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Scrabulous on Facebook

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ABSTRACT

In 2005, the Agarwalla brothers created the first major Facebook application, taking their online version of Scrabble to a social network. But when Facebook fans began to flock to Scrabulous, Hasbro, the board game's manufacturer, took notice—and wondered if they should let Scrabulous alone, buy it, file a lawsuit for copyright infringement, or launch their own official version of Scrabble on Facebook. Meanwhile, across the oceans in Calcutta, the Agarwalla brothers pondered their next move.

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Introduction

Mark Blecher, SVP of digital media at Hasbro Inc., was reflecting in January 2008 on the company's performance the previous year. Hasbro, one of the top global firms for children's and family leisure-time products, had achieved $3.8 billion revenue, a gross profit margin of 58.9%, and an operating margin of 13.5%—its best year ever. Blecher's division had made tremendous progress in accelerating the move of Hasbro's famous games onto digital platforms, including products such as Monopoly, Trivial Pursuit, and Cranium. Just that past July, he had signed a major licensing deal with Electronic Arts to create digital versions of over 100 Hasbro brands for mobile, online, handheld, and PC-based platforms. Dozens of new digital products were scheduled for launch by July 2008.

But Blecher faced an unexpected predicament. One of his most famous properties, Scrabble, had been digitally hijacked. An illegal, free adaptation of the popular word game was being played by hundreds of thousands of users online. This unauthorized game was called Scrabulous and was thriving, both as a stand-alone website and as an application on the social networking site Facebook. Scrabulous boldly advertised itself as "one of the finest websites where you can play the world's most popular word game Scrabble for free." Blecher had to decide how to respond to this blatant piracy of his blockbuster brand.

Blecher had several reasons to be concerned about Scrabulous. First, since the site was run by two brothers in India, Rajat and Jayant Agarwalla, the online program was outside of Hasbro's control. Few players knew, or cared, about the trademark's ownership. They just wanted their online game to work correctly. Hasbro was thought to be the owner of Scrabble, since the company's name was printed on sets sold across the United States. What would the impact be on the brand if players became frustrated with the online game? If the software malfunctioned, Hasbro could be blamed.

Second, if Blecher allowed Scrabulous to flourish, what precedent would that set for other rogue programmers? If Hasbro was seen as lax, anyone might create online versions of the company's games. Blecher knew that protecting Hasbro's copyrights was a key factor in the company's long-time success. He did not want to be seen as negligent.

Third, Blecher knew the Agarwallas were selling advertising on Scrabulous, earning almost $25,000 each month. This revenue stream was small but growing. When Blecher would launch his new online version of Scrabble the following summer, he wondered how Scrabulous's advertising would affect his business.

Blecher needed to evaluate his response carefully. Scrabulous had 600,000 daily users on Facebook and millions more registered to play. Keeping this set of fans happy was important, but he needed to get the brand back under Hasbro's control. His legal department was clamoring to send out a cease-and-desist letter, but Blecher told them to wait while he weighed other options.

Board Game and Cultural Icon

Scrabble was invented in 1933 by Alfred Mosher Butts. He studied the parlor games of the time and blended the verbal challenge of anagrams, the layout of crossword puzzles, and an element of chance. Butts printed individual letters on 100 small wooden squares, called tiles, and assigned a value from one to 10 to each letter. The goal of the game was for each player to randomly draw seven tiles and use them to create the longest word possible, earning points by counting the sum of the tiles used. Each player created a new word, linked in crossword fashion, to a word already played. Two, three, or four players competed against each other. Only English words were allowed and the score was cumulative. The winner was the player who achieved the highest total, once all tiles had been drawn.

Butts called his new game Lexiko (meaning "of words" in Greek), sent it out to the top U.S. game companies, and was universally rejected.[1] He tinkered with the game concept. Butts created a standard 15 x 15 square board and increased the scoring opportunities by sprinkling the grid with colored squares. If a player's tile was placed on a colored square, the word earned double or triple points. Butts renamed the game "Criss-Cross Words" and began to manufacture sets himself, selling them locally in Connecticut to friends and family.[2]

It was through these players that James Brunot became acquainted with the game. Brunot was a New York entrepreneur looking for a new venture to pursue. He remembered his pleasure playing Criss-Cross Words, sought out Butts, and asked to buy the rights to the game. Brunot's firm, the Production and Marketing Company, offered to manufacture and market the game, paying Butts a small royalty for each set sold. Butts agreed and the deal was signed in 1948. Brunot renamed the game Scrabble, registered it as a trademark, refined the rules further (adding a 50-point bonus if all seven tiles were used in one turn), and opened a New England manufacturing facility. With his new marketing efforts, sales grew to 10,000 sets in 1951.[3]

It was purely by chance that Scrabble became a cultural phenomenon. In 1952, Jack Strauss, president of Macy's in New York, enjoyed playing Scrabble while on vacation. When he returned to work, he insisted that the board game be sold at his famous department store. Suddenly Scrabble became a popular craze. Sales skyrocketed to 6,000 per week and Brunot's factory could not keep up. In March 1953, Brunot licensed the production and marketing of Scrabble to Selchow & Righter, a well-known games company. By the end of 1953, Selchow & Righter had sold over 1.1 million sets.[4]

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[1] Oliver Burkeman, "Spell Bound," *The Guardian*, June 28, 2008.
[2] www.scrabble-assoc.com/info/history.html
[3] www.scrabble-assoc.com/info/history.html
[4] Stefan Fatsis, "Man of Letters," *University of Pennsylvania Gazette*, September/October 2001.

