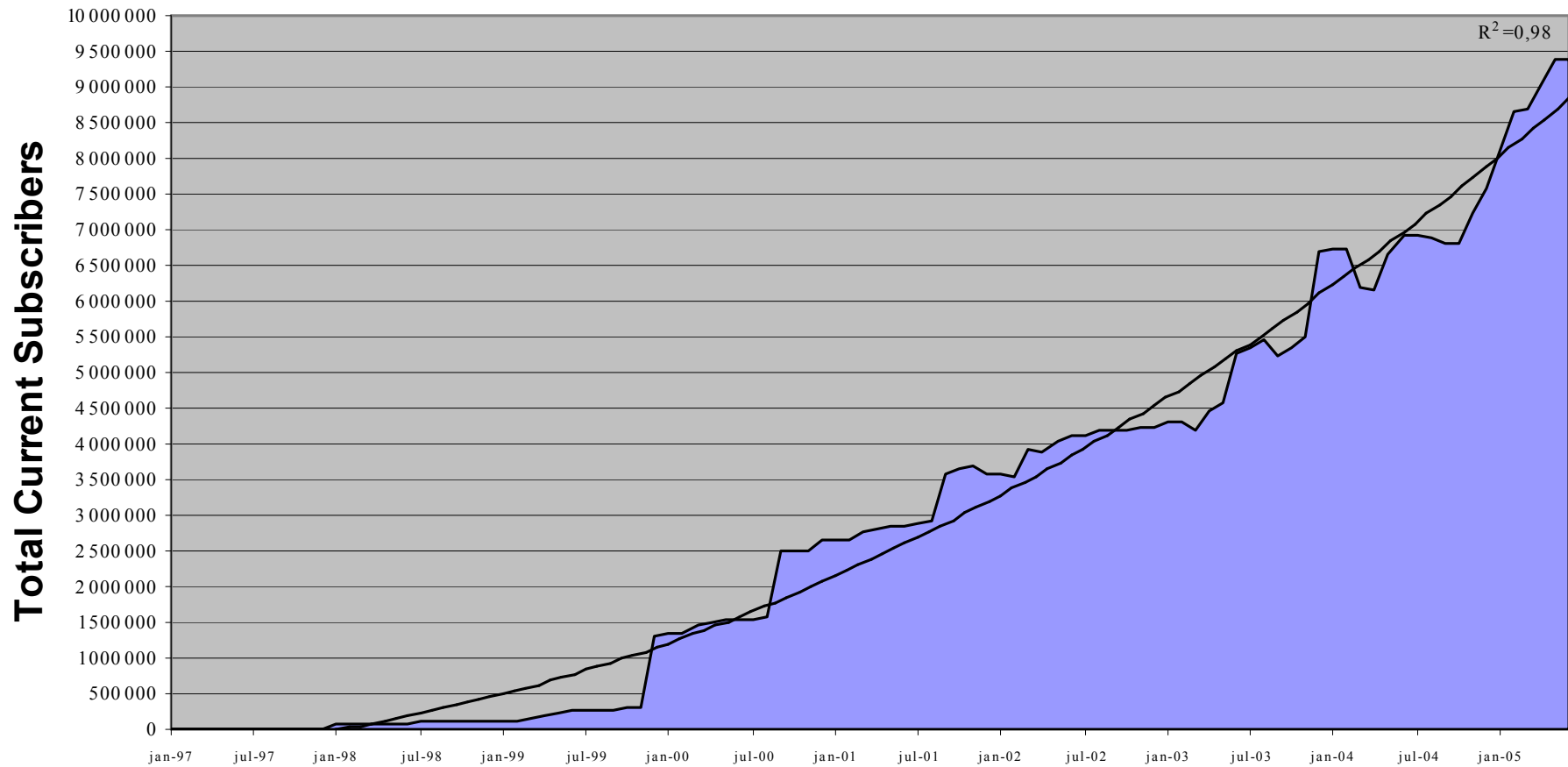
Worldwide growth of online games in terms of subscription revenues (2006- projected)

