

MMORPG 산업에서의 성공적인 시장 진입 전략 : NHNgames 사례를 중심으로

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MMORPG Development Company's Successful Market Entry Strategy :
A Case Study of NHNgames

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요 약

온라인 게임은 최근 십년간 IT 기술의 발전에 힘입어 국내는 물론 해외에서도 눈부신 발전을 거듭하고 있다. 그런데 최근 대작 게임인 아이온이 나오기 전까지 수년간 MMORPG의 상위 순위가 변동되지 않고 과점상태를 유지했었다. NHNgames는 그 기간에 성공적으로 시장에 진입하여 좋은 성과를 내고 주요한 플레이어로 자리매김에 성공했다. 이러한 맥락에서 본 연구는 MMORPG 시장에 성공적으로 진입한 NHNgames의 사례를 Kalyanaram과 Gurusurthy의 기본 전략 프레임을 통하여 성공적인 시장 진입 전략의 요소를 정리하고 분석하였다. 이 논의는 이후에도 끊임없이 반복될 온라인 게임 시장 진입의 문제에 함의를 제공하여 산업의 발전을 도모하는 데 기여할 수 있으리라 기대된다.

ABSTRACT

Online game industry has achieved remarkable development not only in Korea, but also in the world with support from huge progress in information technology. By the way, there was calm period that top tier MMORPGs had held their ranks in oligopoly situation before Aion's appearance. At that time, NHNgames succeeded to penetrate into the market and settle down as a major player. In this context, this study will identify the factors of successful market entry strategy and draw helpful ideas by analyzing case of NHNgames which succeeded to enter the market of MMORPG through the basic strategic framework of Kalyanaram and Gurusurthy. This discussion will provide several implications for the solution of online game market penetration problem which might be never ended and for the way of industry's development.

Keywords : market entry strategy, online game, case study, MMORPG, NHNgames

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1. Introduction

The online game industry has increased dramatically in Korea since the 1990s. In particular, the MMORPG(massive multiplayer online role-playing games) of some Korean companies have contributed significantly to the industry's growth not only in Korea, but also in the whole world. For example, the first graphic MMORPG *The Kingdom of the Wind* was produced by Nexon and NCsoft provided one of the most successful MMORPG '*Lineage*'. Such initiatives as well as the services of NCsoft *Lineage* have resulted sales in the past 10 years to 2010 of \$1 billion. The growth of domestic sales is expected to exceed \$4 billion in this important industry[3].

NHNgames started as a studio in NHN and recently merged with Webzen, which is a typical time-honored MMORPG development company in Korea. Most of all, NHNgames started with *R2* which was the only MMORPG that featured in the top rankings for several months as a newcomer in 2006. Actually, there was a calm period after *WOW(World of Warcraft)* was published. No one could breach the wall of the top rankings. Even though there are some blockbusters, such as *Granado Espada*, *Zera*, and *SUN* in which were invested over \$10 million, they failed to rank among the leaders in the MMORPG genre.

So, this study plans to look at the history of NHNgames from its birth in 2004 to its successful market penetration and growth in early stage of the firm's appearance. And it will reveal the driving forces of NHNgames, with a focus on *R2*. Plus, this study will discuss some important implications and ways

to overcome problems for struggling companies in Korean MMORPG market.

Then, this paper consists of four more sections. Related literatures and methods for analysis will be showed in section 2. Plus, in section 3, industrial information for better understanding the context of NHNgames case will be presented. And we will analyze the company's strategies in section 4 through the framed work mentioned in section 2. Lastly, section 5 highlights implications and conclusion of this study.

2. Theoretical Backgrounds

2.1 Related Studies

For this case study focuses on the early stage of the firm, there are some related research areas dealing with core competence of firm or new product development in marketing, strategy, organizations and other fields of business management.

Mintzberg et al.. categorized strategies into three dimensions: enterprise level, business unit level, and function level[19]. Competences are created from each level and integrated synergy for market entry. If there are a few strong strategies, then a firm can leverage them to enter the market and improve other levels.

