



WIZARDS OF THE COAST

Wizards of the Coast is a startup company best known for the some of the world's best-selling card games. It is a leading developer and publisher of more than 30 card and board games targeted at adventure-gaming, and mass-market audiences. Additionally, the firm has produced an extensive line of licensed products, and publishes a wide variety of fantasy-based novels and several consumer publications, including *The Duelist*, *The Duelist Sideboard* and *Amazing Stories*. The firm's success is based on its stellar product *Magic: The Gathering*, a collectible trading-card game that requires a combination of strategizing and luck to survive in the fantasy world of *Dominia* (see **Appendix A**).

Since its release in 1993, over 5 million consumers have embraced *Magic* worldwide. The game, now available in nine languages (Chinese, English, French, German, Italian, Japanese, Korean, Spanish, and Portuguese), is played by consumers in over 52 countries around the world. With *Magic*, Wizards of the Coast single-handedly resurrected the declining card-game industry.

COMPANY BACKGROUND

The Genesis

Wizards of the Coast was founded by Peter D. Adkison in 1991. With a vision of establishing a career in the adventure gaming business, Adkison combined efforts with six other young professionals. Working with them, he developed and created role-playing games in his spare time. In 1991, Adkison was 29 years old and worked for the Boeing Corporation as a computer systems analyst, but was eager to start his own venture. Recalls Adkison: "I was a small cog in a huge machine that itself was a small cog in a huge machine."¹

This case was prepared by Frank T. Rothaermel, Suresh Kotha and Dick Moxon, all from the University of Washington Business School, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright © Rothaermel, Kotha, and Moxon 1998. All rights reserved.

¹ Game Wizards work to keep *Magic* alive, *Columbian*, January 30, 1996.

Adkison has been intrigued by strategy and role-playing games ever since he was 11, when his father was his first tutor and playmate. Later in high school, he developed a long-standing passion for role-playing games, which inspired his dream of creating fantasy-adventure games. A turning point in his life came in 1991. Adkison, while surfing the Internet, met a fellow-game inventor Richard Garfield. Garfield was a 27-year-old Ph.D. student in combinatorial mathematics at the University of Pennsylvania and was an avid game aficionado who had been designing his own games from the young age of 15. As a graduate student, Garfield was trying to market a board game he had designed called *RoboRally*. At this serendipitous encounter over the Internet, Adkison and Garfield discussed the idea of collaborating on fantasy/adventure games.

Recalls Adkison: "My idea was to combine a fantasy game concept, where players controlled the acts of mystical characters, with a "trading-card" format, where fans could buy and sell collectible cards similar to that of their sports heroes." Recalls Garfield: "The concept of a trading card game was one of the only 'Eureka!' experiences I've had."² He (Garfield) too had contemplated about the creating fantasy games since the mid-1980s when he first played a board game named *Cosmic Encounter*. One of the pieces in *Cosmic Encounter* had special powers. By invoking these powers a player could change the rules of the game in mid-game. This intrigued Garfield. And he wondered, 'What if all the pieces were magic, each one altering the game in some unique way?' He had always believed that this idea could lead to a board game that was truly based on fantasy.

Adkison, however, persuaded Garfield not to work on a board game but instead focus on cards. Adkison's wanted to avoid the 'elaborate' equipment of a board game. Recalls Garfield: "The goal was to create a game that was fun and portable and that could be played under an hour." Ultimately, Garfield's notion of fantasy, and Adkison's idea of a trading-card format, formed the basis for a new card game that Garfield invented in three months. Adkison and Garfield called their joint invention *Magic: The Gathering* (see **Exhibit 1**).

While *Magic* was being test marketed and readied for release, Garfield began teaching math at Whitman College in Walla Walla, Washington. In August 1993, operating as an eight-person company out of the basement of Adkison's home, Wizards of the Coast released *Magic: The Gathering*. The game became an overnight success and won critical acclaim from industry observers and critics.

The first trading card game of its kind in the world, it sold more than 10 million cards in just six weeks, even though the company had estimated that this first printing would last one year. Notes Wayne Godfrey, CEO of War Games West: "My initial order was for 24 units, my second order was for 572, and third was 'send everything you've got in the warehouse.'"³ An immediate success, *Magic* established Wizards of the Coast as a dominant player in the adventure card gaming industry.

