

Market Projection Report

World of Warcraft: 2008 - 2010

Developer: Blizzard Entertainment / Activision Blizzard
Publisher: Vivendi Universal / Vivendi Games
Release Date: November 23, 2004

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Product Overview

Introduction

World of Warcraft (WoW) is a Massively Multiple Online Role-Playing Game, or MMORPG, designed for both the PC/Windows and Macintosh/OSX platforms. It was initially released in the North American market on November 23, 2004 and subsequently in Europe, Asia, and other territories. In this fantasy-based game, thousands of players from around the world adventure together in large, persistent state 3D virtual world. Customers typically purchase the game via retail outlets and then must pay a monthly subscription fee (\$14.99 in the US; other territories vary) or purchase pre-paid time-limited game cards to access the game.

After launch, World of Warcraft quickly grew to dominate the subscription-based MMOG market, surpassing all competition and shattering records to become the #1 subscription-based MMOG in the world. As of January 2008, WoW has over 10 million subscribers¹ worldwide, including more than 2.5 million in North America, more than 2 million in Europe, and approximately 5.5 million in Asia (primarily China). MMOGCHART.COM currently estimates that WoW has over 60% of the total subscription-based MMOG market.

World of Warcraft released its first retail expansion pack, *The Burning Crusade*, in 2007. The next expansion pack, *Wrath of the Lich King*, is currently being developed and is expected for release in fiscal Q4 2008.

¹ **World of Warcraft's Subscriber Definition**

World of Warcraft subscribers include individuals who have paid a subscription fee or have an active prepaid card to play *World of Warcraft*, as well as those who have purchased the game and are within their free month of access. Internet Game Room players who have accessed the game over the last thirty days are also counted as subscribers. The above definition excludes all players under free promotional subscriptions, expired or cancelled subscriptions, and expired prepaid cards. Subscribers in licensees' territories are defined along the same rules.

Product Strengths & Weaknesses

Product Strengths

- Strong brand name. Blizzard has a good reputation among gamers for delivering high-quality products, and the studio's previous titles in the *Warcraft*, *Starcraft*, and *Diablo* series of games were very popular. *World of Warcraft* itself is based on the previously established IP of the *Warcraft* universe.
- Fantasy theme. The MMORPG market is over 90% fantasy-based, a testament to the genre's popularity relative to others.
- Substantial development investment. *World of Warcraft* was in development for almost five years before launch, and estimates of the development costs for the game range from \$30M to \$60M, more than any other MMORPG on the market. This was certainly a contributing factor to the game's quality.
- Excellent graphics. High graphical quality is generally a strong factor in an MMORPG's success. While other games do offer better graphics, *World of Warcraft* maintains a very consistent graphical style.
- Content, content, content. A major factor in the success of *World of Warcraft* was delivering far more content than any other MMORPG to date at launch. This has been a strong factor in customer retention, enabling many subscribers to play for months without repeating any content.

Product Weaknesses

- Fantasy theme. One of the product's primary strengths is also a potential weakness. There are dozens of fantasy-themed MMORPGs competing in the marketplace, and dozens more in production that could draw customers away from *World of Warcraft*. In contrast, a sci-fi or horror MMORPG might be more resistant to competition.
- Large time commitment. Playing *World of Warcraft* requires a substantial commitment of time, especially as a player's character reaches the higher levels of the game. This makes it difficult for casual players to get into the game and limits the product's potential market.
- The innovator's dilemma. *World of Warcraft* now has a large, established customer base who have fixed expectations about the product. This limits the ability for Blizzard to make large changes to the product without losing current customers. This barrier to innovation may leave *World of Warcraft* vulnerable to newer competition.
- Customer ennui. *World of Warcraft* is entering its fourth year, and many of its players may be growing bored with the game. Gamers may be looking for something new and different, with an eye towards the "next big thing".

