

## **Chapter 1: Introduction**

This chapter would briefly explain the research background to help familiarize the readers regarding the context of the research by giving brief information regarding the focus of this research, which are microtransactions, and Riot Games, and subsequently their most popular games, League of Legends to serve as the subject of study. This chapter would also talk about the problem statements and research questions, purpose of study, research benefits, research contributions, and research outline.

### **1.1 Research Background**

Nowadays, digital electronics ownership became more prevalent in the industrialised world due to the increase in requirement for industry standards, the rapid fall in cost of devices, and the increase of economical and purchasing power of the general populace. These phenomena influence technology by advancing them in all sectors, particularly in the entertainment sector. This advancement in the entertainment sector opens so many new opportunities for technology to be integrated and monetized.

The example of this technology integration in the world of entertainment is in the form of Video Games. A video game is a type of entertainment application that can be played through various devices, such as a personal computer, a laptop, a game console, and even a mobile phone. Compared to now, the early generation of

video games are very simple. One example of this is a video game which consists of only two blocks trying to bounce a small ball to the opposing side, imitating table tennis. This game would be called “Pong” and was founded in 1973 on a very simple arcade machine.

These days, technological development allows video games to be as creative and innovative as the developer intends. This could be done due to today’s hardware capability that was not available in the past (Bossom & Dunning, 2017). This progression in video games opened new ways in terms of video game design and video game monetization. While in the past, the possibility of how a video game company can monetize their products are extremely limited, being only the “pay to play” model where a player must either put money in an arcade machine or buy both the game system and the game itself to enjoy the game. Nowadays, it is possible for a video game to be offered as a service, meaning a video game company can constantly monetize the game beyond its initial release by periodically releasing content and supporting the game through various updates (Cook, 2018). This new type of video game system also gave rise to a new type of business model called “microtransaction”.

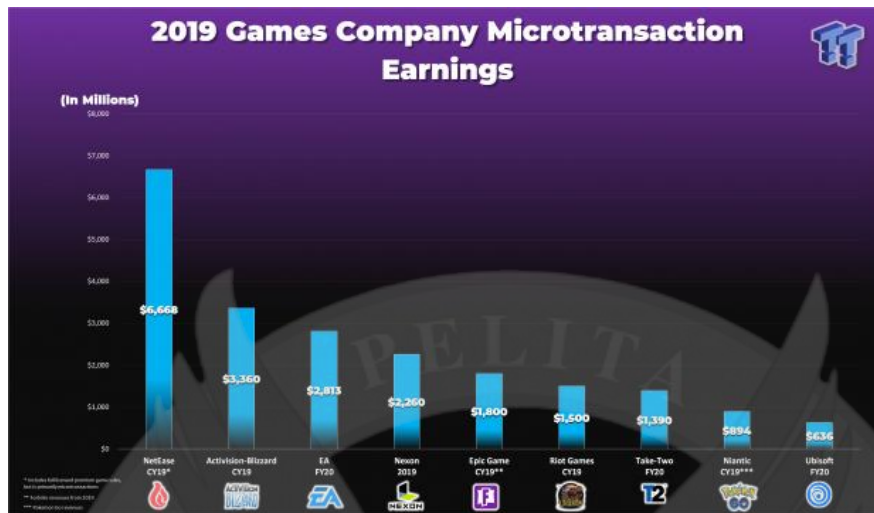
In-app purchasing or microtransactions refers to the ability of a customer to be able to purchase perks or add-on that the customer can purchase from inside the app itself. This type of business model is common but is not strictly limited to free to play apps. The reason why this type of video game business is common is because

this type of business allows a company to earn revenue and constantly update their services while providing their base services for free (Iglesia & Gayo, 2008)

The microtransaction business model in video games was first used by a game called “Habbo Hotel” in 2001, where players can purchase various cosmetics such as clothing to customize their characters (Berlo & Liblik, 2016). From then on, many games adopt this business model due to the success it brings, such as Fortnite in 2017, Counter Strike: Global Offensive in 2012, and League of Legends, which was released in 2009, which coincidentally are the main subject of this study.

Microtransaction business model is interesting because the customers are not required to pay, yet they are still able to enjoy the services provided by the company, which means the transaction parts are completely optional. For this reason, it is interesting to find out how video game companies can attract their players to partake in the game’s microtransaction option that are completely optional, and still earn lots of revenue. And in some cases, such as Riot Games, made it their main mode of generating revenue.

