GAMEVIL'S GLOBAL STRATEGY
: IMPLICATIONS FOR MOBILE GAME INDUSTRY

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Abstract

Moblie games are getting popular in that more mobile handsets are available. The mobile phone is expected to be the dominant platform the way the PC turned out to be the dominant platform of desktop computing. Ubiquity enables the mobile phone users interact socially with other users. Mobile game developers are now competing globally on the Apple Appstore, where any developers in the world are able to publish their own games easily.

This study reviews the case of Gamevil, one of the leading mobile game service providers, from its foundation to the current global competition in order to draw implications for mobile game industry.

While Korea-based mobile publisher Gamevil is a major player overseas, the company only recently made an impression stateside, thanks to its success in the iTunes App Store.[1]

- Kyu Lee, President of Gamevil USA

Ⅰ. INTRODUCTION

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[1] Interview: Gamevil USA President Kyu Lee on Zenonia, Upcoming Hybrid 2 [06.25.10] http://www.gamesondeck.com/news/2092/interview_gamevil_usa_president_.php (accessed 4 July 2010)

In ten years, James Song had built the mobile game company Gamevil from nothing more than a college student club into an outstanding global company worthy of a reported $150 million market cap in the stock market. British daily Guardian introduced Zenonia, one of Gamevil's games, as one of ten essential Google Android games[2]. Smartphone app market grows so fast to have the $2.2 billion revenue totally generated from the sale of 3.9 billion apps across the first half of 2010 while they have $1.7 billion in the full year of 2009[3]. Above all, game category tops at the number of Apps and the number of paid Apps[4].

Nevertheless, other well-funded game developers had ported their games on smart phones before Gamevil published mobile MMORPG[5] at Apple App Store. Would mobile app store be the ground for the new entrants or traditional game players? Would this mobile game developer sustain its position in this war of smart phone games?

The organization had grown from just a few friends programming at a student club room in the college to a full-fledged technology business with over 100 employees and 10 million downloads. Song would have to develop a market strategy that could allow the company to keep up with its feature phones, while acquiring smart phone users located all over the world. The company's mobile application platform competition is very tough all the powers of such companies as Apple, Microsoft, Google, RIM, Nokia, Motorola, Samsung, LG and HTC, got into this market to have "smart phone war." Mobile carriers as well dashed into the war for the sake of not losing their controls over the platform to distribute the mobile software.

Building and executing right market strategies would be critical; getting the company to respond to the markets agilely would be a challenge for Gamevil founder and CEO, James Song, a graduate of Seoul National University.

1.1. Founder

As an undergraduate at Seoul National University, electric engineering major Song led the entrepreneurship club in the college. He used to enjoy simple arcade games when he was a young boy. It occurred to him to found the company to provide the simple games for Personal Communication Services (PCS) terminals with small black and green panels so that people can enjoy the games at their hands. At that time, the mobile platforms are

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[2] Ten essential Google Android games, Guardian, 4 August 2010
[3] PG.Biz news, 20 August 2010
[4] The Mobile Internet Report, Morgan Stanley, 15 December, 2009
[5] Massively Multiplayer Online Role-Playing Game

changing fast from pager to PCS. Many friends of hiswere negative and, in his words, said "who would play the games on such a small screen?.⁶" He added:

"From the very beginning when I started the business, I would make the games easy to play. At the point, online game service providers like Nexon and NC Soft, began to serve blockbuster games through Internet café. I imagine that people will enjoy small and easy games at their cellular phones. I believe in the potentials of Korean contents business as I witness the success of Korean movies, of which some attracted more than 10 million viewers. I thought that mobile games made in Korea can be competitive like the ways the movies and the online games did.

Mobile games have so low entry barrier that allowed lots of competitors with little capital and resource came into the market. Most of competitors have not much experience in planning and designs in the business perspective. They just deliver the games on the date they promised to do for telecommunication carriers.

When I think of mobile games, those games should be designed in details with the consideration on fresh items and target market. They certainly need prior investment and well-developed plans. 70:30 rules in the game industry in States work here as well. 70% of efforts should be input before the applications are coded".