The Scrabble boom continued through the 1960s. Several product variations were launched, such as luxury sets, junior sets, magnetic travel sets, and so on.[5] Sales ranged between 1 million and 1.5 million sets per year.

For the next three decades, Scrabble sales flourished worldwide. The American National Scrabble Association was formed in 1978, sanctioning official competitions. Other associations sprang up worldwide as Scrabble attracted a core base of fans, many of whom were raised playing the game. These enthusiasts maintained a passion for Scrabble well into adulthood, playing the game with a razor-sharp competitive edge.

By 2007, over 100 million Scrabble games had been sold in 29 languages in over 100 countries but the brand's ownership remained divided. Hasbro controlled Scrabble in the United States and Canada, while Mattel owned the brand across the rest of the globe.[6]

Hasbro: Titan of the Toy Industry

In 1923, two brothers, Henry and Helal Hassenfeld, founded a company to distribute fabric remnants. They soon expanded into manufacturing and took a new direction in the 1940s to produce toys for the post-war baby boom. In 1952, the company was the first to use TV commercials to promote a toy, Mr. Potato Head, and it reaped great rewards, selling one million units the first year.[7] In 1964, G.I. Joe was launched, the first "action figure" for boys, and sales hit $23 million.[8] Hassenfeld Brothers continued to innovate, changed its name to Hasbro Industries, and went public in 1968.

During the 1970s, the company launched new divisions for fashion dolls, pre-school, and outdoors. Hasbro followed the trend in the 1980s of licensing its properties to television and product companies. Revenues for G.I. Joe *alone* totaled $186 million in 1986, and this business model, profiting from toy sales and licensing royalties, became the template for all Hasbro brands to follow.

Meanwhile, Stephen Hassenfeld, president of Hasbro in the 1980s, made several important acquisitions. In 1984, he acquired Milton Bradley, a firm four times Hasbro's size, to become a major producer of board games, including classics such as The Game of Life and Candyland.[9] In 1989, he bought the assets of bankrupt Coleco Industries, which added Scrabble to the portfolio. By 1990, Hasbro was a major force on Wall Street, with annual revenues of $1.41 billion. It was the number one toy company in the world.[10] (See Exhibit 1.)

[5] Fatsis, "Man of Letters."
[6] Burkeman, "Spell Bound."
[7] Burkeman, "Spell Bound."
[8] Burkeman, "Spell Bound."
[9] Hoovers, History Fact Sheet for Hasbro, Inc., December 22, 2008.
[10] Joseph Pereira, *The Wall Street Journal*, "Hasbro expects earnings drop of over 50%", July 2, 1990.

Hasbro's Ill-fated Ventures into the Video World

Video arcade games grew in popularity during the 1970s, and before long, Hasbro joined the video games race, losing money in its endeavors. During the 1980s, the company sank $20 million into its own video game console technology but abandoned it two years later as unprofitable. During the early 1990s, President Alan Hassenfeld invested $45 million in a "virtual reality helmet" system but pulled the plug in 1995, reluctant to spend an additional $22 million on advertising. The development of Hasbro software titles was similarly disjointed. Different divisions, each in charge of their own game brands, separately inked software deals with different partners, such as Virgin Interactive Entertainment, Blockbuster Entertainment, and the Learning Company.

Hasbro reorganized these efforts in 1996, creating one Hasbro Interactive Division. The division's five-year goal was to become "the largest seller of entertainment software in the business." Eleven new CD-ROM titles were issued in 1996. Monopoly CD-ROM became one of the top 10 sellers in U.S. software sales that year. The proprietary domain www.games.com allowed "users to play Company branded games, have online chats with fellow gamers, compete in tournaments and purchase games and related products from an online store."[11]

But there were signs of trouble. The company had a difficult time attracting the best programmers, since dot-com firms were able to offer recruits stock options and other incentives. New games were issued late and missed the holiday sales season. The division had 23 games that sold over 100,000 units each, but revenues fell well below expectations. The year 2000 was a turning point. Hasbro lost $225 million in earnings—its first loss in over 20 years.

Board Game Rivalry

Hasbro went back to basics by focusing on its core business. Hasbro's Games unit reaped strong profits from 2001 to 2006 by creating line extensions, co-branded products, and adding two new divisions, one focusing on games for adults, another for tweens. Line extensions included products as simple as Scrabble Junior and as elaborate as Sorry! Electronic Sweet Revenge with a new "electronic" powered board. Movie and TV co-branding deals linked board games to cultural icons, producing best sellers such as Trivial Pursuit: The Lord of the Rings Trilogy Edition, Scrabble Junior: The Disney Edition, and Monopoly: SpongeBob SquarePants Edition.

In the process, Hasbro noticed several important consumer trends. The first was the development of "kids getting older younger; adults staying younger older." Young children were increasingly interested in playing video games like their older siblings. (See Exhibit 2.) At the same time, the video habits of teenagers were not abating as they grew to adulthood, creating "kidults"—a new phenomenon. Also, a greater number of households had two working parents, with limited leisure

[11] Hasbro 1999 Annual Report, page 10.

time to share with their kids. There was a yearning for more family time and nostalgia for the entertainment pursuits of the past.

A New Approach to Digital

Through its consumer research, the Hasbro management began to understand these trends were permanent, that video games were an important sector to penetrate, and that the Internet was here to stay. New experiments with video and online games reaped success and made senior management reconsider its strategy.