While microtransaction business model has been adopted with varying degree of success, it is still a relatively new business model compared to the conventional pay to play business model, which means there are still a lot of opportunities to explore this business model by learning deeper about this business model and learn how to effectively integrate it and promote it to the customers.



**Figure 1. 1 Games Company Microtransaction Earnings in 2019**

Source: Tweaktown (2019)

While previous research has been conducted by Taozhen Huang, Zheshi Bao, and Yan li regarding the topic of microtransactions in video games titled “Why do players purchase in mobile social network games? An examination of customer engagement and of uses and gratifications theory” in 2017, the scope of the research is still limited due to the research coverage of only the purchase intention on Chinese mobile social network games or M-SNG for short players in WeChat games, which means the research can still be expanded upon by replicating the research on a different research subject to broaden the research scope. Another reason why a replication is made is because the replicated research focuses on M-SNG, their research findings might be different if applied to other subjects, such as JABODETABEK League of Legends players, which is a computer game, which

means this research can also help to better integrate the exploration of purchase intention in microtransaction using customer engagement theory and uses and gratification theory on a different subject.

This paper aims to replicate the previous study by finding out the effect of customer engagement and the uses and gratification theory on the player's purchase intention to effectively promote the player's payment towards the game itself. This is done by applying the research model of previous studies into other subjects, which in this case JABODETABEK League of Legends player by exploring the purchase intention behind microtransaction by integrating customer engagement theory and uses and gratification theory to better promote player's purchase.

Customer engagement theory is a theory regarding the customer attitudes towards a firm or company that goes beyond simple purchase (Doorn et al., 2010), meaning this theory studies the customer relationships that goes beyond simple transactions, while Uses and gratification theory is a social communications theory that focuses on the concept that a media most important role is to fulfil the needs of its audience (Mehrad & Tajer, 2016.), meaning that this theory will explore the reason why someone would need and seek out a specific media, or in other words why do players choose to play a particular game. Due to the nature of microtransactions where users are not required to participate in it, this paper is going to utilize these two theories to explore the purchase intention by finding out if the customer engagement and player's uses and gratification has a positive effect on player's

purchase intention and utilizing it to promote player's initial purchase or encourage repeat purchase.

This paper is going to use Riot Games as the subject of study. The reason on why Riot Games, and subsequently their most popular game *League of Legends* are chosen as the main subject of this study is because from the game's inception, the game was planned to be a free to play with additional perks that a player can buy to enhance the game experience, or in other words, a microtransaction business model.

Riot Games was founded in 2006 by Marc Merrill and Brandon Beck. When this company was founded, they believed that the weakness of the gaming industry at that time was that game developers were jumping from game to game too quickly, which is why Riot Games founder believed that an already existing game called "Defense of The Ancients", or DOTA which was a popular game at that time can be developed even further, and even monetized. which is why in 2009, Riot Games released their first game, called "League of Legends" (Kollar, 2018).

What made the game different at that time other than the development principle behind it, is the business model. They believed that the game should be monetized differently. While at the time the popular business scheme in the west was the classic "pay to play", where consumers would pay a certain amount of money to play the game. League of Legends, or Onslaught, as it was called at the time of develop-

ment, was going to be monetized differently. They are going to take the microtransaction model which is getting more popular in Asia. This business model means that the company would provide the game for free and put in an optional transaction in the game that the player can purchase to get extra benefits (Crecente, 2019).

League of Legends is a game where two teams of opposing sides consisting of five players on each team battle each other using various characters or “champions” as the game calls them each with unique abilities to destroy the opposing team base (Wolf, 2020). The microtransaction aspect of this game mostly consists of various champions the players can buy or cosmetics to change the looks of the player characters (Kordyaka & Hribersek, 2019). Other microtransaction options also include, but are not limited to name change, account profile pictures, and emotes (Thorn, 2019).

Based on the previously stated problem, research topic regarding microtransaction and how to effectively promote it are still uncommon, which is why this research aims to find out how to effectively promote player’s payment in microtransaction by exploring the effect of their engagement level and their uses and gratification on their purchase intention by using customer engagement theory and uses and gratification theory respectively on JABODETABEK League of Legends player.

## 1.2 Problem Statements and Research Question

As a relatively new business model, microtransaction business models need to be able to compete with the traditional business model due to the nature of microtransaction that allowed customers to not participate in it if they so choose when enjoying a service that adopted these business models, which is why microtransaction business model adopters needed to find out how to attract potential customer to partake in microtransaction purchase.