1.2. Mobile games

Mobile games have its roots with handheld game consoles found in handheld and tabletop electronic game devices of the 1970s and early 1980s. These electronic devices are capable of playing only a single game, they fit in the palm of the hand or on a tabletop, and they may make use of a variety of video displays such as LED, VFD, or LCD. Around 1990, Nintendo began to release a portable electronic game console with the name of Game Boy, an 8-bit handheld video game device.

In contrast to computer-based or game console-based games, handheld games are run on machines with small machine size. It allows people to carry along anywhere and play around with it at any time when they are free. Generally, such machines can be referred to dedicated handheld game consoles, personal digital assistants (PDAs) or mobile phones. Due to the hardware limitation, such game devices are often suffered from small in screen size and limited in processing power and storage space, as well as the problem of short battery life.

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⁶ Who is moving the market: interview with Song, Donga Daily, 24 October, 2009

However, with the advancement of display and network technologies around the year of 2000, Nokia N-Gage [Nokia] and Nintendo DS [Nintendo] improve the game platform much more than ever. This made multiplayer online games be possibly supported.

Old time classic arcade games lost their base on these advanced platforms that allowed mobile phones to be an alternative to these old system based games. Putting games on essential devices, such as PDA or mobile phones, is favorable as this frees people from investing or carrying addition game devices for entertainment.

1.3. Foundation and growth

At the top of venture bubble, Song founded the game company named "Fitsnet" with the 15 game manias in the departments of electric engineering and mechanical engineering in the Seoul National University. Most of initial members were good at java programming to build the free web site of "Gamevil" where users were able to play Korean chess, Gomoku, Othello, Typing and Card games with no installation of any plug-ins.

Professor Kim, Wonchan who was in charge of the venture capital funded by engineering school professors, provides this company a free office and technical advisory services. 20 PhD students in the school were supportive and invested $100,000. The organization was tightly coupled with the entrepreneur student club to have a 2 week training program to secure the resource for game design and development.

8 months after its foundation, the company succeeded financing $700,000 from Hyundai securities, one of Hyundai affiliates. Mr. Namyeol Kwon, one of the early venture capitalists at the Hyundai financial company believed in the potentials with mobile games.

"Mobile game was a promising area, even though some of analysts were negative on the usages on the small screen. Luckily I found the capable people who were working in that area and I was pretty sure that they will make it in this lucrative area," said the capitalist, remembering the early stage of Gamevil.

After acquiring 720,000 customer bases at the free java game web site and serving 21 web games with about 3,000 users simultaneously, the game site announced that it became a charge-based game website in 2001. The charged "premium" services accompany 1) the sales of items for "avatar", a game character representing a user, 2) the public messages for "guild", a group of users playing together strategically and 3) the gift items for a user to give other. For the first 4 weeks after the change, the company had the revenue of $40,000.

LG Telecom, one of three telecommunication carriers in Korea made a contract to provide

some of selected java games of the company with their own brand name. And then they got to have more than 10 java games in services. The company expanded the types of the mobile games from the simple arcade to the role playing games as the mobile services got more active.

The other carriers commanding the majority of the telecommunication market such as SK Telecom and KTF would have their proprietary on wireless application platforms other than widely used java based system at that time. Furthermore, those two carriers had comparatively restrictive systems of "Master Contents Provider (MCP)" in which they have one MCP in each application category to control the release of mobile applications.

If we have 100% of revenue from selling a mobile game, 85% goes to the developer, 10% to the carrier and 5% to the MCP. However, when we consider the service charge for data communication, 40% will be the carrier's share and 60% the developer's. Telecommunication service providers are in dominant position to deal with the mobile application developers.

"Go-Stop" games — Korean version card game of poker— on feature phones were dominant and the game developers with special relationship with the carriers were able to hold the monopolistic position to distribute the card game exclusively.