With *Magic's* success, Garfield quit his teaching and began to pursue his true passion as a game inventor with the Wizards of the Coast. Adkison made Garfield an equity partner in Wizards of the Coast, and fully dedicated his then fledgling firm to creating fantasy card game. Adkison too quit his job at the Boeing Corporation to become the president and CEO of Wizards of the coast.

In less than two years, Adkison has taken the firm from a basement business to a gaming corporation. According to industry analysts and observers, the firm recorded sales of about \$50 million in 1994, the first full year that *Magic* was sold. This amount then doubled in 1995. For this outstanding

² Kimberly Wilson, "Generation X gets its magic moment and killing' opponents is part of the game," *Seattle Post Intelligencer*, August 15, 1998.

³ Seanna Browder, "Zero to \$50 million: Now that's *Magic*," *Business Week*, October 2, 1995, p. 10.

accomplishment, Adkison received the 1995 Northwest Entrepreneur of Year award, an award sponsored by the consulting firm Ernst & Young, *Inc*, and others.

In 1998, the firm's estimated sales were greater than \$100 million. It had more than 500 employees and was located in a new 178,000-square-foot office complex down the street from Boeing Corporation's job center in Renton, Washington. It had international offices in Antwerp, London, Milan, and Paris.

THE ADVENTURE GAMES INDUSTRY

According to the Game Manufacturers Association, the term "adventure games" covers a broad spectrum of board games, miniatures games, role-playing games, card games (conventional and collectible), computer games, and play-by-mail games. According to the *Game Manufacturers Association* estimates the adventure games industry generated sales of about \$750 million in 1995, an amount that represented about 60 percent of the \$1.25 billion generated by the entire game and puzzle industry (see **Exhibit 2**)

Although there is no clear distinction between adventure and family games, what makes adventure games unique is the fact that people pursue these games as a serious "hobby." Players dedicate a certain amount of time, on regular basis, to pursue a certain game. The time dedicated ranged from casually playing for an hour or two a week to many hours per week. Such dedication was generally extended over a long period of time, often years.

Many adventure games are so complex that they require a total player commitment. Perhaps this explains why some adventure games such as *Dungeons and Dragons* have a cult-like following. This dedicated involvement by the players—gaming as a serious hobby—is the common denominator in defining adventure games. Playing adventure games became an important part of a player's life and many players were often addicted or obsessed with these games. Finally, these adventure games included elements of fantasy and the *occult*.

According to a survey conducted by the *Game Manufacturers Association* adventure game enthusiasts were young, literate and did well in scholastic endeavors. The survey results indicated that a majority of them were very young—about 31 percent were between 10 and 14 years of age, about 37 percent were between 15 and 18 years old, and 32 percent were 19 years or older. The survey also revealed that about 82 percent of the respondents noted that they maintained a grade-point average of 3.0 or better in high school or college, and about 65 percent said that they read 36 or more books a year. And about 80 percent described themselves as book reader (See **Exhibit 3**).

Within the adventure games, there are many different market segments.

Historical Games

One big segment of the industry comprises of historical games such as miniature games and board wargames.

Role-Playing Fantasy Games

This segment comprises of role-playing games such as the 'infamous' *Dungeons and Dragons*.

Collectible Card Games

A third major segment comprises of collectible card games – like *Magic: The Gathering*.

Most adventure games are sold through independent or franchised game, comic, or hobby shops. Some popular games that have a large following such as *Magic* are also sold in national chain toy stores, such as Toys-R-Us, and in bookstores such as Barnes & Noble.

STRATEGY OF WIZARDS OF THE COAST

Adkison also believes strongly in the intellectual and educational value of Wizards' games. They are "a mental analog to sports," stretching the mind in the same way that athletics stretch the body.⁴ Notes Adkison, I wouldn't mind being a \$500 million to \$1 billion company. We want to make games as big as the movies. Garfield, the inventor of *Magic* sees adventure games as the "intellectual counterpart of sports – they keep you mentally fit." He also believes that with playing *Magic* comes "a lot of stealth education," whether it's art appreciation because of the beautiful cards or enhanced literacy because of the occasional quote from Shakespeare on the *Magic* cards.⁵ Garfield also believed that *Magic* was a strategic game that can only be played successfully when the player had a good understanding of strategy, probability, and chance.