In 2003, Hasbro launched an online website for the popular game Magic: The Gathering, creating a place "where players purchase, trade and play digital card games with other players, build and customize decks and organize their card collections. . . . With over 140,000 registered accounts [the site] featured built-in tutorials and practice rooms for beginning players as well as leagues and tournaments for advanced players."[12] This experiment paid off. Within a year, Magic: The Gathering Online had 6 million online players in more than 75 countries.[13] Another game, Wheel of Fortune Live Play, became Hasbro's first game to experiment with wireless technology.

This business formula, built on core brands and strategic partnerships between Hasbro and external third-party technological experts, sparked innovation and brought sales success. Hasbro did not want to develop software for electronic games internally, since development costs usually ranged from $3 million to $6 million per title.[14] Hasbro wanted an expert, aggressive business partner to take the company's titles digital. In February 2006, it decided to sign a global licensing deal with RealNetworks, the leading developer, publisher, and distributor of casual games (web-based software that allows consumers to play online via a web browser rather than through a game console system).

RealNetworks quickly moved to get the Hasbro Games portfolio online. By November 2006, The Game of Life, Monopoly, Scrabble, and other titles were up and running on www.realarcade.com, where they could be sampled and then purchased, at prices ranging from $14.99 to $19.99 per download. RealNetwork's 2007 deal with Mattel gave it digital rights to Scrabble overseas, a move that consolidated the global legal responsibility for Scrabble's development under one corporate roof. Hasbro struck another agreement in 2007 with Electronic Arts (EA), giving it worldwide rights to create digital games for over 100 Hasbro brands for Sony's PlayStation and Microsoft's Xbox consoles. This was a lucrative market, accounting for $11.7 billion in retail sales for the United States alone in 2007.

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[12] Hasbro 2003 Annual Report.
[13] Hasbro 2004 Annual Report.
[14] "Cost of Making Games Set to Soar," BBC News, November 17, 2005, www.bbc.co.uk.

Scrabble's Biggest Fans

The Agarwalla brothers grew up in Kolkata, India, in the 1980s and shared a passion for playing Scrabble. When they each went away to college, they found a new way to stay connected—playing Scrabble online with their family. But in 2005, that pleasurable pursuit was threatened. The unauthorized Scrabble site they used began to charge a fee. As Jayant explained, his obsession became too expensive, so he did what any tech-savvy Scrabble fan would do: he built his own site.[15] The brothers used the resources of their software company, RJ Softwares, to launch a version of the game called BingoBinge.com. By 2005, it had attracted 3,000 members, and in July 2006, acting on a user's suggestion, they changed its name to www.Scrabulous.com.[16] The site began to attract more players and received notable publicity when "Addicted to L-U-V" appeared in the May 13, 2007, *New York Times*.[17] The number of players soon reached 20,000.

The online experience the Agarwallas offered at Scrabulous.com was blatantly labeled "the most amazing website for free, relaxed online Scrabble" that hosted "free Scrabble tournaments" on the web. The online game looked exactly like a Scrabble board in size, shape, and color, and the software recreated the real-world experience "with users getting seven tiles at random, and dragging letters onto a board to form words. Once a word is played, new tiles are automatically generated and opponents notified that it's their turn." The brothers upgraded their site after several months with Solo Scrabble and Solitaire Scrabble functions and in 2007 added an online Scrabble Dictionary, Blitz Scrabble, and Scrabble Robots. (See Exhibit 3.)

The Agarwallas loved their creation and were proud of its growing popularity: "Scrabble has a charm of its own because you're playing with close friends and family members. But the thing is, as in everything in the world, people don't find the time to be with their family, to find two hours to play."[18] The website www.Scrabulous.com helped people stay connected and the brothers looked to find more ways to expand its success.

Facebook and the Rise of Social Networks

As the Agarwallas were perfecting their Scrabulous software, Internet habits and options were evolving to create new platforms for games. By 2006, 73% of all U.S. adults were online and 42% had broadband connections in their homes.[19] (See Exhibit 4.) Websites proliferated where the average user could play games, write text, and post photos and videos to share. Many sites provided chat

[15] Jamin Brophy-Warren, "Networking Your Way to a Triple-Word Score," *Wall Street Journal*, October 13, 2007.
[16] Bromin, "Networking Your Way to a Triple-Word Score."
[17] Nora Ephron, "Addicted to L-U-V," *New York Times*, May 13, 2007.
[18] Sara Ivry, "Facebook, the Place People Go to Meet Other Scrabble Players," December 17, 2007.
[19] Mary Madden, "Internet Penetration and Impact," Pew Internet & American Life Project, April 26, 2006, www.pewinternet.org.

forums, file sharing, and other ways for users to interact. "Online social networks," defined as "spaces on the Internet where users create a profile and connect to others to create a personal network" grew briskly.[20] The share of adult Internet users with a profile on a social network more than quadrupled between 2005 and 2008, from 8% to 35%.[21] (See Exhibit 5.)

Most of the activity on social networks was between friends and family members. The Pew Research Center found that people used online social network mainly to connect with people they already knew: "89% use their online profiles to keep up with friends; 57% use their online profile to make plans with friends; 49% use them to make new friends."[22] Various social networks offered distinct features and attracted different participants. Friendster, launched in 2002, was the first mass social network but insisted participants be *real* people, banning music bands and fictional characters. MySpace offered a more free-form network, linking people, interest groups, and blogs, and in 2007 was the most popular social networking site in the United States. However, Facebook, an up-and-coming site, was gaining ground on MySpace, threatening to become the new leader for social networking. [23] (See Exhibit 6.)