At this point, Gamevil changed its strategy of production by financing its games more than industry customs. Around $30k to $40k was typically invested to build a mobile game at that time. Gamevil planned a new type of bigger mobile game named "Nom" —meaning "a guy" with the budget more than $100k. Mobile team leader, BongGu Shin, explained that this game was a milestone in that it has unique mobile functions with distinguished user interface of one button. Later in that year, this game was awarded the best mobile technology prize by the Korean ministry of information and communication. Outstandingly creative contents of Nom and Baseball games enabled Gamevil to provide their games through all three mobile carriers in Korea. Moreover, the standard for mobile and online game production was adopted in the company by obtaining ISO 9001:2000.

For the global perspective, the mobile developer put lots of resources to explore the market all over the world. In 2003, Gamevil participated in Java Mobile Challenge hosted by Singtel, a Singaporean telecommunication carrier and got in the list of top 5. Later it became the ground for the company to provide some games the carrier in Singapore. Then Motorola China gave an order to have 2 mobile games embedded to their new phones sold in China. The game company's exports got extended to Europe, Middle East and Southern and Asian countries.

Gamevil has been trying to build global sales base to have business in the

telecommunication carriers in the States since year 2004. Differentiated game features providing deferent mobile games were appealing to the mobile service providers. CBS Sportsline baseball game was in vogue that led to it being downloaded more than 70,000 times within 2 months after the release, ranking within Top 5 in the hit chart of Verizon and Cingular.

Around the end of 2005, the venture capitalist Mr.Kwon invested additional about $3M for overseas marketing and sales. Dedicated resources were allocated to prepare for the yearly game conferences and Gamevil finally made a contract with Cingular Wireless LLC, the largest United States mobile phone company after they opened U.S. branch in Los Angeles in 2006.

II. The Mobile Game Industry

The first cell phone game was Snake, which was first released in 1997 as an embedded application for Nokia phones. Soon WAP or Wireless Application Protocol was introduced, provided the environment of constant connectivity and wireless competition. WAP technology eventually gave way to J2ME (Java 2 Mobile Edition), BREW (Binary Runtime Environment for Wireless), and various platforms.

Companies like Sega, THQ, Namco, Electronic Arts, and Ubisoft's Gameloft all instantly became recognizable to console and PC gamers became known for their quality efforts in the mobile arena. Sega's Super Monkey Ball, which debuted on Sprint's burgeoning Vision service, was the first of many major console-to-mobile ports.

Cell phone games were not as expansive or as popular as console games, as the phone's hardware was not suited to high-color screens or sounds beyond differently pitched beeps. The games were usually animated with black squares. These games used to come pre-installed on the cell phone, and could not be copied off or removed.

With the advancement of technologies, mobile games' graphics got improved and Cell phone games now tend to take up a large amount of memory on cell phones. With the adoption of smartphones, mobile Internet requests are growing rapidly worldwide. Mobile traffic from each region has increased at least 4 times for 2008 and 2009. In May 2010, smartphones generated 46% of traffic in the AdMob[7] network, up from 22% two years ago. The launch of new Android devices over the year of 2009 has led to rapid growth in the Android platform.

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[7] A mobile advertising agency

The iphone and Android platforms show a higher usage than the share of handsets sold, primarily due to strong app usage. Users of the iphone and Android platforms regularly spend at least 79 minutes a day using apps[8]. Consumers on the iphone and Android platforms download approximately 9 apps a month.

There have been a lot of changes after the introduction of smart phone mobile application markets -- Apple's App Store and Google's Android Market. Apps must be submitted to Apple for review and Apple ultimately decides what may or may not be sold in the Apple App Store. In contrast, Android Market is an open system. Developers can directly publish their applications to the market without having them filtered through a central authority.

This means that the Android Market is likely to have a greater variety of applications and content but end-users have to accept that the applications are not being screened. There is a definite trade off. The Android Market does support a community rating and comments section, which helps provide rating against poorly designed or malicious applications.

For a developer trying to get a new application noticed, there is less competition in Android Market. Currently Android Market hosts about 20,000 applications while the Apple app store has over 100,000 applications. There is a lot more room for new and innovative applications in the Android market[9].

According to user application survey, iPhone users download 7.0 free apps out of 8.8 applications per month, while Android users shows similar habits downloading 7.6 free apps out of 8.7 as iPhone users. For Apple App Store, 82% of the top 50 iPhone/iPod touch apps are Games and the average price rate of the top-25 paid iPhone app was $1.51[10].