**Total Worldwide Online Game Subscription Revenue
2001-2011**



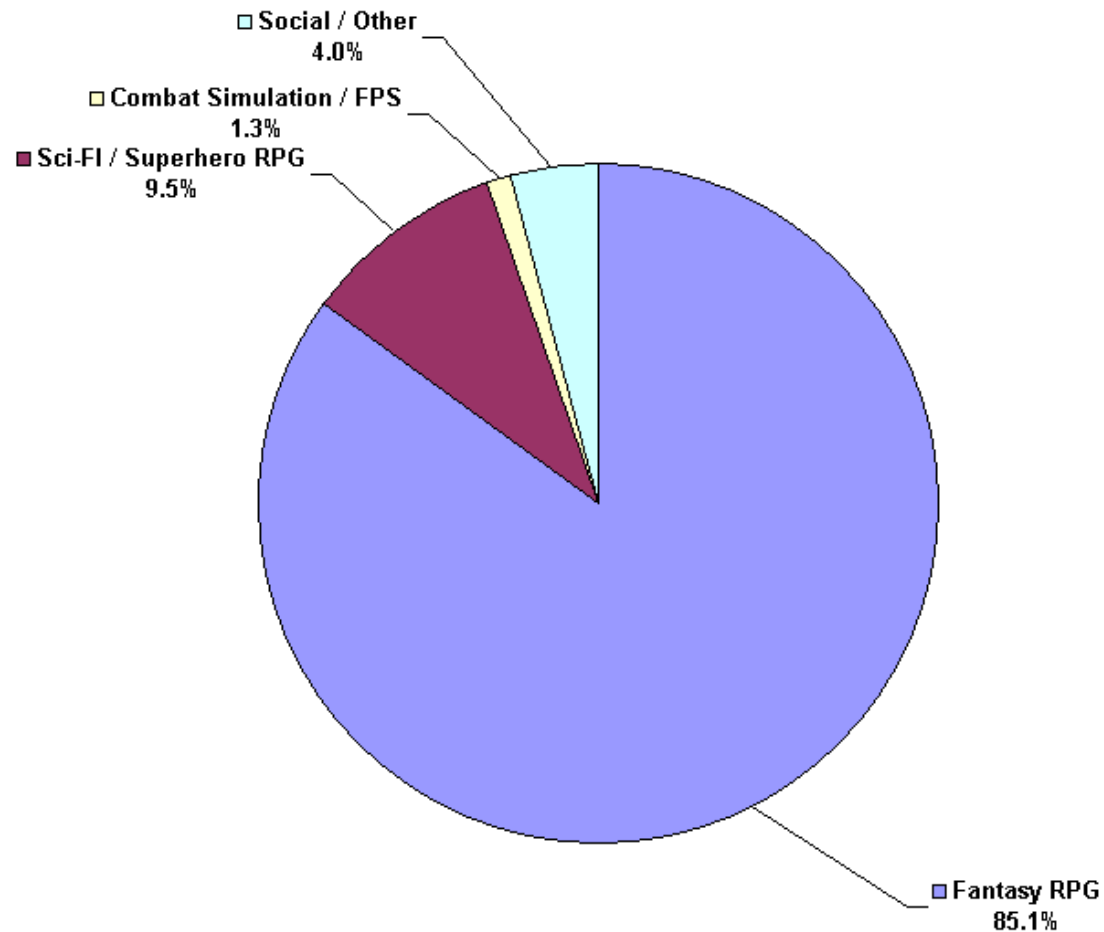
Worldwide growth of MMOG games in terms of active subscribers

Figure 1. Total MMOG Active Subscriptions (All MMOGs)