Facebook originated at Harvard College in 2004. Steve Zuckerberg used the photos of students living in nine dormitories and put them together on an interactive website. The term "facebook" was used to describe photo booklets that colleges gave out to help students get to know each other, so Zuckerberg used that name for his new venture.[24] In the first month, over half of Harvard's students registered for Facebook, and when the site opened up membership to other colleges, it soon had 1 million users. Zuckerberg left Harvard, moved to California, secured venture capital, expanded Facebook to cover high schools, and by 2005 had 5.5 million active users.[25] Facebook became available in 2006 to anyone who wanted to join. By the time the company expanded to international markets in 2007, it had reached 50 million users—a staggering growth rate of 1 million new users each week.[26] At this speed, the number of users was on track to reach 150 million by 2008.

Much of Facebook's success was due to its simple design and user friendliness. The site continuously updated services to create more "real-life" experiences for users. Photo and video sharing, news feeds, calendars, and other features were added. Chris Hughes, a spokesperson for Facebook, noted, "We model people's real lives . . . in a virtual space that enables them to exchange information about

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[20] Amanda Lenhart, "Social Networks Grow: Friending Mom and Dad," Pew Internet & American Life Project, January 14, 2009, www.pewinternet.org.
[21] Amanda Lenhart, "Adults and Social Network Websites," Pew Internet & American Life Project, January 14, 2009, www.pewinternet.org.
[22] Lenhart, "Social Networks Grow."
[23] Bill Tancer, "MySpace Moves into #1 Position for all Internet Sites," July 11, 2006, Hitwise Intelligence, http://weblogs.hitwise.com/bill-tancer/2006/07/myspace_moves_into_1_position.html.
[24] Linda Roeder, "Where Did Facebook Come From?" February 5, 2009, www.about.com.
[25] Press Room, http://www.facebook.com/press/info.php?timeline.
[26] "Facebook," http://www.crunchbase.com/company/facebook, January 25, 2009.

themselves. We are not focused on dating or anything like that. Instead, we want to . . . provide our users the information that matters most to them."[27]

To make his site even more useful to members, Zuckerberg opened Facebook's software code in May 2007 to any programmer interested in creating new applications for its platform. "Facebook, in essence, has become the social operating system," commented venture capitalist Salil Deshpande.[28] Within months, 80,000 developers responded, creating all types of apps.[29] This made Facebook even more attractive to users as new functions were added, ranging from *Slide* (put your photos in a slideshow to share with friends) to *attendio* (search for local events and automatically add them to your calendar) and *oodle* (share online classifieds). Venture capitalists, such as Bay Partners, Altura Ventures, and Morgenthaler Ventures, looked to invest anywhere from $25,000 to $250,000 with individual programmers to build an app business on the Facebook Platform. New ad networks, such as VideoEgg and Appsavvy, began to offer services to corporations to place ads within these new apps. The number of Facebook apps seemed only to be limited by the imagination and passion of global programmers. By year end 2007, more than 5,000 new Facebook apps were online, some offering service for a fee and others incorporating advertising to support their apps that were free to users.[30]

The Scrabulous App

In May 2007, when one of their regular player's suggested Scrabulous be launched as an app on Facebook, the Agarwalla brothers readily agreed. Although they lived in India and were not very familiar with Facebook, they knew the site served an audience primarily in the United States—an important market where they wanted their software company to do more business. They also realized Hasbro and Mattel, joint owners of the Scrabble copyright, were based in the United States and were more likely to see their game. In June 2007, they wrote to Hasbro about their Facebook app but received no answer. The brothers decided to launch Scrabulous on Facebook anyway since they "were targeting 2,600 users, about 0.01 per cent of the entire Facebook population," said Jayant.[31]

Scrabulous made its Facebook debut in July 2007 and was an immediate sensation. Within weeks, it attracted tens of thousands of players. In a month, 200,000 Facebook members had downloaded the app. The Agarwallas added new features to the Scrabulous software, including a global statistics page where top scorers were named and a chat feature, allowing players to compliment (or trash talk) each other as they played. Even Mark Zuckerberg became a Scrabulous fan. "It got my grandparents on

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[27] "Facebook,"
[28] Darryl Taft, "Facebook Bolsters Platform, Funds Development,"eWeek.com, September 21, 2007.
[29] Ellen McGirt, "Facebook Is the "It" Company of 2007," Fast Company, November 2007.
[30] Brophy-Warren, "Networking Your Way to a Triple-Word Score."
[31] Ivry, "Facebook, the Place People Go to Meet Other Scrabble Players."