It is commonly said that mobile game players are mostly casual gamers who play the games for a few minutes when waiting for something or being bored. Many core or hard core gamers as well play mobile games. The typical places that are reported for playing these games where the gamers are playing these mobile games include home, work and in-betweens. It seems to be common to play mobile games in places like bed before going to sleep, playing on the couch while watching TV or at seats of subway and bus. Various types of mobile games exist, but we are going to categorize these into three based on the divisions of the mobile game industry[11].

2.1. Snack games

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[8] Admob mobile matrix, http://matrix.admob.com
[9] Android Market Versus Apple App Store, Cellflare News, 20 May 2010
[10] Apple App Store Analysis: Here's The Difference Between The iPad And The iPhone, Business insider, 27 May 2010
[11] Mobile Games 2010, Nokia Research Center, 2007

Snack games are small simple games that are typically played just for a while when the player is bored or waiting for something and then set aside. These games are typically small puzzle games or simple arcade games.

The mobile phone fits very nicely for snack gaming since it is always available and many players do not care about deeper gaming experiences much. Instead, they are satisfied with more casual gaming experiences.

2.2. Cross−platform

There are two types of cross−platform--Disconnected or connected. A disconnected cross−platform game is in different platforms just sharing the same game license, but the gameplay in different platforms does not have any connection. These games can have similar stories or gameplay, or they can be complementary. One example of this could be a console game or a movie that is complemented with a mobile game where a small part of the whole story is revealed.

A connected cross−platform is allowing the players to use two or more platform to access the same game. The ways to play the game with the different platforms are similar or different. The PC or console games that will use mobile phone to support the game will simply connect to the communication channels of the game.

2.3. Online/social games

With Wi−Fi services and flat rate data plans, users are able to stay log−in the online games through their mobile devices. The community is also seen as a very important part of the game, particularly in the case of multi−player games.

Some of the online games make use of the concept of Location Based Services (LBS). The users of the location−based game can browse other users of the same application who are in the vicinity, and see if they can find someone interesting, share files, and more.

III. Global publishing through Apple App Store

In early 2007, Apple's iPhone was introduced with the distinguished Wi−Fi connectivity functions. Traditional revenue share model between the carriers and the mobile application

developers did not work on iPhone. Furthermore, the early adopters of technologies, the group overlapped with game players, were in favor of iPhone.

The App Store opened on July 10, 2008 via an update to iTunes. The App Store is a service for the iPhone, iPod Touch and iPad created by Apple Inc. which allows users to browse and download applications from the iTunes Store that were developed with the iPhone SDK and published through Apple. Apple allows 70% of revenues from the store to instantly go to the seller of the app, and 30% go to Apple[12].

Gamevil released in the App Store, Baseball superstars 2009 which was familiar to the public in States with the Cingular, Verizon, and AT&T services and then released Zenonia to the Store at the price of $5.99 and had it at All Games Top Paid 50 within 5 hours. Zenonia was remarkable as the first role playing game(RPG) type on the Ass Store(←What is this), which was campaigned through word-of-mouth. In Zenonia, users are able to raise their own character by choosing from one of the four classes and level up as they play through the game. In an effort to make their characters highly customized and unique, users have been actively searching, creating, and sharing items for the game. The developer considered device features of iphone and iPod touch such as Touch User Interface, accelerometer and 480X320 LCD screen size. They have forums where users have been actively trading and showing off their characters in order to cope with the various requests.

IV. Financing

In July 30th ,2009 Gamevil had started an IPO in KOSDAQ(Korean Securities Dealers Automated Quotations). Then at that time, the second quarter's sales of the company increase to 67% which is 5.4 billion KRW compare to quarter sales of the pervious year. On the other hand it's operating income and net profit increase by 188% and 214% which is 3.2 billion KRW and 2.6 Billion KRW respectively. Its quarterly sales, operating income, and net profit each increased 30%, 74%, and 55% compared to the first quarter of 2009. It is estimated that its operating profit percentage of 59.3% has been the highest even in the company's history.