Product Strategy

Magic's success has enchanted the adventure games industry since the famous game has virtually conjured the card-trading industry over night. According to Matt Mariani, managing director at Decipher Inc., a Norfolk, Va., company that bought Start Trek and Star Wars collectible card games once Wizards established the field: "*Magic* has really changed the way people play games. The serious game players are taking to this *Magic* game like I've never seen before. It's amazing. It's just wonderful."

Magic cards are sold in "starter decks" of 60 randomly selected cards for about \$8.95, and "booster packs" of 8 or 15 cards for about \$2.95 retail price. Even though these are the recommended retail prices by Wizard of the Coast, it is not uncommon for retailers to mark up the prices of highly demanded cards. Some stores even unbundled the decks and sold the cards individually. The price of each card is determined by its strategic role in the game and its collector value. Important to note is that each "starter" and "booster" deck is unique, so no one starts out with an identical deck. Therefore, players buy "booster decks" or individual cards or trade cards—often via the Internet—to enhance their individualized starter deck.

The cards feature beautiful, original artwork that appeals to fantasy game players and collectors alike. As a consequence of this, *Magic* cards are both collected and traded—some for their strength, some for their scarcity, some for their beautiful artwork. A noted example of a highly desired card is the *Black Lotus*, of which only 1,100 copies were printed out of the approximately 3 billion cards printed in total (see **Exhibit 4**). The *Black Lotus* is so powerful that it has been banned for some of the professional tournaments organized by Wizard of the Coast. The quotes for the 'black market' price for the *Black Lotus* ranges from about \$150 to more than \$1,000.⁶

The game itself has won several prestigious awards, including the "Top Five Mind Games" award from Mensa, the high-IQ club, Game of the Year from the Italian Gaming Society in Rome and a "Good as Gold" award at the International Game Festival in Cannes, France.⁷

⁴ Warren Wilson, "Creating *Magic* Renton game company is dealt a winner, and keeps dreaming," *Seattle Post Intelligencer*, March 11, 1996.

⁵ George Tibbits, "Game company prospering despite early missteps," *Seattle Times*, February 7, 1996.

⁶ *Business Week*, October 2, 1995, p. 10.

⁷ *Seattle Post Intelligencer*, March 11, 1996.

Target Segment

George Skaff Elias, the 27 year-old chief developer for Wizards of the Coast, describes the typical *Magic* player as person with a college degree, a high household income and an affinity for computers.⁸ The game was very popular with young males in their teens or twenties. However, the game had also caught on with younger teens, and older men and women as well. Nevertheless, what draws mostly male competitors was the American pursuit of baseball card trading.

Magic's would be wizards were first encountered in public in specialty game stores like Games and Gizmos. However, today it is not unusual to find players in coffeehouses like Starbucks or on university campuses. In particular, dormitories have been a breeding ground for new wizards. Notes Michael Peterson, a 19-year old sophomore at Seattle University, which even has its own *Magic* club: "I've tried some of the other games, but for me *Magic* is where it's at. It's such a wonderful game because it makes you think. It's a strategic game. It's going to be the next chess. I'm a history and political science major, and someday I'll probably go on to be a lawyer, but after I'm the world champion of *Magic*."⁹ Peterson, a typically *Magic* wizard, says that he spent anywhere between 10 and 30 hours a week on the game and about \$20 a months acquiring 'new' cards.

A more atypical *Magic* fan was toy analyst David Liebowitz of Burnham Securities Co. in New York City:

It's fair to say I'm hooked. I either have too many cards or not enough. I'm not quite sure yet. ... Given their success to date, their opportunities looking forward appear to be promising. If they continue on the current growth trajectory, I would be surprised if investment bankers weren't knocking on their doors to take it public.¹⁰

The frenzy that *Magic* has spelled upon some of the youths has sparked even some criminal acts. For example, a trio of gamers was mugged by some street toughs at knifepoint for their collection of *Magic* cards valued at about \$2,400. Due to short supply, some riots have also been reported in Japan.

Marketing, Operations, and Distribution

Marketing?