Facebook. They like playing with me," he said in a cover story in *Fast Company Magazine*.[32] The tale of the Agarwallas' runaway success was featured in the *Wall Street Journal* and the *New York Times*. By October 2007, Scrabulous had 1 million players on Facebook, 342,000 daily active users, 5 million hits per day, and the numbers kept increasing each month.[33] The Agarwallas boasted, "The application helps people play and stay connected. . . . Once we've explained it to them, they come back and say, 'it's a great thing.'"[34]

The success of Scrabulous on Facebook gave birth to a 30-employee company, RJ Softwares, and wonderful publicity, but the Agarwalla brothers were not making big money yet. The app's advertising sales were "just about enough to cover basic costs," remarked Jayant. They had been asked to sell the app, saying "we have a few offers from venture capitalists, but we have turned them down. We have our own plans for social gaming."[35] At the end of 2007, the Agarwallas were earning from $18,000 to $25,000 in ad revenue each month from Facebook's Scrabulous app. They planned for further upgrades and announced RJ Softwares would soon be launching more online games.[36]

Piracy and the Legal Landscape

Even as the brothers were enjoying enormous success, they suspected their legal standing was precarious. Commentators in the news had noted that Scrabulous meticulously replicated the rules and colorful design of Scrabble. Although Scrabulous offered additional features, such as chat rooms and an online dictionary, the difference between the two games was minimal. And the homepage design at www.Scrabulous.com specifically referenced Scrabble. (See Exhibit 3.) Plus, the brothers had publicly admitted the similarity, telling the *Wall Street Journal* they considered Scrabulous to be essentially an online version of Scrabble. "It's not really different," said Jayant Agarwalla.

In addition, being in the software business, the brothers also knew piracy was a huge financial concern for corporate America. The Business Software Association 2006 global study on piracy put losses at $7.3 billion for the United States alone. By 2008, global losses due to piracy were expected to be nearly $48 billion. (See Exhibit 7.) U.S. companies were well aware of piracy's impact on their revenues. But the Agarwallas believed their efforts were helping Hasbro sell more board games, and that that might work in their favor: "We have managed to reach a lot of people who have never played the game. . . . They come back and say . . . we have to buy the original version to play with our family offline."[37]

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[32] Ellen McGirt, "Facebook Is the 'It' Company of 2007."
[33] Brophy-Warren, "Networking Your Way to a Triple-Word Score."
[34] Ivry, "Facebook, the Place People Go to Meet Other Scrabble Players."
[35] Narayanan Madhavan, "Kolkata Brothers 'Scrabble' Facebook's Hottest Game," *Hindustan Times*, October 1, 2007.
[36] Ivry, "Facebook, the Place People Go to Meet Other Scrabble Players."
[37] Ivry, "Facebook, the Place People Go to Meet Other Scrabble Players."

The global nature of Facebook complicated matters even further. Digital rights management, copyright, and trademark regulations, as applied to web platforms, were a legal tangle. High-profile court cases, such as the recording industry's that shut down Napster, demonstrated the power of U.S. copyright law. Hasbro itself was active in using cease-and-desist lawsuits to protect its intellectual property. In 2005, the company had closed down an illicit website, e-Scrabble. More recently, the firm had shut down an unsanctioned Google Maps game of Risk, as well as a YouTube sci-fi Internet series based on G.I. Joe.

But some legal leeway was possible under the Fair Use doctrine. This law allowed a copyrighted item's use specifically "for purposes such as criticism, comment, news reporting, teaching, scholarship, or research" within limits. In determining Fair Use limits, the factors considered were whether the copy "was of a portion or whole of a work, whether it was being used for commercial gain, and what effect the use had upon the market value of the original work."[38] Clearly, the similarities between Scrabulous and Scrabble were so great that the brothers were not covered by the first exclusion. And, although their earnings were small, the Agarwallas had commercial gain through ad sales. The question was what effect Scrabulous had on "the original work." Some experts suggested piracy could "actually help to promote the product." One was Oxford economist Karen Croxson, who said,

> In any market there are some who value the product but never would buy. Their piracy cannot harm the seller. Quite the opposite: because, like any consumer, a pirate will talk to others about product experiences, copying which does not displace sales can actually help business. Consumer 'buzz' is hugely important for sales success . . . and piracy drives up buzz without the need for extra marketing.[39]

Hasbro's Dilemma

Blecher considered his options for handling the situation with Scrabulous. He had mixed feelings about the brothers' efforts, since he felt their site probably had helped Scrabble achieve record board game sales that quarter.

He considered consulting his partners at Electronic Arts, who had promised to have their Facebook Scrabble app ready by June. Depending on how far along they were with their programming, would they consider buying Scrabulous outright from the Agarwallas? Taking an even broader view, he wondered whether RJ Softwares might be a good candidate for Hasbro's next acquisition.

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[38] Cornell University Law School, "U.S. Code 17,170: Limitations on Exclusive Rights: Fair Use," www4.law.cornell.edu/uscode/17/107.html.
[39] Karen Croxson, "Promotional Piracy," *Journal of Oxford Economic Studies*, March 17, 2008, http://www.ox.ac.uk/media/news_stories/2008/080317.html.

Buying Scrabulous might have been the way to go, at the right price. The brothers said Scrabulous was generating $25,000 per month in revenues. Many new games had a "hockey stick curve," and it was likely that as social media grew, Scrabulous earnings would grow exponentially. The brothers had attention and credibility on Facebook, and could use Scrabulous as a platform to launch other games to devoted fans. For venture capitalists for Web 2.0 companies, the median deal size in 2007 reached a record $5 million, up from $4.1 million a year earlier; but, according to *Dow Jones Venture Source*, this was well below the $7.6 million median for a venture capital deal in the United States in 2007.[40]

Blecher also thought his counterpart at Mattel Games would be good to talk to, since Mattel held the international copyright for Scrabble. If Blecher asked his general counsel to issue a cease-and-desist letter to start a lawsuit against the Agarwallas, it would be important to involve Mattel in international jurisdictions.