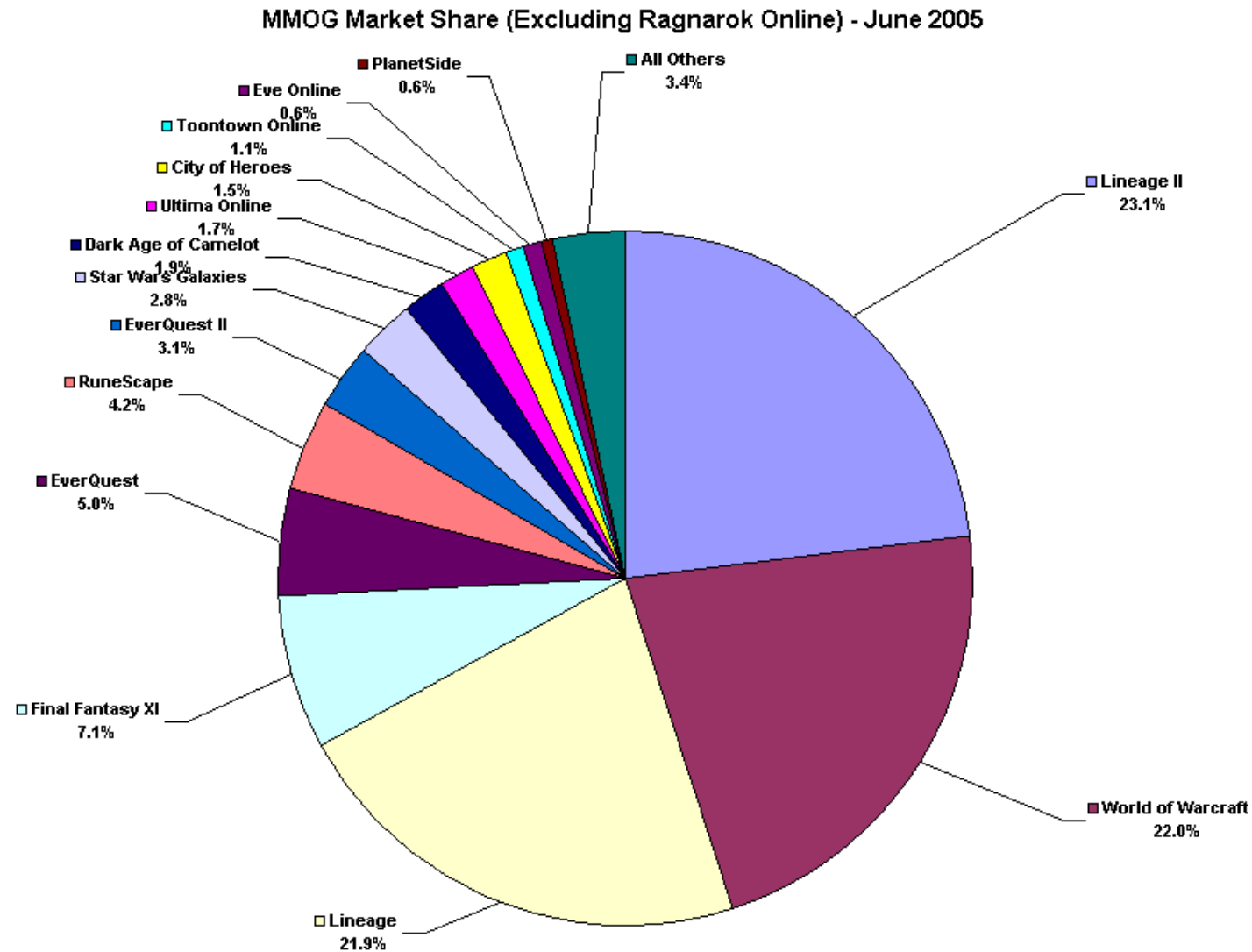


The dominance of fantasy RPG

Market Share By Genre (Excluding Lineage, Lineage II, and Ragnarok Online) - June 2005



High degree of concentration to a few successful MMOG games



Online game market vs. Stand alone video and computer games

- **Worldwide market 2005:**
 - Total video and computer game market: 25 bn USD
 - Online Games: 2 bn USD
- **Major markets 2005:**
 - Stand alone video games: USA, Japan and Europe major markets.
 - Online games: >50% of subscription revenues from non-Japanese Asian countries (South Korea, China, Taiwan).
- **Major Companies:**
 - Stand alone video games: Japanese and US publishers dominate: Nintendo, SCE, EA, Activision, VU games, T2Interactive, Konami, SquareEnix, NamcoBandai, THQ
 - MMOG games: New Korean online game publishers (NC soft, Webzen), Chinese companies (Shanda, NetEase), a few stand alone game publishers from Japan and the US (Square Enix, VU Games/Blizzard, EA, SOE).

Disruptive innovations that enables disruptive business models

- Clayton Christensen's six characteristics to look for

1 | It enables a larger population of less skilled or less wealthy people to do something more simply and conveniently that could historically be done only by experts or the wealthy.