Wizards of the Coast has built a widespread retail network to market its cards. Not only are *Magic* cards sold directly in Wizard's retail and gaming stores but also in more than 10,000 book, record and comic book stores including Barnes & Noble, Tower Records, Software Etc., Borders Books.¹¹ About some 75 percent of *Magic* cards and related products are sold through hobby and game stores, the remaining 25 percent are sold through chain and independent bookstores.¹² Some local retailers organize weekly *Magic* competitions to lure potential customers in their store.

Operations management has also been a challenge for Wizards. Due to its tremendous growth in a very short time, manufacturing of the *Magic* cards has been a constant bottleneck. In the beginning, Wizards of the Coast relied only on one supplier: Carta Mundi in Belgium, since no other firm could deliver the quality needed in combination with the required sophisticated sorting of the *Magic* cards. In the

⁸ Bernhard Warner, "The 'Gathering' storm," *Brandweek*, February 17, 1997.

⁹ *Seattle Post Intelligencer*, March 11, 1996.

¹⁰ M. Sharon Baker, "Wizards of the Coast seeks to extend *Magic's* power spell," Puget Sound Business Journal, January 27, 1995.

¹¹ *Brandweek*, February 17, 1997.

¹² Karen Angel, "Harper titles with a *Magic* touch," *Publishers Weekly*, February 3, 1997.

meanwhile, Wizards has extended the number of suppliers to include firms such as Quebecor, Sherphard Poorman, USPC, and Yaquinto. Nevertheless, Carta Mundi is still Wizards' largest print supplier.

Philosophy, Culture and Human Resources

Adkison, on the one hand he is attempting to build the corporate capabilities necessary to develop the businesses to its full potential, and on other he leads by example since he refuses to have his own office or even a cubicle. On his business cards and memos, his position and title is 'CEO and janitor' of Wizards of the Coast.¹³ Adkison notes that he is striving to retain a casual, creative atmosphere that tolerates individualism and creativity, expressed for example in eccentric clothing, body piercing, and frequent nerf wars among employees.

Even though Wizards has experienced tremendous overnight success, it has also experienced many setbacks including drastic reorganization, layoffs, and tough negotiations with artists. "I've made so many mistakes, it's not even funny," Adkison says. Adkison's challenges on managing human resources for Wizards is indicated by his statement that he wouldn't call his current position work but rather describes it as "counseling, herding cats."¹⁴

Notes Adkison: "There's nobody in the company who's ever managed a company this size, including me. ... We're trying to balance the desire for top-notch people to take us to the next level, and the desire to stay true to people who founded the company."¹⁵

To meet this challenge, the firm has hired experience managers as well as consultants, changed the composition of its board of directors, provided training and established mentoring relationships. Points out Adkison:

None of the people who reported to me in 1993 report to me now. Many of them are still here, but experienced managers have come into the organization between them and myself. Our board of directors has evolved also, going from a board composed mainly of founders and management to a board with five outside directors who have a lot of gray hair.¹⁶

Adkison himself completed an MBA degree at the University of Washington Business School to enhance his management skills. In 1996, Wizards hired Richard Fukutaki to be the vice president and manager for *Magic: The Gathering*. Fukutaki brings excellent industry experience with him, since was vice president of boys marketing, entertainment and licensing for Tyco and senior product manager for Mattel Toys (see **Exhibit 5** for a partial listing of the firms top management).

Extensions Through Licensing

With *Magic* achieving a cult status, Adkison is now actively attempting to leverage the firm's brand name through licensing into to book series, computer games, and possible movie and television deals. "Right now, we're putting together a strategy for licensing," says Adkison, "we're in a good position of being able to pick and choose."¹⁷

In total, he has entered into eight licensing agreement over the last three years. For example, *Magic* appears as a book series by HarperCollins, in two CD-ROMs computer games, one by MicroProse and

¹³ *Seattle Post Intelligencer*, March 11, 1996.

¹⁴ Ibid.

¹⁵ *Puget Sound Business Journal*, January 27, 1995.

¹⁶ Written interview of Peter Adkison, CEO of Wizards of the Coast, by Jenne Pierce, May 29, 1997.

¹⁷ *Puget Sound Business Journal*, January 27, 1995.

the other by Acclaim Entertainment, and in comic books, also by Acclaim Entertainment. HarperCollins has published 12 paperback science fiction and fantasy novels under the licensing agreement, with more than a cumulative 500,000 copies sold. The best seller book in this series, 'Arena' by William R. Forstchen, has sold alone 300,000 copies.

