

# Koei: Winning Strategy in Computer Games

By Toshio Iwasaki

Think of computer games, and you probably get an image of young children absorbed in shooting down invaders from outer space or engrossed in other entertaining games that are played on special machines and are basically a test of the reflexes. But this image is out of date.

In the past few years there has been a steady increase in the number of adult fans of computer games and, to meet the growing demand, in the number of sophisticated games on the market that make full use of the advanced functions of today's personal computers. Shipments of PC software in Japan reached ¥167.8 billion in 1989, of which game software accounted for ¥15.5 billion, or nearly 10%.

One of the pioneering companies in the computer game market for grown-ups is Koei Co., which made its name by developing a popular series of games simulating historical events. Over the past decade Koei's annual sales of game software have rocketed from ¥86 million to ¥8.3 billion, or ¥10 billion if the sales of its overseas subsidiaries are included. During the same period, the number of Koei's employees has jumped from three to 165.

## Turning point

Before branching out into the field of computer software, Koei, which was established in 1978, engaged in a completely different line of business—wholesale trading of industrial pharmaceuticals and dyes. The turning point came in 1980, when the president of the company, Yoichi Erikawa, received a personal computer as a present from his wife on his 30th birthday.

Erikawa became hooked on his new toy but soon outgrew the children's games that dominated the market at the time. Thirsting for something more stimulating, he set about developing his own game. What Erikawa came up with was a war game set in 16th-century Japan, a



Yoichi Erikawa, president of Koei Co. His own enjoyment of computer games led to a decision to concentrate on history simulation games for adults.

time of internal strife. This game became the prototype for Koei's history simulation series, in which the player becomes a famous historical figure, and through the game participates in a drama in which crucial decisions must be made. Such board games existed before, but using a computer makes them more complicated and mentally demanding.

Excited by his game, Erikawa decided that others might enjoy it as well, so he offered it for sale by placing an advertisement in a personal computer magazine. Within days, Erikawa was flooded with requests for his game from around Japan—and enough envelopes of cash to fill a large cardboard box. When stores began ordering the game too, Erikawa realized it was time to make the development of computer software the key part of Koei's business.

Koei subsequently developed various kinds of software, including business programs and games for children, but in 1983 it decided to concentrate on simulation games for adults, and the firm has never looked back since. Explaining the reason for the change, Erikawa says with a laugh, "I didn't actually decide that this was a potentially lucrative market. It was

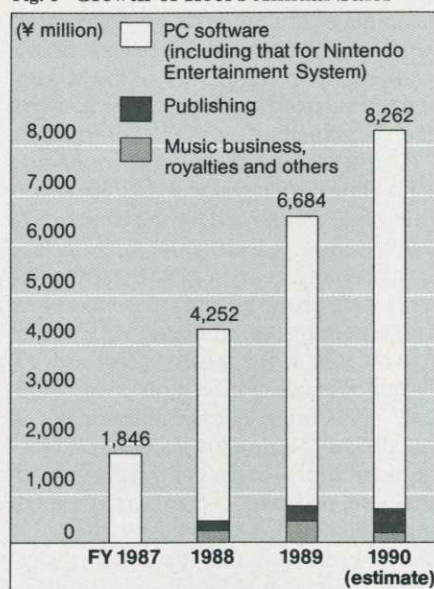
just that I liked games myself." Nevertheless, the speed and boldness with which Erikawa switched the main product line of his company demonstrated his business acumen.

"The PC software market caters to many needs," says Erikawa. "It's a very segmented market. If a small company tries to meet all these needs by dividing its strength, it won't be able to accumulate the necessary know-how. So I decided that we should establish our superiority over other companies by concentrating our strength in one area."

Koei's games are not conventional games in which the purpose is simply to win a war. The biggest hit so far is the three-part "Nobunaga's Ambition" series, 1.7 million copies of which were sold from 1983 to the end of 1990. The game is based on the attempt by the 16th-century military leader Oda Nobunaga to unify Japan. Though Nobunaga did not achieve his goal, he made an important contribution to the development of modern Japan.