Kotler said that because business strategic planning is a process of development and maintain the suitability between goal and resource of company and changing opportunity of market, harmony of market opportunity and internal capability is very important[15].

And McCarthy presented traditional marketing mix consists of product, price, place

and promotion as sources of competences. And this framework has been used in wide area of business analysis as ever, even though we can find some extensions of the mix's combination[18].

[Table 1] Ansoff Matrix

		product	
		present	new
market	present	market penetration	product development
	new	market development	diversification

As presented above, Ansoff Matrix suggested four dimensions of product strategy for market. Market penetration is easy to do, but difficult to succeed in sustaining profit. Therefore, many companies try to develop new product for present market. And they look for the stars. However few product developments get good results. Moreover market development can provide additional profit to the firm without huge investment for new product development, even though there might be little remainder of markets. Plus, diversification is a kind of dream of every strategist[4].

Porter has argued that a firm's strengths ultimately fall into cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, focus and differentiation[21]. Furthermore, Porter's value chain frame drew more specific strategies for building core competences to win[22].

[Table 2] Porter's Generic Strategies

		advantage	
		low cost	uniqueness
target scope	broad	cost leadership	differentiation
	narrow	focus (low cost)	focus (differentiation)

Abramovitz rationalized the fluctuating strength and explores the connections between convergence itself and the relative success of early leaders and latecomers[1]. It revealed opportunities and strategic window to enter the market for late comers. In this context, Aghion et al. said that players must first catch up with the leaders before battling for technological leadership in the future. Unlike in existing Schumpeterian models of growth, more intense product market competition and imitations may be growth enhancing[2].

Especially, Kalyanaram and Gurumurthy resulted that late arrivals in market entry should have a thorough understanding of the entry and defensive strategies available, a good sense of timing and a game plan for decision-making. They suggested four basic strategic planning: reducing price to penetrate, improving a product or service with focus on a niche market, targeting new geographic markets for existing products, and developing new channels of distribution to access new markets or better penetrate existing ones[9].

2.2 Method of Analysis

There are a lot of theories for analyzing the core competences of a company. Especially Porter's generic strategies and marketing mix could be great explains. Nevertheless we

employed the frames of Kalyanaram and Gurumurthy, for focusing on the market entry strategies and early stage of firms. Because the applied framework of the study is very suitable for our purpose of analysis and their study is already supported by those great theories fundamentally.

So, after the review of industrial backgrounds in the next chapter, there will be analysis the NHNgames' early stage strategies through categorizing into Kalyanaram and Gurumurthy's four basic strategies: reducing price to penetrate, improving a product or service with focus, targeting new geographic markets for existing products, and developing new channels of distribution to access new markets or better penetrate existing ones, And each strategy includes specific and real examples by analyzing.

3. Industrial Backgrounds

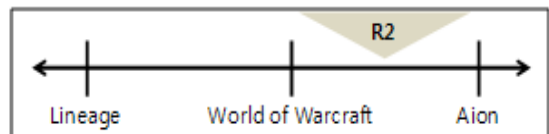
3.1 Industry Overview

There were many followers of MMORPGs - almost the same as with *Lineage* - which set an unprecedented interest in online games in 1997. *MU* of Webzen was the best MMORPG among them. And *Lineage2* and *WOW* have had the Korean market wildly excited since 2005. However, right after that, failures of the following big invested games, such as *Zera* of Nexon and *SUN* of Webzen in 2006, depressed other challengers. On the contrary, casual games and FPS(first person shooter) rocketed to take a majority slice of the industry cake. These games included, for example, *Kartrider*, *Freestyle*, *Special-force*, and *Sudden-attack*.

During a lull in the competition of MMORPG, *R2* appeared suddenly and made a significant impact.

After *R2* many MMORPGs challenged to achieve the big success *R2* had. Especially, some of them tried to graft popular existing games into online-based platforms. These included *Dragon Ball online*, *The Three Kingdoms online*, *Monster Hunter online*, *Uncharted Waters online*, and so on. However, they couldn't get the anticipated fruits of success, too. And finally, *Aion*, which have serviced from 2008 totally changed that stable tendency. It still continuously occupies 1st rank[26].