Games Such as Baseball superstars and HYBRID: Eternal Wispers have gained lots of popularity which lead to a large increase in the numbers of downloads of these games. Its Average revenue per user has witness an increase at a steady rate by revenues coming from micro transactions. Also the company's growth in revenue from global markets

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[12] Analyst: There's a great future in iPhone apps, Venture Beat, June 11, 2008

such as apple app store had been witnessing a continuing stream of increase in its revenue.

"We'll continue to grow in the later half this year with sequels of our current portfolio and new franchises released in the domestic Korean market.", said Chief Financial Officer, Yong Kuk Lee. "Also we're planning to bring more new titles to the global open markets as our future growth strategy."

By the end of 2009 and compared to 2008 Gamevil has reach a historical point in have the highest increased in its annual sales history which is was 59% which amounts to 24.4 billion KRW in compared to 2008. Its operating income and net income each increased 118% and 124% to 13.6 billion KRW and 11.8 billion KRW respectively. Operating profit percentage was 56% and net profit percentage was 48% in 2009.

In the first Quarter of 2010 gamevil has accomplished an income of 3.37 billion KRW which is a 99% increase compared to the pervious year income. In that same quarter, gamevil had achieve it best first quarter interim of revenue. It revenues were 6.30 billion KRW, which is a 52% increase from last year increase in revenues. In that same quarter Operating profit percentage and net profit percentage was 56% and 54% respectively.

Developer and Publisher of the game industry continue to witness an increase in profitability noting that it is the highest interim of the mobile game industry. In the first quarter the sales were mainly lead by games like Baseball superstars and Zenonia, also by newly introduced games such as Soccer Superstars in the Korean market. Gamevil has witnessed an increase in it consolidated overseas revenue of 53.7% compared to it's first quarter in the year of 2009 and 12.5% compared to its fourth quarter of 2009 from App stores such as apple's App store and Google's Android App store. It is important to note that this increase in revenue steams from previously existing games without any introduction to newly introduced games in the overseas market at that period.

Gamevil continuing success speaks volume in that its commitment to provide successful popular games, good marketing strategy and the overall wiliness to expand its domain into multi-platform to provide its customers an everlasting game experience on the go.

Yong Kuk Lee, Chief Financial Officer commented, "Opportunity for growth in the global market through open markets such as Apple's App Store has been a big momentum. We will continue promptly adapt to the rising base of advanced mobile platforms and deliveries through digital distribution."

V. Growth Opportunity

"We are expecting market changes will exist in 2010 due to wide spread of Smartphones,

active open markets, and usage of wireless internet." Sangjin Woo, Strategic planning team leader of the company pointed out. "Currently, the focus of the mobile game industry has been shifting from the old meaning of mobile games to more diversified platforms such as the Smartphones, MP3 Players, Portable Video Game Players and Tablet PCs."

It is important for Gamevil to efficiently adapt to the fast changing environment, so that the mobile game developer/publisher continues to achieve mid-long term growths.

Therefore, in the domestic market, Gamevil needs to keep its focus on continuously launching better sequels, and trying to successfully develop new games. In the overseas market, the company must achieve brand recognition of the core title games, needs to promptly adapt to diversified new mobile platforms, and create next generation games that are optimized for the new mobile gaming environment.

