



GAME DAY Blizzard co-founder Mike Morhaine gets in touch with his inner elf at the company's headquarters.

SPOILS OF WARCRAFT

Blizzard Entertainment built **WORLD OF WARCRAFT** into the most profitable videogame of all time by betting that orcs and warlocks weren't just for the Dungeons & Dragons set.

Here's how they persuaded eight million people to play—and pay. **BY ROBERT LEVINE**

Strange things are afoot in the land of Azeroth. The most powerful humans, orcs, and night elves have grown restless, for many among them have explored all the known kingdoms, from the city of Tyr's Hand to the Blasted Lands. But just when it seemed that no quest could challenge them, the Dark Portal opened in the southern mountains. On the other side, the Stair of Destiny leads to the Outland—and another world of adventure.

The mysterious beings that oversee the Dark Portal work on the second floor of a tan office building in Irvine, Calif., in a room about 1½ times the size of a basketball court. They're mostly twentysomethings, huddled in cubicles, furiously typing away at computers. With the room's fluorescent lights turned off, everything is cast in an eerie blue glow from scores of monitors (and at the end of the room, a

supermarket-style glass-door refrigerator filled with Coke). It is from here that some of the 1,200 game masters for the online PC game World of Warcraft watch over their fictional realm, settling disputes and otherwise keeping order.

The room also happens to be in the headquarters of Blizzard Entertainment, a unit of Vivendi that in 2004 released World of Warcraft. Known as a "massively multiplayer online" game (MMO for short), it's a hybrid of a traditional PC game and an online Second Life-style virtual space, where players interact in a world that continues to change after they log off. As in Dungeons & Dragons, players create a character from a selection of races and occupations—gnome, dwarf, warrior, warlock, etc.—and use keystrokes to slay monsters, gather treasure, or just talk with friends as one might in a chatroom.

At this point nongamers might be tempted to write off Azeroth as the latest in a series of hyped-up virtual worlds that seem to be populated entirely with digital tumbleweeds. Except for one thing: World of Warcraft makes money—a great deal of it. The game has eight million subscribers around the world. In the U.S., players buy the software, then pay a \$15 per month all-you-can-play subscription fee (European gamers pay a similar sum, while in Asia, players purchase time cards). That makes World of Warcraft the most profitable videogame ever made—analysts believe that Blizzard took in a billion dollars in 2006 alone, with a profit margin of over 50%. (Vivendi does not break out costs or financial results for the division, but several executives at rival companies believe Warcraft must have run at least \$50 million—as much as some Hollywood movies.)

Though everyone from Sony to Electronic Arts is placing huge bets on costly new MMOs due out this year, the Warcraft juggernaut shows no signs of slowing down. In January, when Blizzard released Burning Crusade, the \$40 game expansion that lets players journey beyond the Dark Portal, 2.4 million people bought it on the day it was released. Hot Topic and other retailers sell T-shirts printed with sayings from the game, a big-budget movie is in the works from Legendary Pictures, and an entire *South Park* episode was devoted to the game (Cartman, Kenny, and Stan bravely go without

SCENE STEALER
Warcraft's Burning Crusade features cutting-edge graphics.



THE ART OF WAR

Can't tell a night elf from a nether dragon? Here's a player's primer.

1 Start your quest. Your adventure begins at a game store or electronics retailer, where you can now buy World of Warcraft for about \$20. Install it on your computer—easy but not fast—and sign up for a \$15-a-month subscription.

2 Master your domain. The game is played on multiple servers; some allow more battle among players, while others require players to stay in character (i.e., no talking about real life). Create a character by choosing a side in the war in Azeroth (the Alliance or the Horde), then a race (the Alliance is made up of humans, dwarves, gnomes, and night elves; the Horde has its own races), and a class (warrior, warlock, etc.).

3 Find a mentor. Look for "questgivers" with yellow exclamation points above their heads and follow their instructions to gain experience, weapons, and skills. Your first quests will be close by and easy.

4 Do battle. You'll move through the first few levels relatively quickly as the questgivers give you tasks that take you to different parts of Azeroth to face more powerful foes. As you do, you'll get more weapons and more skills, such as alchemy or engineering. (Our advice: Choose engineering, as the job market for alchemists has never been worse.)