Competitive Overview

Current Releases

A number of currently active MMORPGs are competing with World of Warcraft for subscribers in the fantasy genre. The following list is not comprehensive; it addresses only the primary competitive titles WoW is up against in the North American and European markets:

- RuneScape (Jagex) – Currently has approximately 1.1 million subscribers in NA + EU and growing. RuneScape is a Java-based MMORPG that is very popular among teenagers and young adults, but is often not considered a traditional market competitor to WoW.
- Dofus (Ankama) – Currently has approximately 390,000 subscribers in NA + EU and growing. Dofus is a Flash-based MMORPG very popular in Europe, but again is often not considered a traditional market competitor to WoW.
- Final Fantasy XI (Square-Enix) – Currently has approximately 250,000 subscribers in NA + EU (500,000 worldwide) and falling.
- Lord of the Rings Online (Turbine) – Currently has approximately 200,000 subscribers in NA + EU and growing. Turbine's latest entry into the fantasy MMORPG market is showing signs of success, but it's too early to know how long those numbers will be maintained.
- EverQuest II (SOE) – Currently has approximately 200,000 subscribers in NA + EU, and growing. EQII was the direct successor to EverQuest, and was WoW's primary competition when it launched in 2004.
- EverQuest (SOE) – Still has approximately 175,000 subscribers in NA + EU and falling. EverQuest was the #1 MMORPG in North America and Europe until World of Warcraft surpassed them.
- Tibia (CipSoft) – Currently has approximately 120,000 subscribers in NA + EU and growing.
- Lineage II (NCSOFT) – Currently has approximately 85,000 subscribers in NA + EU (over 900,000 worldwide) and falling.
- Ultima Online (EA) – Old and venerable, UO still maintains some 50,000 subscribers in NA + EU (110,000 worldwide), despite its dated graphics and limited interface.

Future Releases

The risk to World of Warcraft's subscriber base from future titles is far greater than it is from current ones, as the future is much more difficult to predict. The following list only covers major titles in North America and Europe that are expected to compete with WoW in the next 2 years:

- Age of Conan: Hyborian Adventures (Funcom) – Due out in Q2 2008, Age of Conan is currently the “next big thing” and it has clearly generated interest among potential customers, with over 500,000 beta testers signing up to try the game prior to release. However, Funcom's previous MMORPG, Anarchy Online, was a spectacular failure, so it remains to be seen if they can deliver a quality MMORPG.
- Warhammer Online: Age of Reckoning (EA Mythic) – Due out in Q2 – Q4 2008, this game has generated a substantial amount of buzz, and is currently the leading candidate to potentially rival the success of World of Warcraft. EA acquired Mythic in 2006 specifically for this property, and they are expected to put a lot of money behind it. Combined with EA's recent acquisition of BioWare as well, it indicates that they are serious about getting back into the MMORPG business.
- Aion: Tower of Eternity (NCSoft) – Due out in Q3 – Q4 2008, Aion is NCSoft's next major title following in the tradition of the Lineage I and II. It is likely to achieve greater success in Asian markets than in North America and Europe.
- Stargate Worlds (Cheyenne Mountain Entertainment) – Due out in Q4 2008, this game is based on the popular Stargate science-fiction franchise. Cheyenne is a new company, however, and there is a good chance the game will be delayed until 2009.
- Hero's Journey (Simutronics) – Release date TBA (2008 – 2009). Simutronics has made small MMORPG titles in the past, but this is their first attempt at a major AAA title.
- The Agency (SOE) – Release date TBA (2008 – 2009). SOE's next major MMORPG title is a spy-themed shooter that may only have limited appeal; however, SOE's track record in the market cannot be ignored.
- Warhammer 40K Online (Vigil) – Release date TBA (perhaps 2009). Not to be confused with EA Mythic's MMORPG, not much is known yet about this title.
- Copernicus (38 Studios) – Release date TBA (perhaps 2009). Major League Baseball player Curt Schilling founded this studio in 2006 specifically with the goal of making a major MMORPG. Little is known about this title, but an early trailer for it was shown privately at this year's Consumer Electronics Show.
- Untitled BioWare MMORPG (EA BioWare) – Release date TBA (perhaps 2009). The details of this game are still unknown, but BioWare has a very strong reputation in the gaming community for quality products and a lot of experienced MMORPG developers are attached to this project.
- Untitled Red 5 Studios MMORPG (Red 5 Studios) – Release date TBA (perhaps 2009). Red 5 Studios is largely composed of ex-Blizzard employees. The company recently announced a publishing deal with Webzen for their upcoming title.

Market Projections

World of Warcraft Subscriptions Growth – Historical

The chart in Appendix 1 shows World of Warcraft subscription growth since its launch in November 2004. The top line (green) shows total subscriptions worldwide; the lines below break out subscriptions by region: Asia (yellow), North America (blue), and Europe (pink). Note that the sum of the territory lines does not equal the top line; this is because the number of subscribers by territory is somewhat inexact and the data points shown represent a minimal value; the actual number is probably somewhat higher. For example, the dip in Asia in December 2006 is probably misleading; the actual number of subscribers in Asia at that time was likely closer to 4.5 million than 3.5 million.

