1.0 Introduction

NCSOFT Corporation is a video game publishing company that stems from South Korea. It was established in March 1997 by founder Taek Jin Kim, a Seoul National University graduate who worked at Hyundai before establishing his own company. NCSOFT gained excellence after publishing their still well-known title *Lineage* (1998) and the household name to gamers, *Guild Wars* (2005), both of these titles were later given sequels. NCSOFT then branched out to other parts of the world such as North America, Japan, Taiwan and Europe from 2000. The company then released two other titles, *Aion* (2008) and *Blade & Soul* (2012). Both of which gained much fame and earned the interest and loyalty of video gamers all over the world.

South Korea, the Republic of Korea, is an Asian country turned democratic in 1987. South Korea spans across a total area of 99,720km^2 with an estimated population of 51 million people. (*Factbook, 2017*). The national and most used language is Korean, with different provinces often using their own dialects. Additionally, English is also widely taught in schools.

This report will provide a PESTEL and Porter's Five Forces analysis and recommendations with regards to NCSOFT's operation environment in South Korea.

2.0 PESTEL

The PESTEL analysis is a framework used to analyse the general external environment of which a business is operating in.

Political	Economic
- Democratic	- Ailing economy
- Relatively stable	- Lower domestic consumption
Social	Technological
- Population mostly adults	- Rapid urbanisation
- Ethic mix: majority China Chinese.	- Tech advancement is positive

- Declining birth rate	
Environmental - No major change in climate	Legal - Patent litigation - Protects inventions

2.1 Political

South Korea has had a democratic government since 1987. A democratic government is typically a positive aspect for businesses. This is because democracy allows companies to kick start themselves and grow, perhaps even with the help of government funding. This provides an opportunity for new businesses to venture and achieve their full potential. Likewise, this was an opportunity for NCSOFT to have a smooth start to their game publishing journey. Furthermore, the political situation of South Korea has been relatively stable throughout the years. *(Stability, n.d)* This allows the companies, and NCSOFT, to continue operations smoothly without worry. With a stable political situation, the people of South Korea are able to go about their days without the burden of protests or uprisings. This creates an opportunity for NCSOFT to boost their customer base as people are more likely to purchase video games living in a safe, unoppressed environment.

2.2 Economic

Although South Korea was quick to recover from the Korean War and was able to advance swiftly in GDP rankings, the same cannot be said of recent years. South Korea's economy has been ailing in recent years. It seems that the economic obstacles from 2016 will be carried over onto 2017 as well. What had previously been boosting the growth of South Korea's economy, that is domestic consumption, has now began to decline as well. This is clearly a threat to businesses such as NCSOFT. With the economy on the decline, the possibility of people cutting or entirely curbing their spending on entertainment is very high. People will prioritise the more important necessities over the negligible entertainment and fun.

2.3 Social

In South Korea, the population is composed of a majority of young adults and adults, and the country does not have an ageing population *(Demographics, 2015)*. This is an opportunity for NCSOFT Corporation as young adults and adults are the ones who possess the interest in video games and also have the spending power to purchase games and make purchases relating to the games. This generates a large pool of stakeholders for NCSOFT. The population in South Korea has a huge mix of Chinese migrants and immigrants from China. This is also an opportunity to NCSOFT as the video game industry has a pretty huge following in China as well.

However, on the other hand, there is also a threat found in the demographics of South Korea. That is that the birth rate is declining. This is a threat to NCSOFT as many video gamers tend to lose interest or retire as they get older. The people get older and there is not quite enough people in the younger generations to replace the older, retired game enthusiasts.

2.4 Technology

Technology is a giant in South Korea. The country was able to urbanise herself expeditiously as many people were quick to move to city-areas to live and work there. This shows the interest of the people in advancing technologically and to move with the times, which is partly why the gaming industry is thriving. It was mentioned in a Forbes article, "Koreans are avid consumers of digital media and apply the lion's share of their bandwidth resources to online gaming." *(McGlade, 2014)*. The author goes on to mention the devotion of South Koreans to the competitive gaming world that they have pioneered. This goes to show there is enormous opportunity for NCSOFT in this factor. The gaming world is a rapidly progressing industry and its people are quick to discover and pledge loyalty to new-found games should the games peak interest.

2.5 Environment

The climate in South Korea is somewhat stable in terms of the regularity of the four seasons and the country do not experience harsh weather conditions regularly *(Weather, n.d)*.This factor is neutral to the NCSOFT Corporation, albeit it may lean more on the positive side. As NCSOFT publishes online games, there is no need for physical labour in outdoor conditions nor is there a need for material production. However, should South Korea experience severe

thunderstorms, it might be detrimental to the company. As NCSOFT publishes online games, bad weather conditions such as heavy downpours and storms could affect the internet connection between player computers and game servers.

2.6 Legal

The patent litigation increased in volume and quality since the 1990s *(Jong, 2010)*. Patents protect creative ideas and products from being used by others. This means inventions need to have novel ideas and cannot be derived from only one prior material. This is an opportunity to companies like NCSOFT as this protects their innovations from being plagiarised by unethical companies. Unethical companies whom would dare to copy ideas will not go scotfree. This allows NCSOFT to develop their unique ideas without hesitation and be able to turn those ideas into games.

3.0 Porter's Five Forces

The Porter's 5 Forces is a method that companies use to analyse the external environment which they are operating in, with regards to the industry.