Wizards is discussing collaborations with other publishers. Wizards spokeswoman Sue-Lane Wood explains that bookstores are a logical market for Wizards' products, "Magic players are heavy readers who really appreciate the fantasy genre, and Magic itself is often played in bookstores. Our secondary products support the game but can be appreciated by players and non-players alike."¹⁸

In addition, Magic merchandise has been extended through licensing into prepaid phone cards (MCI), clothing (Nice Men), card albums and protectors (Rembrandt), strategy guide and encyclopedia (Thunder's Mouth Press and Carlton Books), and calendars (Workman).¹⁹ Wizards has just recently reached an agreement with Saltmine Creative, a Web development and design company based in Seattle and London to develop interactive CD-ROM products, such as encyclopedias which will serve as guide to the fantasy worlds created by Wizards. Wizards also have received movie and television offers, however, they are still looking for the right fit. Licensing revenues are estimated to be around \$1 million annually.

In the summer of 1997, Wizards has introduced a more mainstream version of Magic named *Portal*. The game was targeted at a broader audience such as younger teens and families. It was introduced with a \$4-5 million, national media marketing blitz. Notes Charlotte Skeel, senior director of marketing at Wizards of the Coast: "This is the first opportunity to create a national message. ... We want to appeal to a broader audience that wouldn't be necessarily considered core gamers."²⁰

Creating Legitimacy

To increase sales the firm is attempting to professionalize the activity of playing Magic. Notes Adkison: "The idea is to transform Magic into a legitimized sport. It's been proven that sports are very sustainable. They hold people's attention for a long time."²¹

The company is trying to create players with celebrity standing who will then positively influence the games' popularity in the mass market. In 1996, for instance, the Wizards has organized a six-city professional tournament series that offers \$1 million in prizes and scholarships. Many semi-professional tournaments were also held. In total, there are more than 1,000 tournaments a week **worldwide, many of them held in Wizards' retail stores.**

Wizards has also created a computer-based, global ranking for all professional players like the one used in chess or tennis. Every player can access the world ranking of best players on the Wizards of the Coast homepage (www.wizards.com) (see **Exhibit 6**). The 1998 World Championship has generated such a tremendous interest, that even ESPN2 recorded the event. Players from 45 countries competed for the world championship title. Overall, some 50,000-tournament players competed in 30 leagues within the US.

It pays to be a celebrity in the Magic circus. The 1998 World Champion, Brian Selden walked away with \$34,000 in prize money for winning the tournament, which was held at the Wizards of the Coast gaming center in Seattle's University District. The US team won the team competition and walked away with

¹⁸ *Publishers Weekly*, February 3, 1997, p. 31.

¹⁹ *Brandweek*, February 17, 1997.

²⁰ Karen Benezra, "Wizards conjure \$4-5M gameplan," *Brandweek*, June 23, 1997.

²¹ Adam Worcester, "Wizards aims to repeat Magic success," *Puget Sound Business Journal*, June 26, 1998.

\$22,000. The entire event was endowed with \$250,000 in prize money. The entire Pro-tour was endowed with more than \$1 million in prize money. Another star player, Matt Place, a college dropout from Kansas City, Mo., has won more than \$55,000 at professional meetings around the world since 1996.

Sponsorships

To cover the 1998 world championship event, Wizards of the Coast attracted a corporate sponsor: MCI Telecommunications. According to a report in *Brandweek*:

Corporate tie-ins are mutually beneficial: the small start-up company is 'legitimized' by a renowned corporate partner, through which it is able to gain access to a mainstream audience and acceptance, and, on the other hand, the renowned corporate partner is searching for demographic synergies and "cool-by-association image that come with linking to the Next Big Thing."²²

MCI bets on those synergies when partnering with Wizards since it recognized the potential in courting the core market of prepaid telephone cards: the college-aged crowd. In particular, MCI has agreed to sponsor Wizard's *Magic* US tournaments in exchange for exclusive worldwide rights to produce and distribute *Magic* prepaid telephone cards featuring. The number 2 telecommunications company paid an estimated \$750,000 for the three year contract.