5 Make friends. As you advance through more difficult levels, other areas of Azeroth will open for you, but you'll need the cooperation of other players to raid some of the dungeons Blizzard periodically adds to the game.

6 Expand your horizons. Once you reach level 60, there's nowhere left to go—except back to the store for the \$40 Burning Crusade expansion pack, which will take you through the Dark Portal to the Outland and up to level 70. There you'll fight more powerful monsters and ride flying steeds that can carry you from island to island. Sure beats walking—or for that matter, working.

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bathroom breaks to prevent “the end of the world ... of Warcraft”). In China playing time was so out of hand that the government recently instituted measures that de-power gamers’ characters if they spend too much time on MMOs like Warcraft. And it’s not just the comic book convention crowd that’s hooked. A friend of mine recently confided that he was worried about his wife’s five-hour-a-night habit. She’s 38. And she’s a lawyer.

Mike Morhaime is in touch with his inner elf. Dressed in jeans and sitting at a round table in his Irvine office, he punctuates observations about the game market with nearly impenetrable Warspeak. “When it’s lucrative to harvest gold,” he tells me, “it incentivizes people to create hacks.” (He’s referring to the way gamers use “bots” to manipulate online economies.)

Morhaime and two friends founded the company in 1991 as Silicon & Synapse, then changed the name and hit their stride in 1994 with the release of Warcraft: Orcs and Humans, a fantasy-themed strategy game for standalone PCs. (Imagine Risk with trolls instead of tanks and you’ll get the idea.) It sold so well that the company released Warcraft II: Tides of Darkness the next year and an expansion pack with new content soon after. As the games became more complex, a former J.C. Penney watch repairman named Chris Metzen, who joined Blizzard as an artist, greatly expanded Azeroth’s backstory, a tangled, Tolkien-esque pseudohistory of unearthly creatures, ruined cities, and legions of doom. “I was a big D&D geek,” offers Metzen, now Blizzard’s VP of creative development.

During the mid-1990s, the company also started two other franchises, Diablo and



DIFFERENT WORLD Surrounded by action figures, Blizzard executives strategize in Irvine, Calif.

StarCraft, and built a reputation for making graphically polished PC games that won fan awards and spent months on best-seller lists. Despite its success, the company stayed small, rarely releasing more than one title a year to keep quality high.

In 1999, Morhaime and his colleagues noticed that the staff was spending more and more time playing an MMO called Everquest. MMOs trace their roots back to the early days of the Internet, when hackers gathered in virtual rooms called

Blizzard optimized the game for different countries. In Korea, for instance, it's easier to play with one hand—since so many gamers there smoke.

MUDs—for multiuser dungeons, since many of them had a fantasy theme. Settings and people were represented by text—computers told you what you saw, since they weren’t powerful enough to show it. This changed in 1997 with the release of Ultima Online, which presented a graphical world that players could walk through; two years later Sony Online Entertainment launched Everquest.

Jokingly called Evercrack, the addictive game had 450,000 subscribers at its peak—but it wasn’t exactly

accessible. Players were given few directions, and advancing required a substantial time commitment. “A lot of games that preceded Warcraft made the assumption that this type of game wouldn’t appeal outside the hard-core audience, so that’s what they targeted,” says Morhaime. “We thought this type of game could appeal to more people if we made it easier to use.”

So Morhaime assembled a team of close to 100 developers, designers, and artists to start writing the code and building out the Warcraft world. He knew that to broaden the audience for the MMO—and to justify a monthly fee—the team had to rethink how such games were played. They started by designing Warcraft so gamers could play alone instead of having to find a team. They also added a “resting” feature so people who went a few days without playing—perhaps distracted by trifles such as work and family—would log in to find that their character had gained some experience (thus allowing casual gamers to compete with addicts). And Blizzard pioneered “instancing,” where certain dungeon areas are separated from the shared universe of the game so that players don’t have to line up for their chance to slay a dragon

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(a common complaint in Everquest). Finally, while most games are simply translated into different languages, Blizzard redesigned the interface for different countries. In Korea, for instance, World of Warcraft is easier to operate with one hand since so many gamers there smoke while they play.