In sum, there were four eras divided by three blockbusters: *Lineage*, *WOW*, and *Aion*. And *R2* took the stage in the third era between *World of Warcraft* and *Aion*. It was the only one that could successfully penetrate the top tier of MMORPGs in that period of almost four years.



[Figure 1] History of Korean MMORPG

3.2 Company Overview

NHN, which is the parent of NHNgames is a representative Internet service company in Korea. Its revenue was about \$1 billion in 2009 and its stock value was about \$10 billion and it was ranked 24th on the Kospi[24]. NHN comprises two parts, Naver and Hangame; each one is the biggest site in its own business field in Korea, respectively, internet

portal and game portal. However, there is a difference between Nexon or NCsoft in their success as game portals. The difference is that Hangame's success was caused by synergy with Naver and powerful Web board games such as *Gostop* and *Porker*. Finally, NHN had incentives to develop and service more diverse types of games to ensure their sound growth. So, NHN initially established NHNgames as an in-house studio, and founded it as an affiliated company in 2004. *Archlord*.

In this context, NHNgames was founded as an affiliated company and employed members of NHN at the start. It had the largest number of game developers in Korea at that time[20]. From the first product *Archlord*, they developed and have serviced several MMORPGs, for example, *R2* and *C9*. After successful landing on the market, NHNgames were merged by Webzen as an important strategy.

Additionally, Webzen was established in 2000, during the early stage of the formative period of the domestic MMORPG industry. Webzen's most successful game, *MU*, succeeded commercially, not only in Korea but also in seven countries, and recorded 30 million players in 2003[28]. For this achievement, Webzen was listed on the Kosdaq. However, *SUN*, which was hugely invested as a next game, failed to succeed, and *MU* faded too. So Webzen experienced a crisis about its future. After that, *Huxley*, the next game, also failed to recreate old honors. Finally, it merged with NHNgames in 2008.

4. Strategy Analysis

4.1 Reduce Price

By introducing a product at a lower price than the pioneer's, a latecomer can attract new customers who would not have other product. In early 2006 when *R2* arrived on the scene, there were still dominant old games, such as *Lineage*, *Lineage2*, and *WOW*. Moreover, new blockbusters were challenging with huge promotions and great reputations[16].

NHNgames decided to employ the item-based pricing scheme for the first game service *Archlord*, and the subscription-based pricing scheme for the second game service *R2*. Basically, price of *Archlord* is free to play. It is relatively low price, because there were a few serious type MMORPGs adopted item-based pricing scheme at the beginning of commercialization. Moreover, even though *R2* focused on the customer segment who liked *Lineage* type MMORPGs, it priced 19,800 won when players should pay 29,700 won for playing *Lineage*. Then, *R2* enter the top tier of MMORPGs and it had held over 2 years.

Furthermore, after depreciation of value of *R2*, NHNgames try to rebound it by providing new servers adopted item-based pricing scheme. And this strategy worked well. The ranking of *R2* came back to the top tier and ranked 15th in the total ranking list. Its new servers registered over 10,000 characters each day[23].

Actually, *MU* of Webzen also adopted this strategy and has serviced item-based pricing server *MU* blue, too. It can minimize dissatisfaction of existing users and acquire more users who are willing to pay and play.

A subscription-based pricing scheme could add or change to an item-based pricing scheme to obtain more users. This strategy is also related to the traditional concept of network externality. Because MMORPG is a kind of network service, increasing network externality by low the hurdle of price is one of the most important natural strategies. And it doesn't need much investment either.

4.2 Improve and Focus

Fighting with the first mover is not a good way to enter the market for late arrivals. But there are a lot of chances to penetrate, because even dominant player cannot take care of every part of market. Therefore focusing on few segments would give relatively superiority in those specific markets than dominant player.