2 | It exploits the innovation's unique attributes in new applications rather than stretching to meet the product or service requirements in the mainstream market.

3 | It disrupts markets that are underserved rather than seeking to disrupt overserved markets.

4 | It reshapes the retailing business model to earn profits in a new way.

5 | It facilitates existing patterns of customer behaviour rather than assuming a change in customer behaviour.

6 | It focuses on a specific customer need and builds a brand positioned squarely on that need.

Is MMOG games disruptive in relation to the business model of stand alone games?

1. Broadband, a number of payment options and more ease of service enables a larger number of people to play online games that could not have done it before. But a number of barriers still exist.
2. MMOG games utilize the online capability in new application (new types of play, distribution and sales model), but market still very homogenous in types of games.
3. Peoples need to participate socially in persistent virtual worlds with thousands of other are still an underserved market.
4. The retail model with monthly subscription, Item sales and digital distribution means that MMOG games earns money in new ways, but in Japan, US and Europe the dominance of traditional stand alone retail model still makes sales of physical boxes necessary, but for how long?
5. Peoples need to play games together and be together in virtual communities and groups are the basis of MMOG are common behavior and does not assume a radical change in user behavior.
6. New online games companies like NCsoft build their business models on the specific needs of MMOG games such as know how of the service aspect of the game.

Resources, Values and Processes in MMOG

- Sometimes incumbent firms fail because new disruptive technologies requires new resources, but often it is the values and processes of their business models that does not fit.
- New values and processes in MMOG market: MMOG games are more of a service than a product. Service know-how and consumer feedback is essential since the release of the game is only the beginning of an ongoing work with players and the changing world witch could have a successful lifecycle in >5 years.
- New resource requirements for MMOG games: server technologies, databases, service, support, financial systems, 2-5x higher dev costs than consoles, 10x as complex. Most work remains after release

Drivers of growth for video and computer games

- Product differentiation, constantly new entertainment experiences are required from customers.
- Constant improvement due to exponential trends in technology (e.g. Moore's law), but at the price of increasing development costs.
- Financial and distribution innovation.
- Simplified consumption, new platforms, games anytime anywhere.
- Age effect (the ability to retain players as they grow older and simultaneously create new ones).
- For MMOGs also: broadband penetration, difficulty of piracy.

Online games, the 2nd Korean wave?

- >40% of total entertainment and culture related export in Korea.
- Korean NCsoft >300 million USD in online game revenues 2005. Highly successful in the west (revenues 24% US, 8% Europe).
- A number of other Korean companies highly successful in China.



Factors behind Koreas success

- Early broadband penetration
- Deliberative industry policy in a number of areas
- Competition at home-success abroad
- PC bang environment
- Leap-frog into MMOG and digital distribution (former import restriction on consoles, piracy of stand alone games)
- A number of payment options
- Sheltered from console competition in the build up phase
- Firms that have been able to build up a business model just based on the specific needs of the MMOG market
- A successful M&A and local development in different regions by NCsoft
- Currently, VG consoles and stand alone PC games have huge problem to compete with the MMOG disruption.