Launching such an elaborate game was risky for a company with so few products in the pipeline. Initially, not everyone at Blizzard believed an MMO was a great idea. Frank Pearce, senior vice president of product development, says he wasn't sure how players would react to a game that couldn't be finished. "I was one of the skeptics," he admits.

But when Blizzard started beta tests, players went wild, so the company took the unusual step of releasing testers from their non-disclosure agreements to further build buzz. Hours before the game's release, a group of Blizzard designers drove to a local computer store for a midnight sales event—and discovered a line that snaked around the store, into the parking lot, and down the street. "We looked at the sales of Warcraft III, which at the time was the bestselling PC game of all time, and we said, 'That's got to be our ceiling,'" Morhaime says. "We were wrong."

As a gnome, I enter Azeroth in a snowy forest in Coldridge Valley—and immediately see a computer-controlled figure with a yellow exclamation point above its head. Using the keyboard to walk and the mouse to turn, I approach him to receive a quest. He asks me to gather some wolf pelts—it does look cold—so I walk down a hill, smite some wolves, and return to claim my reward. All the while, the game subtly directs me toward objectives that let me improve my skills. Within an hour I've gained a level and the confidence to walk into the next valley.

If I were to continue playing, World of Warcraft would

grow progressively harder, and eventually I'd have to join forces with other players to accomplish more difficult tasks. I'd probably make friends and gather rare items and weapons—in other words, I'd invest in the place. And it's that investment that makes the economics of MMOs so interesting.



SHOT IN THE PARK A *South Park* episode parodied Warcraft obsessives.

For starters, developing a game is extremely expensive. Warcraft "is probably one of the top three to five most expensive games ever made on any platform," says Paul Sams, Blizzard's COO. Including development, marketing, and initial costs for servers and support, an MMO can easily cost more than \$70 million, according to Robert Garriott, CEO of NCsoft, which has a title due this fall. Post-launch, the costs keep coming. Sams says that Blizzard spends tens of millions of dollars a year on servers and

bandwidth—he declines to get specific, but the company rents space at seven offsite data centers in the U.S. alone—plus more on game masters (more than 1,200 worldwide) and tech support and billing people (about 200 total). The team developing expansion packs and content to upload to the game is almost as big as the one that created the original product. "It's really a service business," says Michael Lewis, CEO of Cryptic Studios, which is working on an

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MMO for Microsoft Game Studios.

Few customers will subscribe to more than one MMO because of the time and money involved. So World of Warcraft benefits from the "network" effect: Since people want to play with their friends, they tend to favor titles with some scale and grow increasingly reluctant to leave. It's the same

force that makes it difficult for other social-networking sites to compete with MySpace.

So can anyone unseat the rulers of Azeroth? Most MMOs currently on the market have fewer subscribers than they did before 2005. "I'm not sure that Blizzard is expanding the market so much as sucking up everyone who's ever wanted to play one of these games," says Wedbush Morgan analyst Michael Pachter.

There's no question, however, that the competition is getting stiffer: Earlier this year Sony Online Entertainment released a more complex fantasy game called

Vanguard, Midway Games is publishing an anticipated MMO based on *Lord of the Rings* this spring, and Electronic Arts is working on a massively multiplayer version of the strategy game Warhammer for release toward the end of this year.

Blizzard, too, is working on its next release, although it won't disclose any details. Meantime the company has another battle to fight: boredom. To keep players engaged, designers must continually build new dungeons and develop expansion packs for players who have conquered everything the initial game has to offer (as in any such business, it is far easier to keep current subscribers than to find new ones). "It's serial storytelling," says Metzen. "But there's a new tension there: Is this going to make three million people quit?"

Back in Blizzard's dimly lit lair, that's what the caffeine-fueled game masters are trying to avoid. They're coming to the aid of stranded adventurers, settling arguments over magic swords, and otherwise keeping the peace—at least by the standards of a world that's continually at war. They don't look particularly worried. After all, once you've braved an army of fel orcs in the Hellfire Citadel, how scary can Electronic Arts really be? **F**