Blecher was uncertain how Hasbro President Al Verrecchia would weigh in on this decision. Verrecchia had faint interest in investing in the online world and recently said, "I think that when you sit around on a Friday night and play Scrabble or Monopoly with our family and neighbors, with some pizza and beer, you are having a completely different experience than when you sit in front of your computer playing alone—or even with an anonymous partner over the Internet."[41]

But the press and bloggers were commenting on Hasbro's inaction on Scrabulous. Blecher felt his brand, and reputation, were under threat. He had to decide what to do—and soon.

The Agarwalla Brothers' Next Move

Meanwhile, sitting in their small, glass-paneled office in Space Town near Calcutta Airport, the Agarwalla brothers wondered what they should do next. They were reportedly "surprised and disappointed" about speculation that they might be pitted against Hasbro and Mattel over legal issues, believing that they had not done anything wrong. What kept the brothers going, by their own account, was a passion for word games and a commitment to keep the Internet applications free.[42]

The advertising money they were earning from Scrabulous was gratifying; how much more could they expect to earn from it? Were there ways in which they could leverage their huge popularity on, and credibility with, Facebook? Should they develop new Facebook applications or port Scrabulous to mobile devices? Was it time to become serious businessmen and expand their business and seek venture capital? Calcutta had its share of software developers, but it was not Bangalore, India's

[40] "U.S. Web 2.0 Investment Jumps 88% in 2007 to $1.34 Billion But Sector May Be Maturing," Dow Jones Venture, Press Release, March 18, 2008.
[41] Chris Trimble, "Hasbro Interactive," Case Study, Tuck School of Business at Dartmouth—William F. Achtmeyer Center for Global Leadership, March 22, 2004.
[42] Debashis Bhattacharyya, "A Game by Any Other Name," *The Telegraph*, February 15, 2009.

version of Silicon Valley. Perhaps they should relocate. Then again, they could just wait for Hasbro to buy them out—possibly even joining forces with the toy company giant to develop more games.

Questions for Discussion

1. How do games like Scrabulous create value for social media?

2. Does the Facebook environment create value for the Scrabble brand and game?

3. What were the possible consequences of the law suit for the Agarwalla brothers? Hasbro? Facebook?

4. What would be the reaction of Facebook users if Scrabulous were pulled and replaced by Hasbro's version of the game? Can you estimate/monetize the magnitude of the loss for each party?

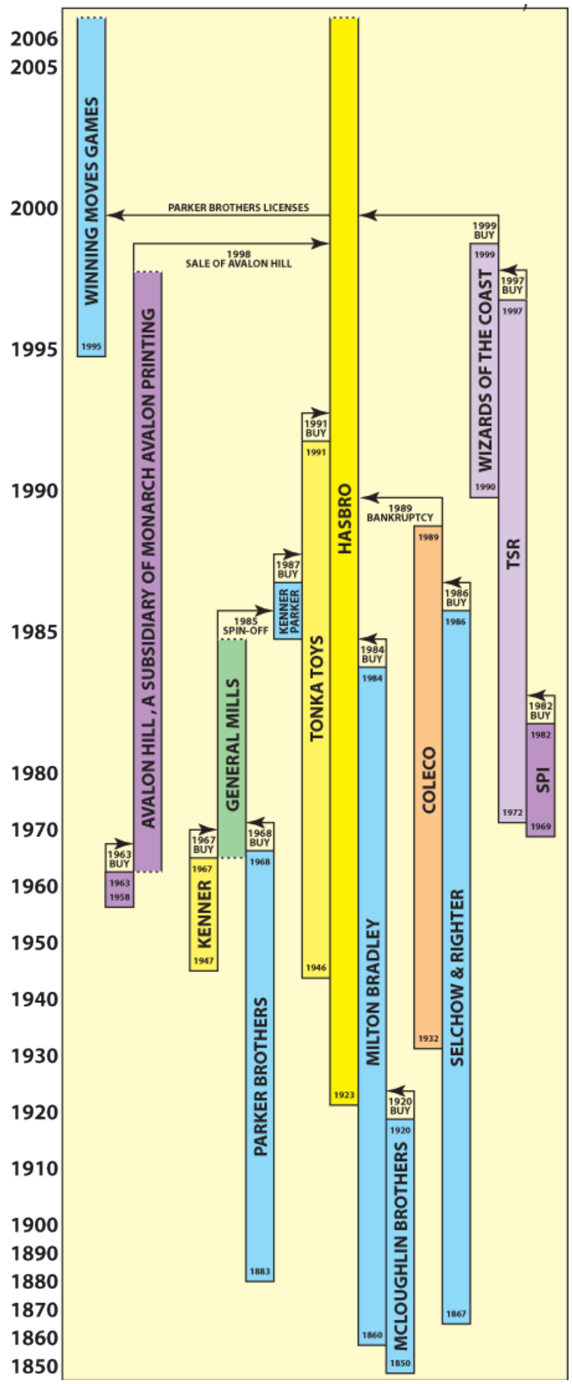
5. If you were Blecher, what price would you offer for Scrabulous? How would you calculate this?

6. If you were one of the Agarwalla brothers, what price would you seek for your product? How would you make your case? How would you present the numbers to support it?