The MCI prepaid *Magic* telephone cards featuring original artwork of *Magic* cards, including such highly desired cards like the 'Black Lotus' and other creatures of *Dominia's* population. In addition, the MCI *Magic* prepaid telephone card features a hotline where *Magic* players can receive up-to-the minute tournament information, including tour dates, individual player rankings and game strategy. The MCI prepaid *Magic* cards are themselves collected and traded.

MCI's goal is it to establish a loyal clientele in the college-age crowd. Points out Seth Matlins, vice president of corporate consulting at ProServ, the Arlington, Va., sports and event marketing agency that brokered the deal: "First and foremost [there's the] passion of *Magic* players. The *Magic* player wants everything *Magic* and collects everything *Magic*. You've never seen core use loyalty like this. It's unrivaled across any other product or service category."²³

Another approach that Wizards of the Coast utilizes to extent the longevity of its *Magic* game is a magazine called *The Duelist*. This magazine includes all the information a serious player needs with regard to important upcoming tournaments. In addition, the player can study insider tips on how to improve his game strategy given by celebrity players such as Zak Dolan, the *Magic* World Champion of 1994.

Retailing and International Expansion

In May 1997, Wizards of the Coast opened its first retail and gaming store, a 32,000-square-foot Wizards of the Coast Game Center located in Seattle's University District close to the campus of University of Washington (see **Exhibit 7**). Designed as the first authentic gaming environment and entertainment center solely dedicated for adventure gamers, the center is also the game-testing site for top game manufacturers such as Atari and Williams/Bally. It is also the official tournament location for the *Magic* World's Championships and other amateur and professional organized game play. Notes Adkison:

²² Bernhard Warner, "The 'Gathering' storm," *Brandweek*, February 17, 1997.

²³ Ibid.

The game is just one piece of the puzzle. We're building stuff around the game – a back story, tournaments, leagues – and creating stars that all add to the game. *Magic* with all the organized events is becoming much more like a sport. The game center is sort ... of like NikeTown or Planet Hollywood. We have the opportunity to create the ultimate atmosphere. This is a club, a hangout, a place for a game player to go and know they can play any time. We believe that the biggest opportunity for growth is to improve the retail aspect.

The game is played worldwide in 65 countries by more than 5 million players. The company now has international offices in Antwerp, London, Milan, and Paris. Adkison indicates that the company plans to open an office in China in 1998, and that an office in Japan will soon become reality too.²⁴

Acquisitions

Wizards of the Coast has currently completed two major acquisitions in 1997. Five Rings Publishing, best known for the *Legends of the Five Rings* trading card game, and TSR Inc., creators of the *Dungeons and Dragons* adventure game, are now fully owned subsidiaries of Wizards of the Coast. To fully integrate these acquisitions has been a major challenge for Wizards. For example, TSR was at least six months behind its royalty payments to authors, and it had also about \$13 million outstanding claims against it from its suppliers. Wizards indicated to fully satisfy those claims. TSR's Wisconsin offices will be phase out, however, Wizards has offered new jobs in Renton to 70 TSR employees out of TSR's total staff of 85. However, Wizards expects to retain the TSR name.

There are indications that Wizards of the Coast might continue a growth strategy through acquisitions. For example, the firm raised \$30 million in private debt in the spring of 1998. The firm hopes to use this money to acquire companies other gaming firms. Rumors suggest that the firm may be interested in acquiring Westend Games, a Pennsylvania company that owns two lucrative licenses, one for Star Wars role playing system, and the other for DC Comics role playing game.²⁵

CHALLENGES FACING WIZARDS OF THE COAST

Adkison recognizes that Wizards of the Coast still remains a one-product company whose future is tightly linked to the success of *Magic*. Notes Adkison: "Magic provides 90-something percent of our cash flow. It is obviously our primary focus. The big strategic issue with *Magic* is to develop its potential to become a 'classic game' that yields steady profits year after year."

Currently this and other concerns required his immediate attention. First, given that numerous competitors are trying to emulate this approach, Adkison was concerned about finding ways to sustain the success of *Magic* as well offer new products. Secondly, he concerned about managing growth domestically and internationally, as he continued to open retail operations and looked to enter new countries. Finally, he was concerned about how to maintain the free-spirited culture and creativity prevalent at Wizards of the Coast, while at the same time finding ways to reconfigure the royalty payments made to many the firm's important artists.