New competition in MMOG: China and Japan

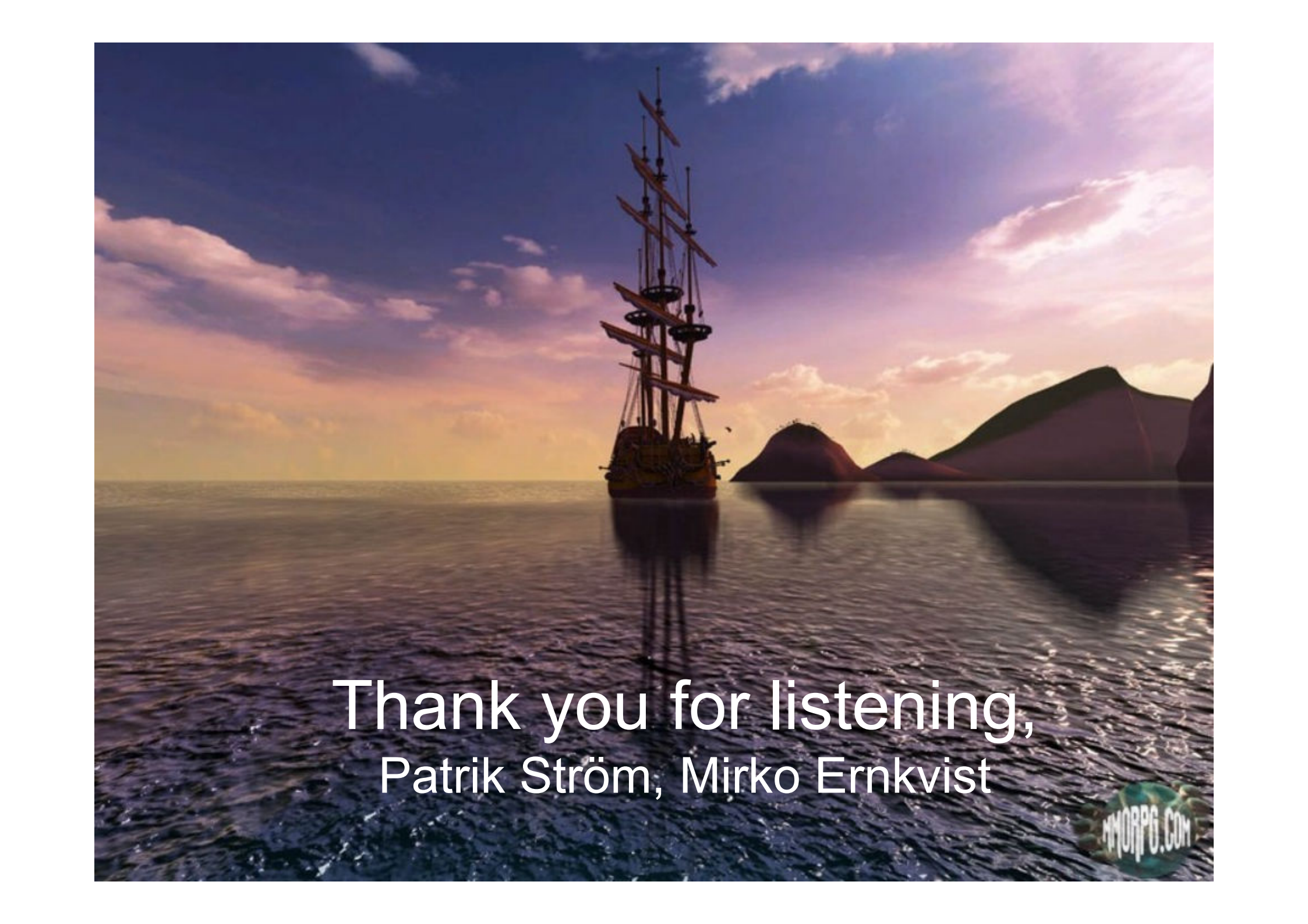
- China; Chinese companies stronger in the service than in the development capabilities, partially sheltered from international competition, little export so far. New revenue models based on in game trade instead of subscription recently. MMOG market only game market in which it is possible to earn profits due to piracy.
- Japan: Traditional stand alone VG publishers reluctant to enter MMOG market (SquareEnix exception). Hampered by console dominance, late broadband penetration and market decrease. Traditionally strong in RPG genre. Recently many Japanese VGC have announced greater emphasis on the MMOG market.

The Asian and West MMOG market

- Asian culture or PC culture?
- Some MMOG differences put forward: community/individual, gracefulness/realistic, goal to be better than everybody else/to express individuality.
- Each player is different, one reason for the success of MMOG is that many different player styles and goals are possible (Bartle: socializer, explorers, achievers, killers). Just like the real world, but with more control.
- The possibility for global market penetration: WoW >5,5 million subscribers in all major regions.
- As the games become more complex, graphical and elaborate in story elements, the need to gain knowledge of each market in the game industry have increased.

Further growth in MMOG

- Differentiation in genres, playtime, ease of use and payment options to attract broader audiences with differentiated tastes, time and spending.
- An ability to handle increasing development costs.
- An ability to handle the social prejudice against videogame in general and MMOG games in particular as the market grows.
- Platform diversification, MMOG games on consoles.



Thank you for listening,
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