The research questions for this research study are:

RQ1: Does player vigor have a positive influence on purchase intention?

RQ2: Does player dedication have a positive influence on purchase intention?

RQ3: Does player absorption have a positive influence on purchase intention?

RQ4: Does player absorption have a positive influence on a player's dedication?

RQ5: Does player dedication have a positive influence on a player's vigor?

RQ6: Does player entertainment have a positive influence on a player's vigor?

RQ7: Does player entertainment have a positive influence on a player's dedication?

RQ8: Does player entertainment have a positive influence on a player's absorption?



RQ9: Does player flexibility have a positive influence on a player's vigor?

RQ10: Does player flexibility have a positive influence on a player's dedication?

RQ11: Does player flexibility have a positive influence on a player's absorption?

RQ12: Does player self-presentation have a positive influence on a player's vigor?

RQ13: Does player self-presentation have a positive influence on a player's dedication?

RQ14: Does player self-presentation have a positive influence on player's absorption?

### **1.3 Purpose of study**

The purpose of this research study is:

1. To determine if player vigor has a positive influence on the purchase intention.
2. To determine if player dedication has a positive influence on purchase intention.
3. To determine if player absorption has a positive influence on purchase intention.
4. To determine if player absorption has a positive influence on a player's dedication.

5. To determine if player dedication has a positive influence on a player's vigor.
6. To determine if player entertainment has a positive influence on a player's vigor.
7. To determine if player entertainment has a positive influence on a player's dedication.
8. To determine if player entertainment has a positive influence on player's absorption.
9. To determine if player flexibility has a positive influence on a player's vigor.
10. To determine if player flexibility has a positive influence on a player's dedication.
11. To determine if player flexibility has a positive influence on a player's absorption.
12. To determine if player self-presentation has a positive influence on a player's vigor.
13. To determine if player self-presentation has a positive influence on a player's dedication.
14. To determine if player self-presentation has a positive influence on player's absorption.

#### **1.4 Research Benefits**

The benefits of this research study are:

1. For those that are considering or are already participating in microtransaction business models, this research paper helps them by giving them an understanding on how their level of engagement towards the game itself could affect their purchase intention, which would allow them to make better decisions regarding their purchase in future if they so choose.
2. For companies that want to adopt the relatively new microtransaction business model, this study is useful in that companies can learn how their customer engagement is able to affect their purchase intention. What this means is that companies can learn from this study result to positively alter their customer purchase intention towards their product.

### **1.5 Research Contributions**

1. For the theoretical contributions, this research can prove to be useful in understanding how customer engagement level and their reason for playing the game can influence a customer purchase intention, and their significance in influencing customer purchase intention.
2. For the practical contributions, the result of this research study can be used in two ways:

1. From the customer perspective, the result of this research can be used to make better decisions regarding their microtransaction purchases by understanding how their engagement level is able to affect their purchase intention.

2. From a company perspective, the result of this research can be used to observe the effect of customer engagement regarding their purchase intention when partaking in micro-transaction, which means a company can use the result of this research to set a strategy to alter the customer purchase intention favourably

### **1.6 Systematic Outline**

To define the outline of the research paper, an outline will be presented and explained below:

#### **Chapter 1: Introduction**

This section would talk about the research background to help the reader get acquainted with the research topic, the research problem, the research topic, the research objectives, and the scope and the limitation of the research.

#### **Chapter 2: Literature Review**

This section of the paper would talk about the theoretical framework of the research paper, and this section would explore in depth the independent and dependent variables and previous studies that serves as the basis for this research paper. This paper would also talk about the connection between each variable, which would result in the proposal of hypothesis and research model.

### **Chapter 3: Research Method**

This section of the paper would talk about the research process and will describe the design of the research, the analytical method of the research, sources for the data and their types, population and sample, descriptive analysis, validity and reliability testing, operational definition, and last but not least pre-test and hypothesis testing method.

### **Chapter 4: Findings and Analysis**

This section of the paper would talk about the findings of the research and analyze them based on the methods that are explained in previous chapter, and the topics that would be discussed in this chapter would consist of: the profile of the respondent, descriptive statistics, validity test, reliability test, hypothesis testing, and finally the result of the hypothesis testing.

### **Chapter 5: Conclusion and Suggestions**

This section of the paper would talk about the conclusion of the research, the managerial implications, limitations, and suggestions regarding how the papers can be further improved and personal reflection.