3.1 Competitive Rivalry within an Industry - High

E-sports is a term that refers to the competitive gaming industry. Companies form teams with video game or computer game players (gamers) and train them for game competitions, much like a traditional sports team. The rivalry amongst these gamer teams are intense, just as the game publishing industry's rivalry is. In the world of video games and computer games, gamers are quick to pick games up but are also quick to put the games down. The competition for making a game that would earn the loyalty of gamers is fierce. Take for example, NCSOFT's hit title *Blade & Soul*, it has been compared to Pearl Abyss's *Black Desert Online* and Bluehole Studio's *TERA*. This terribly intense rivalry in the game industry is a huge threat to NCSOFT as the comparisons make gamers think twice about where to pledge their loyalty.

3.2 Threat of New Entrants - Low

As mentioned in Part 3.1, the competition amongst rivals in the game developing and publishing industry is profoundly intense. The big-name companies all have deeply-rooted stakeholder bases and a strong brand identification. NCSOFT is no exception with their loyal player-base, comprising numerous dedicated players who spend much time playing the game and some even gaining fame from streaming their game eplays. Even if there are to be new companies in the industry, many would be sceptical of investing finances in their companies. This shows that there is little threat of new entrants as not many new companies will be able to disrupt the business of NCSOFT.

3.3 Threat of substitute products or services – High

The idea of substitute replacement poses high threat to NCSOFT. Technological advancements nowadays are quickly advancing and difficult to keep up with. As written in a 2017 Business Insider article: "Esports is far from fulfilling its revenue potential." He also said that the scene is "gaining legitimacy and becoming main stream" *(Elder, 2017)*. There is little that stops the innovation of new games that could replace the computer games NCSOFT makes. It is known that the Koreans are enthralled by the idea of mobile games *(Yoon, 2016)*, though this seems like comparing apples to oranges, the mobile games are a real threat. Developers are able to compress what is traditionally done on the computer to something more convenient onto a more portable hand-held device.

3.4 Bargaining power of Suppliers – Low

What NCSOFT needs in their journey of game development and publishing is computer and technology equipment. With the rapid technological advancements, it is no lie that the web of technology and computer equipment and parts suppliers are expanding. As long as there are so many suppliers in the market, there is little power the suppliers hold to bargain with their clients. NCSOFT would not be suppressed by the bargaining power of suppliers.

3.5 Bargaining power of Customers – High

On the contrary to suppliers, customers of the game industry hold much more bargaining power. The customers of the gaming industry none other than the gamers themselves. And the threat of their bargaining powers are very high, especially with the kind of multi-player games that NCSOFT publishes. Some game companies can do a good job of keeping their loyal gamers coming back as NCSOFT did with *Aion*, notably in the first five years. However gamers are easily distracted people (Gray, 2015) and the next excitable game that is published could well take away much of a company's consumer base. The consumers in this industry will never be out of options so their bargaining power will never run out either.

4.1 Recommendation 1

The first management recommendation I have for NCSOFT is to re-evaluate their management strategy for a competitive advantage. The current situation: customers have, at times, felt despondent with the lacklustre performance by the NCSOFT team. There were times when communication with the customers were lacking or when the voices of the customers were not being heard. The issue of customer service is one of the four main issues that dominate management in the 21st century. It is important to give customers what they want in order to keep customers coming back. In this case, I would suggest NCSOFT to have a channel where customers can give their suggestions that staff would read and consider and where employees could communicate regularly with the customer base.

4.2 Recommendation 2

The next issue is that the visible culture of NCSOFT is rather weak. This is apparent in the customer service of NCSOFT. There is no consistency in the quality of the service or in the way customer's enquiries or feedback. NCSOFT already has core values that were inculcated into the employees. However, NCSOFT could try to include in their company culture, a visible culture that the customers are able to observe.

4.3 Recommendation 3

NCSOFT currently uses a divisional organisation structure approach to their management system. NCSOFT uses a product-based division structure and this hinders the effectiveness of

the business operations. The operations of NCSOFT could go smoother if they changed their organisation structure to a matrix approach instead. The skills and abilities of employees could be more efficiently utilised with this approach.

4.4 Recommendation 4

In one incident, there were 7 former employees of NCSOFT whom were suspected of having stolen NCSOFT's source code for the *Lineage III* instalment and revealed the codes to another company (Arendt, n.d). This shows that the ethics of employees could be better managed. What NCSOFT could do to prevent such incidents from happening again is to better manage their ethics within the company. NCSOFT could give ethics training to employees to help them make the right decisions in cases of ethical dilemmas. The company could also put into place an ethics committee to promote and advocate ethical behaviour.

5.0 Conclusion

Based on the PESTEL framework analysis, NCSOFT has an opportunistic standing in the South Korean market but also facing many threats according to the Porter's Five Forces. As the South Korea market gives NCSOFT an opportunistic standing, it will pave the way for NCSOFT to be able to develop even further and grow their company. NCSOFT can make use of the thriving industry to prosper as a company. Yet, they are facing many threats in their path as well. As NCSOFT flourishes, so does their rivals, NCSOFT would have to be able to manage and strategize well in order to maintain a competitive advantage. Not only that, they have to take into account the high threat of substitute products and bargaining power of the customers. These factors can easily cause NCSOFT's business to become stagnant and the employees might get unmotivated as well. Therefore, while NCSOFT is in an opportunistic standing, they also have to be aware of the threats they face and manage the company well to stay competitive in the industry.

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