Actually, we cannot find any specific segment of *Archlord*. It might be caused the fact that *Archlord* had been developed before NHNgames official establishment as an affiliated company of NHN. On the other hand, *R2* totally focused on just one segment categorized as *Lineage* typed followers.

So *R2* succeeded *Diablo* and *Lineage* as a Korean-style MMORPG. For example, there is no level restriction to wear items, siege warfare is the main content of the game, guild is an important system, and it allows free PK (player killing). Furthermore, gambling-based item upgrading and hunting focused scenario are not similar to other games of the same period. Then *R2* attracted players despite relatively small investment.

R2 was prepared to acquire *Lineage*-type players even in the planning stages. Although *R2* was criticized as an imitator of *Lineage* or

an anachronism, it gained about \$2 million in reservations[12]. NHNgames just focused on a specific segment and its needs. It includes three major parts: community strategy, security strategy, and PC-room strategy. First, *R2* has a very strong guild system as *Lineage*-type games do. Actually, according to the survey, most customers of *R2* had experience playing *Lineage* or *MU*. Second *R2* has tried to protect its virtual world since it launched, because some items of *Lineage*-type games are often traded on the RMT (real money trading) sites. NHNgames' adoption of the security card system was the first time of try in this industry. And NHNgames never made little effort to invest in an own-security system and other solutions such as OTP(one-time password). Lastly, NHNgames used the franchise network of Hangame and directly promote to use through this channel. For example, If someone accessed *R2* in a Choice PC-room during a closed beta test,

And there were some significant improvements for target segment, too. Most of all, for maximizing the incentives to interact each other, *R2* tried to eliminate restrictions of interactions between users in existing MMORPGs. Especially, *R2* provided a server integrative battlefield named Chaos-battle. It is a solution to overcome the physical limitation of a server for users' desire to fight[6]. In this context, NHNgames made an event, 'Korea-China-Japan Grand Siege Warfare', with 100 representative players of each country in 2009[17]. Additionally, *R2* try to do unusual strategy that they preserve the previous playing records which were achieved in the beta test period and allowed the testers to

succeed their characters even after commercialization. Then, *R2* has achieved successful records. *R2* was tested by 5,000 closed beta testers, and 97% of them accessed it on the first day[8]. About 100,000 applicants tried to experience *R2* in the second closed beta test[13].

4.3 Target New Markets

In the Kalyanaram and Gurumurthy's study, they suggested targeting new geographic markets for existing products. And we can expand the meaning of new market to not only geographically, but also conceptually.

Because an online game service has a typical cost structure of the information industry, there are huge initial sunken costs and very low variable costs per customer. So NHNgames target new market in a variety of ways: for example, expanding the market globally, offering additional contents, and so on.

NHNgames' *Archlord* and *R2* were both famous for their relatively great earnings from the global market. Especially, *Archlord* entered the overseas market in the early stages to make up for the losses in the domestic market. Because *R2* also considered the global market even in its development process, it managed to gain a profit without a big additional cost. So, *R2* serviced Taiwan and China relatively early in 2007[12,26]. After that, NHNgames made 15 contracts, including Russia[11]. Advancing into China was very successful for *R2*, which was listed as the top searched word on Baidu, which was the first portal in China[14]. Finally, some contents of NHNgames were used for other industry products. For example,

BenX, which won awards in three sectors of the Belgium Montreal Film Festival, was based on the story of *Archlord*[5]. Even though a game cannot extract enough money from one country, the firm can try to expand service areas and forms, because already developed online game costs few to expand.

4.4 Develop New Channels

Going global is not the only solution. Sometimes the risk and investment required to penetrate international markets may not be worth the return. Then developing new channels of distribution to access new markets or better penetrate existing ones is important alternative. In this context, we can highlight two strategies of NHNgames: synergy with NHN and Webzen.

NHN had 28 affiliated companies and NHNgames is one of them. NHN is the biggest online service company, so NHNgames could exploit the advantages of collaboration with NHN. NHN provided promotion opportunities through Naver and Hangame. Because they were the best web service portal and game service portal, respectively, accessibility and effective advertising were enough. In this context, NHNgames recorded \$62 million in assets, \$25 million in revenue, and \$7 million net profit during the 2009 fiscal year[25].