Each data series is also accompanied by a simple binomial trend line, projected forward through 2010. It is important to note that these trend lines do not represent actual growth projections, but simply allow one to get a gauge of how rates of growth are slowing or accelerating in each territory as well as worldwide.

From October 2004 to March 2006, WoW's subscription growth was quite steady, almost linear. There was a noticeable jump up in June 2005, which corresponds with WoW's launch in China, which accounts for the bulk of the Asian market. Growth began to slow noticeably starting in March 2006, and continued to slow during 2007.

WoW's first expansion, *The Burning Crusade*, was released in North America and Europe on January 17, 2007, followed by releases in other markets in subsequent months. The expansion did not launch in China until September 6, 2007. The expansion itself probably did not contribute much to the growth in worldwide subscriber numbers; most boxes were bought by pre-existing customers. Expansions primarily serve to maintain the retention rate of existing subscribers, as well as to provide fresh SKUs for the retail channel.

Between March 2007 and November 2007, WoW was adding only 100,00 subscribers per month. But in the following two months, WoW added 700K new subscribers. Why the sudden surge? The most obvious answer is strong holiday sales. In fact, you will find similar holiday jumps from Nov 05 - Jan 06 (600K) and Nov 06 - Dec 06 (600K). A probable driver of this year's holiday surge were a series of high profile television commercials, both in the US and Europe, featuring celebrity endorsements from the likes of William Shatner, Mr. T, Jean-Claude Van Damme, Verne Troyer, and Willy Toledo.

World of Warcraft Subscriptions Growth – Projected

Even with the holiday surge in subscriptions, WoW's trend is only on track for adding 100K to 200K subscribers per month, and that trend has been slowing. Historically even the best MMORPGs hit their peak after 3 – 5 years and stabilize there for a year or two before going into decline. WoW is entering its 4th year, and looks to be nearing its peak soon. Barring a launch into a new country or region (nothing has been announced, and nearly all of the major markets have already been entered), there is little reason to think this trend will be altered.

Asia (primarily China) has been growing faster than the other territories, and will probably continue to add 75K – 150K subscribers per month in the near future. North America and Europe combined will probably add 25K – 75K subscribers per month in the near future.

Based on the analysis provided above, I estimate that World of Warcraft will peak at approximately 12 million subscribers worldwide within the next 1 – 2 years. North America will be at 2.5 – 3 million, Europe will be at 2 – 2.5 million, and Asia at 6.5 – 7.5 million.

Supplemental Projections

I was also asked to provide some additional projections to help evaluate the future of World of Warcraft. I've attempted to answer the following questions to the best of my ability, based upon my research and analysis of the MMORPG market.

- What would be the impact to World of Warcraft's subscription base if Blizzard were to release a new MMORPG in, say, 2010?

This is a difficult question to answer without knowing in advance the genre and target market of Blizzard's next MMORPG. Possibilities include a sci-fi themed MMORPG based on their popular *Starcraft* series, a fantasy-themed MMORPG based on their popular *Diablo* series, or a direct sequel to World of Warcraft; i.e. WoW II.

It is likely that such any such game would be quite successful, although probably not to the same levels as World of Warcraft. Existing subscribers would not be cannibalized right away; rather it is more likely that WoW's growth at that time, already probably nearly flat, would remain steady while customers tried the new game. Long-term subscribers would have considerable attachment to their existing WoW characters and would want to hold on to them as long as they can justify the cost of multiple subscriptions. It would probably not be for another year after release until a substantial number of subscribers began canceling their existing WoW subscriptions.

A direct sequel to World of Warcraft would probably cannibalize more subscriptions from WoW than a Diablo MMORPG. A Starcraft MMORPG, on the other hand, would probably cannibalize fewer (being sci-fi rather than fantasy-based), and would probably be far more successful in South Korea due to the popularity of the franchise there.

Conclusions

Final Analysis

Based on the analysis provided above, I estimate that World of Warcraft will peak at approximately 12 million subscribers worldwide within the next 1 – 2 years. North America will be at 2.5 – 3 million, Europe will be at 2 – 2.5 million, and Asia at 6.5 – 7.5 million.

Charts

World of Warcraft Subscriptions Growth