Sustaining the Magic

In 1995, Jim Stanton, who oversees *Magic's* development for Wizards of the Coast, estimated that there were about 40 trading card games competing with *Magic* and that it was only a matter of time before even more would pop up.²⁶ Other estimates speak of up to 100 competitors and imitators.²⁷ This is no wonder since the entry barriers into the adventure card gaming industry are extremely low.

²⁴ *Puget Sound Business Journal*, June 26, 1998.

²⁵ M. Sharon Baker, "Wizards hunts for new *Magic* to lift sales," *Puget Sound Business Journal*, May 22, 1998.

²⁶ "A *Magic*-al expansion," *Seattle Times*, October 16, 1995.

Notes Adkison: “In the game business, there are major innovations only every 10 to 20 years. We have to look at ways of growing the company without banking on another huge hit.”²⁸ Even Garfield knows that it would be “way too much to hope that [new introduced games] will match *Magic’s* popularity – not because of the quality of the game[s], but because of *Magic’s* position in the market.”²⁹ And CEO Adkison agrees “Like its competitors, Wizards is essentially competing against *Magic*,” when it introduces a new game.³⁰

In the summer of 1998, it announced to release 200 new games during 1998, many designed to appeal to a wider audience.³¹ None of the new introduced games did show any significant success up to date. However, Adkison remains optimistic, “We have several things we’re working on in R&D that could turn out to be like *Magic*. But in the gaming business, you don’t want to bank on that success. We’re learning to make money with smaller releases.”³² However, there is a concern that Wizards is offering too many new products for a saturated market, “The biggest concern right now is that Wizards seems to be offering far more product than the market might be able to take,” explains John Miller, editor of Comics Retailer, a trade magazine about the comics and gaming industry.³³

Recently, *Digital Addiction*, a Maryland based software company announced the two-player strategy game ‘*Sanctum*,’ which is basically an on-line version of *Magic*. Instead of meeting face-to-face sitting across a table, a potential player logs on to the firm’s Web site (www.digitaladdiction.com) and then downloads the game for free– including a free starter deck of 60 cards, registers as a player, finds an opponent in the chat room, and *Sanctum*, which is essentially a cyberspace version of ‘*Magic*’ can begin. Additional cards are sold as booster decks of 15 cards for \$1 to \$3, depending on the quantity bought. Purchases take place using a credit card, which is registered to the players account, in a secured area on the Web. Players subsequently trade their cards on-line. Digital Addiction is giving away *Sanctum* for free and then selling the tools that give players a competitive advantage and fuller game experience.³⁴

According James Harvey: “People logging on to his website ‘are highly wired, and that they are fanatic about their games. They are “MIT students. Computer geeks. Wall Street geeks. People in their 20’s spend most of the money. They earn \$45,000, single, no kids, no mortgage, and they spend the lion’s share of their techie salaries on entertainment.” He concludes that, if there was ever an audience that could support an on-line market for virtual toys like *Sanctum*, than it would be this group.”³⁵

Continued Retail and International Expansion

Peter Adkison adds that the company’s top priority for 1998 is to increase Wizards’ retail presence. “Our stores sell significantly higher than other stores that carry our products. We know how to retail them and how to support them,” says Adkison.³⁶ In August 1998, he announced his intention to open three additional retail stores at malls around the Seattle region. These three stores will be around 1,000 to 3,000 square feet each, where people will be able to play board games for free. According to Wizards

²⁷ *Seattle Post Intelligencer*, March 11, 1996.

²⁸ Ibid.

²⁹ ibid.

³⁰ Ibid.

³¹ *Puget Sound Business Journal*, June 26, 1998.

³² ibid.

³³ *Puget Sound Business Journal*, May 22, 1998.

³⁴ J. C. Herz, “In fantasy game, real cash for virtual cards,” *New York Times*, July 16, 1998.

³⁵ Ibid.

³⁶ *Puget Sound Business Journal*, June 26, 1998.

spokeswoman Carol Rogalski: “We’re opening stores to expand the interest in games and people playing games as an entertainment choice, like going to the movies or out to dinner.”³⁷

Reconfiguring Royalty Payments

The royalty agreements with artists who draw the cards is one of the most serious challenges Wizards faces. Under the current royalty agreements with the company, some of the artists have received six-figure royalty payments for their original artwork. Adkison states the these royalty agreements were “very favorable to the artistes but not to us.” This situation came about because of a “lack of understanding here at Wizards, especially by myself, on intellectual property.”³⁸ Wizards of the Coast is trying to negotiate with the help of attorneys in a friendly way as possible with the artists to bring royalty costs down and under control.