Exhibit 1
Screenshots of selected Gamevil games

Nom 2003

CBS Sportsline baseball game 2004

Go-Stop Card game 2005

Baseball superstars 2009

Zenonia 2009

Exhibit 2

    Apple App Store All Games Top Paid, June 2009

Exhibit 3

Annual results 2008, 2009
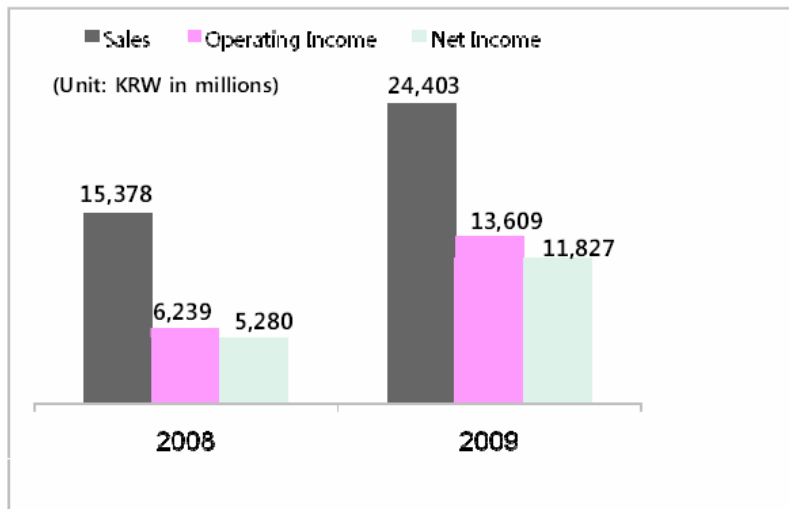
	2008	2009	YoY
Sales	15,378	24,403	58.7%
Operating Income	6,239	13,609	118.1%
Net Income	5,280	11,827	124.0%

(Unit: KRW in millions)
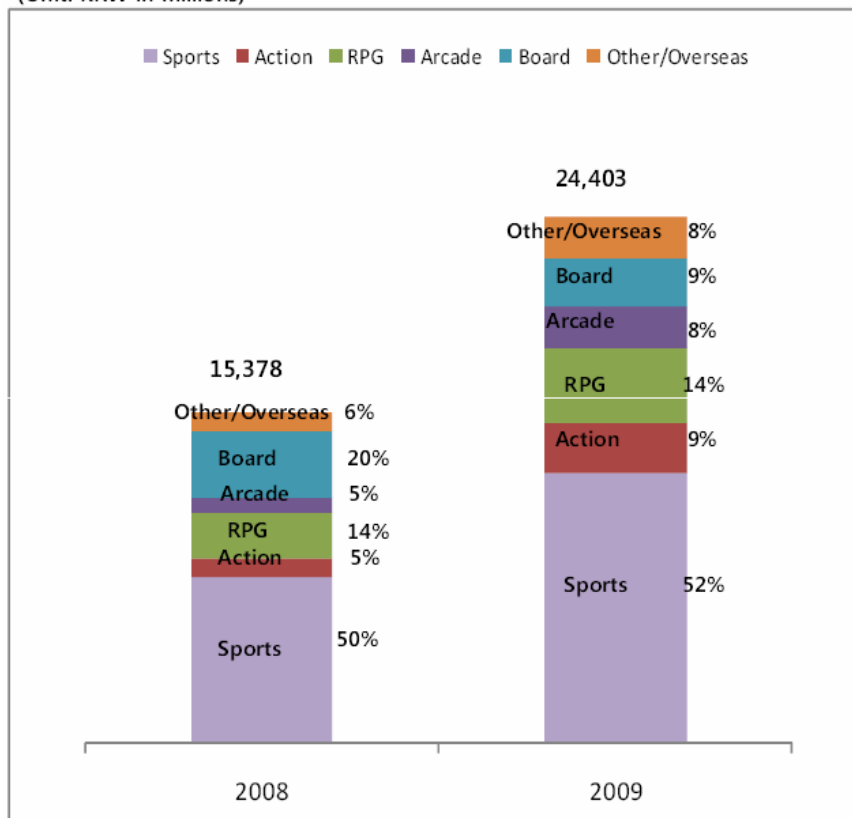
Exhibit 4
        Launched games in 2009

		1Q	2Q	3Q	4Q
DOMESTIC		HYBRID BIG TROUBLE ON LITTLE EARTH 2 KATAMARI DAMACY (Publishing)	TRADITIONAL MATGO 2009 NOM ZERO CHUZZLE (Publishing)	MUSIC FACTORY MOONJILUH WINNERS SOCCER (Publishing) ZENONIA 2	BASEBALL SUPERSTARS 2010 TRADITIONAL MATGO 2010
OVERSEAS	Apple App Store	BASEBALL SUPERSTARS 2009 (Launched in Dec. 2008)	ZENONIA	HYBRID: ETERNAL WHISPER BASEBALL SUPERSTARS 2010	BOOM IT UP!