Exhibits

Exhibit 1

Hasbro Industries' Growth Picture 1923-2006



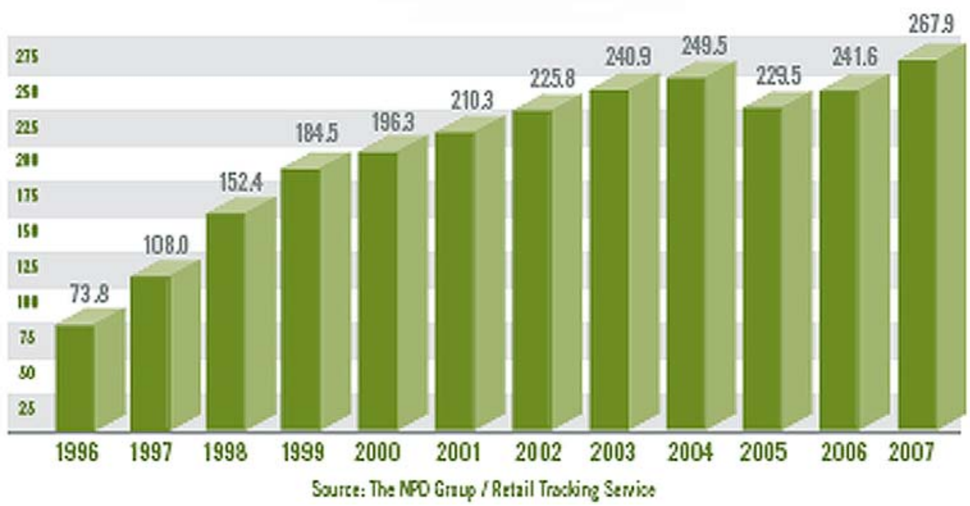
Source: Shannon Applecline, "The Creature that Ate the (Gaming) World," www.boardgamenews.com, June 8, 2006.

Exhibit 2

U.S. Computer and Video Game Sales 1996-2008

US COMPUTER AND VIDEO GAME DOLLAR SALES GROWTH (DOLLARS IN BILLIONS)

U.S. COMPUTER AND VIDEO GAME UNIT SALES GROWTH (UNITS IN MILLIONS)



Source: The Entertainment Software Association, July 2008, www.theesa.com.

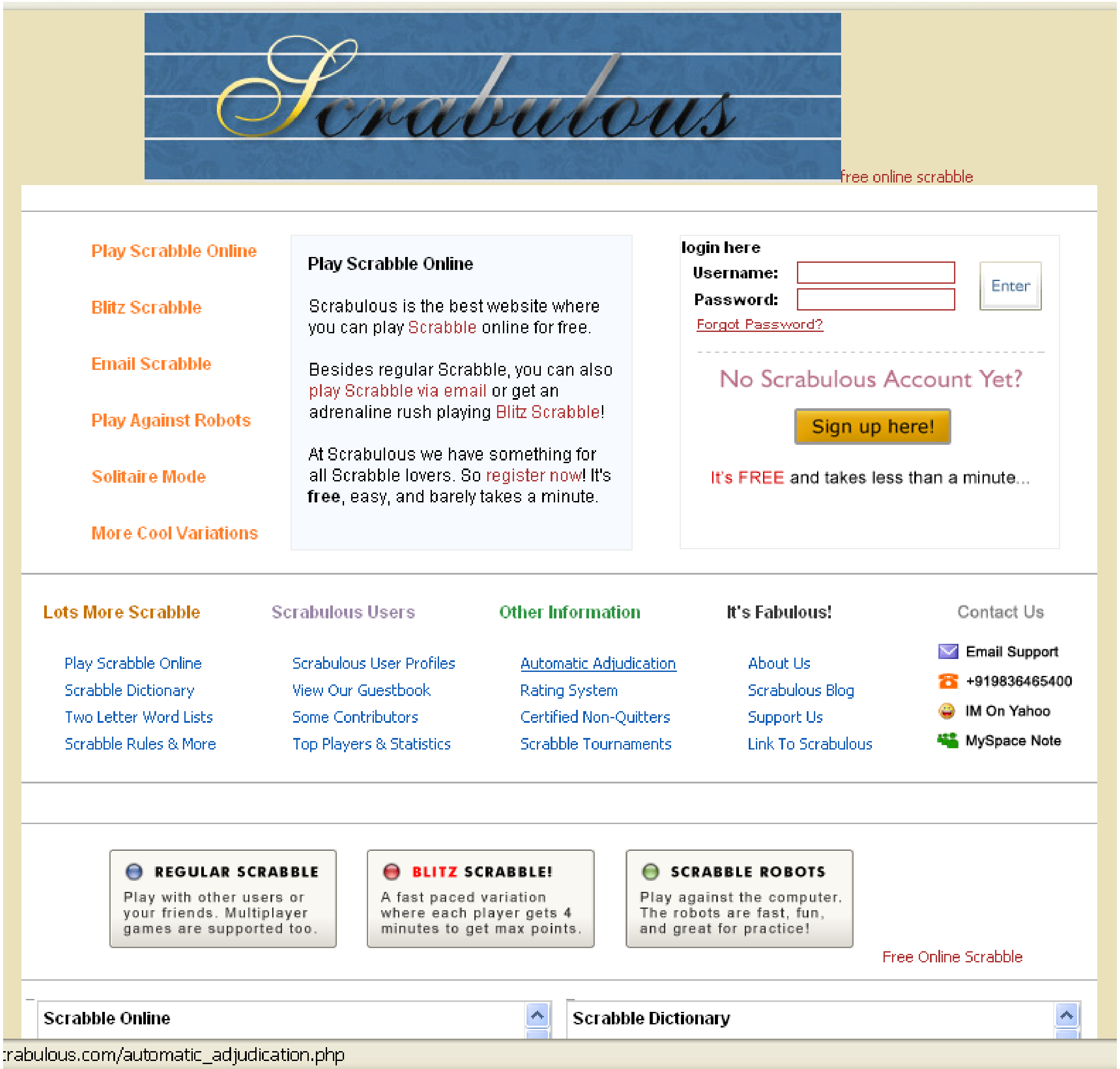
Exhibit 3

Screenshots of Scrabulous Home Pages

REGULAR SCRABBLE ONLY

Exhiibt 3 (cont.)

