

ZYNGA INC. in 2014: A CASE STUDY

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ABSTRACT

Zynga Inc. is a social network game development company that was founded in 2007 and had its IPO in 2011. Although recognized as one of the top 5 companies in the industry, it has not posted a net profit in the past three years. Investors are becoming disillusioned. The industry is a rapidly evolving as technology changes and there are new entrants to the industry. Creation of new games and enhancements to existing games are crucial to success. International expansion requires the ability to adapt games to multiple languages, cultures, and customs. What should Zynga do next?

CASE SUMMARY

Zynga, Inc. was founded in 2007 and has become a top provider of social game services. Its mission statement is to ‘connect the world through games’. The company’s most successful games at 2013 fiscal year end are: *FarmVille*, *Words With Friends*, and *Zynga Poker*. The company earns revenue when players buy in-game virtual goods, advertising, and bookings that are done through Facebook. At FYE 2013, Zynga earned 75% of its revenue from Facebook and is dependent on a small number of games to earn a majority of its revenue. To maintain player interest, it is necessary to continually develop new games and to update current games. As of March 31, 2014, Zynga had 1.4 million monthly unique players, 28 million daily active users, and 123 million monthly active users. Zynga, Inc. issued an IPO in 2011 and has not posted a net profit in the past three years. In 2013, Zynga decreased its workforce and closed offices in an effort to decrease expenses. In February 2014, the company completed its purchase of NaturalMotion Ltd. to expand its game offerings and number of players and to grow its international presence. The company has relied on acquisitions to grow the company.

The social network game development industry in the U.S. is highly fragmented, very competitive, in a growth stage, and is greatly affected by changes in technology. The industry is impacted by smartphone and tablet technologies, changes in disposable income levels, changes in unemployment levels, and other activities vying for players’ entertainment dollars. Typical products in the industry include: role-playing games, dating games, content-sharing games, puzzle games, and gambling games. In 2013 there were 2,086 companies in this industry. The major competitors include: Electronic Arts, Inc. (11.9% market share), Zynga, Inc. (10.1% market share), Walt Disney Company (4.2% market share), Gameloft, and DeNA.

SUGGESTIONS FOR USING THE CASE

The Zynga, Inc. case is a good example of an internet company providing games to players. This case is ideally suited for a capstone business course such as Strategic Management, but may be useful in courses that discuss internet companies or general business principles such as a Principles of Management course. Students can conduct a SWOT analysis, Porter's Five Forces analysis, identify the business level strategy being implemented, and discuss macro-environmental impacts on the company. It may be interesting for students to discuss how an internet company survives in a high-growth rapidly changing environment and the challenges it faces when expanding to international markets. The case can be used for in-class discussion and application of course concepts, small group activities, group presentations, or written case assignments.

LEARNING OBJECTIVES AND SUGGESTED ASSIGNMENT QUESTIONS

Teaching Objectives:

1. Evaluate the company's internal operations through a SWOT analysis
2. Evaluate the external environment through analysis of the macro-environment/driving forces and Porter's Five Forces analysis.
3. Analyze recent restructuring and cost cutting efforts and determine if they will be sufficient
4. Propose courses of action or recommendations for a company in a dynamic, fast-paced industry.

Suggested Assignment Questions:

1. Prepare an analysis of the macro-environmental forces such as economic, political/legal, technology, global, demographics, and societal changes. Do these forces have a positive or negative impact on Zynga, Inc.?
2. Prepare a Porter's Five Forces analysis. What are your conclusions about the competitive environment of an internet-based industry?
3. Prepare a SWOT analysis. What information can be gained about the internal operations of the company? Identify the company's organizational capabilities and competitive advantage.
4. Identify the business level strategy being implemented at Zynga, Inc.
5. Analyze the recent restructuring activities. Will these be sufficient to attain a net profit? What should the company do to reach a net profit in the future?
6. What recommendations would you make to the new CEO? What actions should the company take in order to remain competitive in the dynamic social network game industry??

Teaching Outline and Analysis:

The above questions can be used to guide an in-class discussion about an internet company. The discussion may begin with an analysis of the external environment (macro environment & Porter's Five Forces) or an analysis of the internal operations of the company (SWOT). This may include identifying issues when a founder changes his/her role at the company or what changes

need to be made in order to earn a net profit. Discussion of corporate level strategy might include the use of acquisition as a growth strategy. A discussion should include the role macro-environmental factors play in this industry.

For small group in-class activities, students can be divided into groups and each group can be assigned one of the above questions to answer. Group members can then report their analysis and conclusions to fellow students in a whole-class discussion.

For oral presentations or written assignments, any or all of the above questions can be assigned.

References Available Upon Request