Especially, merging with Webzen was a very important milestone for taking channel and synergy. NHNgames gained about 24% of shares to become the largest shareholder in September 2008[7]. And the director of the publishing headquarters of NHN, Chang-guen Kim, took office as the CEO of Webzen. The

CEO of NHNgames, Byung-gwan Kim, was installed as an executive director. Because Webzen has longevity, MMORPG *MU* made a huge profit from its very important global market. And because it was already listed on the stock market, it had a lot of cash at that time. Strong global channel of Webzen will delivery NHNgames' game and strong domestic channel of NHN will support NHNgames' and Webzen's game either. Actually, the stock price of Webzen decreased by about \$3 in 2008 and rebounded to about \$20 in 2009 after merging[27]. Finally, NHNgames merged into Webzen in 2010. It is very clear that NHNgames will play a crucial role in the online game industry for a special development company with this big alliance.

5. Implications and Conclusion

5.1 Implications

This case analysis of NHNgames' successful market entry strategy suggests some important implications. First of all, MMORPG development company should clarify the approach to the target segment of the customer. NHNgames' considered only MMORPG users, and *R2* focused on a certain type of users who loved *Lineage* style. Actually, when *R2* came up, the MMORPG field was dominated by some old great games. So, most of the games failed to penetrate that market. Furthermore, because they believe that the type of *Lineage* already went out of fashion, they blamed *R2* as an anachronistic imitator of *Lineage*. However, NHNgames completely focused on the same customer

segment as *Lineage*. As a result, even the so-called big three games faced failure; *R2* gained the great fruits from that red ocean.

The second, MMORPG development company should price at suitable level. MMORPG development needs most of the investment before the game is launched. In the *Archlord* case, even though it didn't make huge money, it could make a steady profit. So, online game company has some room for adjustment of price. On the other hand, players are sensitive to price of online game with competitive market situation. Therefore, about eight years old MMORPG *MU* and relatively young online MMORPG *R2* added servers that adopted an item-based pricing scheme. This strategy also produced some additional profit without huge investment.

Third, for successful entry to competitive MMORPG market, latecomer should target new markets, especially global market. As this paper presented repeatedly, cost structure of online game allows expanding with relatively small additional cost. If a company planed well, global market would pay the company more money to sustain their business.

Finally, MMORPG development company have to ally themselves with channels for domestic and global distribution. Recently, development companies and publishers often tended to be specialized. There is no doubt that Nexon and NCsoft are still strong. However, most of the small and medium-size companies tend to focus on developing a good game and selling it on a consignment basis through Neowiz or CJinternet. By the way, there are few publishers who hold a significant portion in the market; perhaps, at most five

companies are there. However, a lot of development companies are also producing their online games. Therefore, each publisher should deal with many development companies. So, the relationship between the development company and the publisher is becoming more important. NHNgames has this advantage as it has maintained a good relationship with NHN and Webzen, Moreover, some of the users of Hangame and Webzen overlap with users of R2. It might make great synergy.

5.2 Conclusion

NHNgames successfully entered the MMORPG industry when the market was totally dominated by some powerful games. Even their main force, R2, was said to be old fashioned. However NHNgames used its own advantages and proper strategies when considering the principles of online game business. They focused on their target segment and needs of them, priced their games competitively, got additional money from global market, and made great synergy with cooperation with channels. In this context, this study can provide an example of framework to analyzed or test other MMORPG development firm cases. Plus, it shows possibility to adoption of strategy frames to analyze phenomena in real case by employing traditional framework to real example. Furthermore, we summarize of NHNgames' information which cannot be found in this field, because it was not a listed company before the merging with Webzen.

However, this study has several limitations. Most of all, the form of case study caused a crucial limitation of generalizability. In this

paper, we didn't provide any other supports such as empirical test or analytical modeling, because there is just few information for analyzing NHNgames. Therefore, in the future, the studies which have relevant data set and more rigorous methodology should be needed.

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