In addition, Wizards of the Coast has also applied for a patent on *Magic*. This patent was granted in the fall of 1997, and it covers not the design of the cards – many of which are created by independent artists – but the method of play. Notes Brian Lewis, associate general counsel at the firm: “Wizards is set on collecting royalty payments from imitators and it has specifically at least a dozen companies in mind that it will be contacting for royalty payments,”³⁹

³⁷ “Wizards of the Coast plans three new stores this fall,” *Seattle Post Intelligencer*, August 31, 1998.

³⁸ *Seattle Times*, February 7, 1996.

³⁹ Bill Virgin, “*Magic* game granted patent,” *Seattle Post Intelligencer*, October 15, 1997.

Appendix A

Magic: The Gathering

The game *Magic: The Gathering* combines elements of chess, bridge, and the 1980s role-playing game of *Dungeons and Dragons*. *Magic* is a trading card game in which the two players are rival wizards dueling for control of a magical ‘multiverse’ called *Dominia*. Each player starts out with 20 life points or lives. The goal is to reduce the opponent’s life points from 20 to zero before the opponent has reduced your life points to zero. Once a player’s life points are reduced to zero, the player is “exiled,” which basically means that the player is killed. So the goal of the game is to kill your opponent before your opponent kills you.

Before starting the game, each player builds a deck of at least forty cards from his or her collection of cards and then plays that deck against the opponent’s deck. Each player begins by shuffling his or her deck and drawing seven cards. Players alternate taking turns. Each player’s turn is made up of a series of actions, such as playing cards and attacking the opponent. There are several types of elaborately illustrated cards a player can choose from. Lands are the most basic, providing the magical energy a player needs to play all other cards. Creatures can fight for the player either by attacking the opponent or by fighting off the opponent’s creatures. Other cards represent spells that a player can cast to hurt the opponent or help his or her creatures. The basic strategy of *Magic* lies in choosing when to play what card and when to use what creatures to attack the opponent or protect yourself. More complex strategies involve combining cards to make them more powerful and choosing which cards to use in the player’s deck to make it most effective. Games usually last between 15 minutes to half an hour, however, some games can last up to several hours. *Magic* “has an appeal the others don’t have,” says Lee Cerny, executive director of the Game Manufacturers Association, “it’s small; you can carry it around with you. It has a low learning curve and one of the biggest appeals is that no two games are ever the same.”⁴⁰

One of the key features of the game is that each game played is unique since each player starts out with a deck of 40 cards individually selected cards from among the more than 4,000 different cards sold. It is not uncommon for a player to own several hundred or even thousands of cards. Each player tries to assemble his or her favorite 40 cards out of the pool he owns according to the player’s intended strategy. This ingenious twist encourages players to buy or trade for new cards to enhance their powers and strategic game options.

In addition, the game is in permanent evolution since new cards are constantly released and older cards are retired by Wizards of the Coast. These retired cards gain instant status as collectibles to be bought, sold, and traded in hobby stores, dormitories, college campuses, and on the Internet. New cards are issued in different sets and limited editions, many cards are even printed in limited numbers. These perpetual expansions have kept the game novel and therewith contributed to the phenomenal growth as players engage in frantic buying and trading of cards in a fantasy arms race to create a competitive advantage in their individualist “starter deck.” Since most of the strategy in *Magic* is assembling the unassailable deck, serious players have spent hundreds if not thousands of dollars to create their dream deck. This has led to the criticism that wealthy players are more likely to win than their poorer counterparts.

In addition, with each expansion, *Dominia*, the fantasy ‘multiverse’ where the wizards battle also expands. “Think of *Dominia* as a beach,” says Wizards spokeswoman Sue-Lane Wood, “each expansion is a grain of sand on that beach, each its own universe.”⁴¹ Currently, *Magic* has undergone only about a dozen extensions. However, the possible number of expansions is only limited by imagination and players’ willingness to remain bewitched.

⁴⁰ *Seattle Post Intelligencer*, March 11, 1996.

⁴¹ *Ibid.*