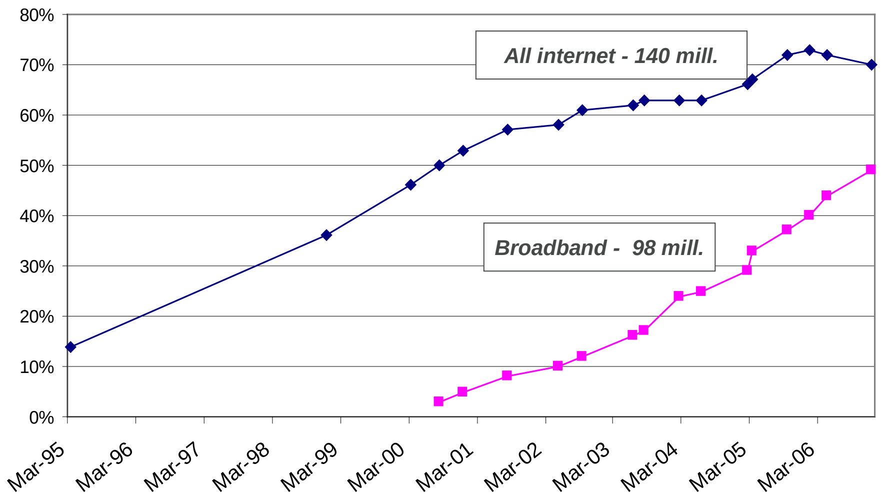
ADDITION OF BLITZ SCRABBLE AND SCRABBLE ROBOTS



Source: www.archive.org/waybackmachine images.

Exhibit 4

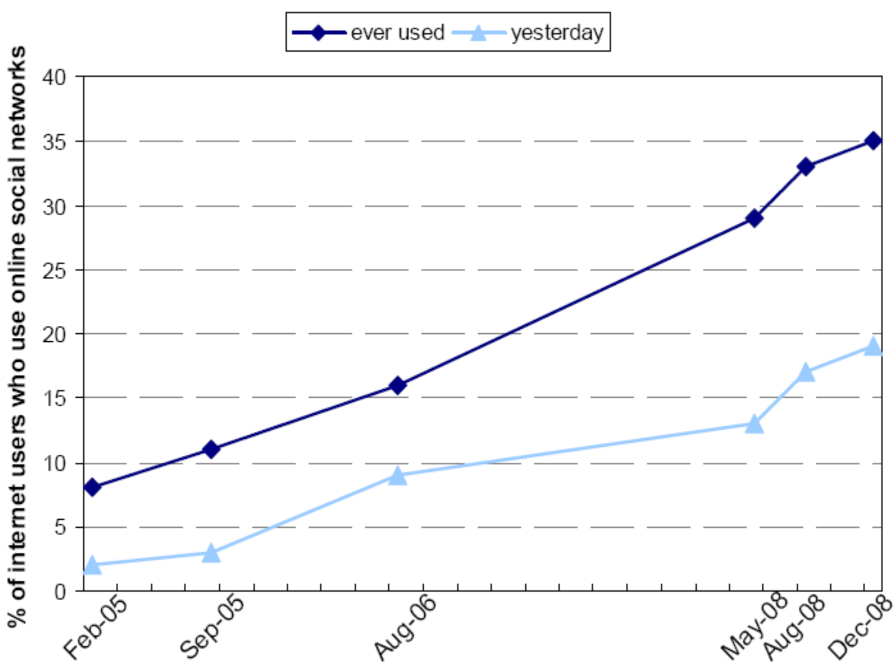
Internet and Broadband Adoption 1995–2006



Source: Pew Research Center.

Exhibit 5

Growth in Use of Online Social Networks



Source: Pew Internet & American Life Project, January 14, 2009.

Exhibit 6

U.S. Social Networking Unique Visitors (April 2007–April 2008)

Source: "Social Networking Gets a Sanity Check," June 13, 2008, http://gigaom.com/2008/06/13/social-networking-gets-a-sanity-check/.

Exhibit 7

Ranking by 2006 PC Software Piracy Losses (Countries with $200 Million or More)

COUNTRY	$MILLIONS
United States	$7,289
China	$5,429
France	$2,676
Russia	$2,197
Japan	$1,781
United Kingdom	$1,760
Germany	$1,642
Italy	$1,403
India	$1,275
Brazil	$1,148
Spain	$865
Canada	$784
Mexico	$748
Australia	$515
Poland	$484
South Korea	$440
Thailand	$421
Netherlands	$419
Indonesia	$350
Ukraine	$337
Switzerland	$324
Turkey	$314
Sweden	$313
Venezuela	$307
Argentina	$303
Malaysia	$289
South Africa	$225
Belgium	$222

Source: Business Software Alliance, “Global Software Piracy Study,” www.bsa.org/globalstudy.