"Nobunaga's Ambition" is not only

Fig. 1 Growth of Koei's Annual Sales



about fighting. It is a political strategy game in which the player must respond to changes in conditions shown numerically by the computer, make decisions within a time limit, and try and unify the country. To make the country stronger, he must pay attention to domestic policies. To expand or protect his territories, he must foster loyal and able troops and also purchase weapons. If he raises taxes to get money for this purpose, he increases the possibility of a rebellion among the people. Sometimes the country suffers from floods caused by typhoons or from epidemics; sometimes it enjoys abundant harvests. Nobunaga must appoint able people to important posts, but he worries about their loyalty. He also must make diplomatic efforts to form alliances with other regions or dispatch *ninja* to foment disturbances elsewhere.

## Test of abilities

This mentally demanding game has won a following among a broad spectrum of the population, from young adults who have tired of children's games to middle managers in companies who find it an enjoyable way to test their political, business and coordinating abilities and to see if they have what it takes to be a leader.

The sequels to "Nobunaga's Ambition" also sold like hotcakes as the market for game software expanded. Koei is expected to hold a 20% share of the market in fiscal 1990, but Erikawa is not content to rest on his laurels. Already he has planned and launched the next stages in the company's development.

First, Erikawa moved overseas, setting up Koei Corp. in San Francisco in the United States in 1988 and Tianjin Koei Co. in Tianjin, China in 1989. He plans to expand into Europe in 1993.

"It costs from ¥100 million to ¥200 million to develop a piece of game software," explains Erikawa. "So the more you sell, the higher your profit ratio is. In this sense, the business is similar to books, records and compact discs. The larger the market the better. So expanding overseas was a natural development."

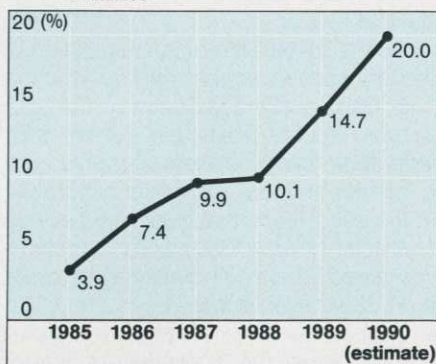
Koei already sells English versions of "Nobunaga's Ambition" and other games



in the United States, and they have a good reputation. "Romance of the Three Kingdoms," which is set in China in the second and third centuries, even won the U.S. Strategy Game of the Year award for fiscal 1989.

"The problem is that American people are not familiar with the historical figures who appear in these Japan-made games, so it will be difficult to increase sales very much," admits Erikawa. "History simulation games must reflect the culture of the player's country. So I want our local staff in the United States to develop games for the American market. What we have introduced into America is just the system." Koei's staff of 17 Americans and three Japanese designers in San Francisco are now busy developing a game based on the American War of Independence. They hope to have it ready by Independence Day this July.

Fig. 2 Koei's Share of PC Game Software Market



Note: Game software for Nintendo Entertainment System is not included in Koei's sales.

Source: PC Software Yearbook 1990

Second, Erikawa plans to diversify Koei's software development. While satisfied that sales of simulation games for entertainment will remain steady, Erikawa sees the shares of the company's business shifting in the future, with business software occupying first place, educational software in second place, and games in third. Therefore Koei is using the know-how gained in making games to develop a "decision support system" for business and educational software for managers and new recruits.

Third, Koei plans to develop peripheral businesses related to game software. Thanks to technological progress in the field of computer hardware, games now offer a wealth of images, music and text. Anticipating that this trend will become even stronger in the future, Koei has set about expanding into the publishing and music businesses. The firm already publishes or plans to publish historical novels relating to its games and a special magazine on business software, and it intends to release CDs of the music played on its games. Koei also is developing a new software program that turns even amateur improvisations into enjoyable melodies.

Though these fledgling businesses accounted for only about 10% of Koei's sales in fiscal 1990, Erikawa believes that through their development Koei will be able to consolidate its position as one of the leading software houses in Japan. ■

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