iGAMING BUSINESS

Executive Summary
Social Gaming: Opportunities for Gambling Operators

Social Media Explosion

One of the biggest changes to the way people have engaged with the internet over the last few years has been seen in the growth of social networking and user generated websites, facilitated by the growth of broadband access. Sites such as YouTube, MySpace and Facebook, as well as virtual reality sites such as Second Life are some of the most popular online destinations globally. Blogging and tweeting (sending shorter messages via mobile internet) are other online community tools that are now increasingly commonplace too.

As a term, 'social media' describes the technologies, platforms and methods in which users share content online. Social media relies on user-generated content and allows users to share, discuss and participate in a conversation. It also allows people or businesses to become both readers and publishers of content. Interaction also plays a key role in social media with communication between fellow users increasing content levels and further spreading the word.

Social media content can come in many forms including; text, images, videos and audio. Online communities are also created through social media as like-minded individuals discuss their common interests. Social media is fast moving with a constant stream of new technologies being created allowing for greater interaction and new ways to share content online.

Social networking websites have actually been around since the mid-1990s, but the emergence of Web 2.0 has made modern social networking sites increasingly popular and easier to use than the wave of sites that launched originally.

Although Facebook holds the dominant position in the social networking industry, the site makes up less than 30% of worldwide unique visitors to social networks. Nearly 40 social networks had over 10m monthly uniques and nearly 150 had over 1m monthly uniques at the time of writing.

Social Gaming Popularity

The gaming landscape has changed greatly in the past five years, most notably away from the traditional single-player console games and towards lighter casual and social games on the internet and mobile devices.

In the past decade, digital games have become a widely accepted form of media entertainment, even outside the traditional 'core gamer' segment. In tandem with this shift into the mainstream media market, the industry has seen an increasing interest in 'social' multiplayer gaming activities, from both the audience and the gaming industry.

No longer the preserve of the young male, social games are played by everyone from stay-at-home mothers to the middle-aged. Indeed, research puts the average age of a social gamer as 48 years old. And among these forty-something-year-olds, 90% reported the same or increased game play over the previous three months. They're spending less time reading books and magazines and even less time watching TV or going to the movies. According to Cisco, internet users spend an average of 24 minutes per day on social networking sites.

The most popular social games tap into real-life passions and relate to the hobbies and interests of the user. Multiplayer games and trading games in particular have proved to be popular on social networking sites. Lottery games and slots have proved incredibly popular too, regularly featuring among Facebook's top applications. Games that show players how their friends are doing seem to encourage the player to play more, and encourage competition among their friends in return. Meanwhile, social chat is a major feature of playing some games online such as bingo.

Social Gaming Defined

Social gaming can be defined as a structured activity that has contextual rules through which users can engage with one another. Social games usually involve more than one player and typically have one or more of the following features: turn-based, casual, based on social platforms for providing users with an identity.

Social games occupy a unique niche in the gaming industry in that they are primarily driven by community rather than strategy and tend to have no or few hardware requirements as may be the case with other online games.

There are three main types of social games:

1. Social games on social networks. These take place within the environment of a social network, such as Facebook or hi5 and incorporate the functionality of the underlying platform into the game. For example, the game may allow players to play and interact with Facebook friends and share content or report achievements on their Wall.
2. Game portals. Game portals are specialist distribution channels for social games. Users play or pay for games on the specialist site.
3. In-browser social games. These are played on the internet and can be created and run using standard web technologies or browser plug-ins.

Main Genres of Social Games: Source: ZagZig Media

Genre	Examples
Role playing games that utilise the social graph, i.e. a player's social connections, as part of the game	Parking Wars, PackRat, Mobsters, Fashion Wars, Mafia Wars, Vampire Wars, Spymaster
Management/Nurturing games in which the main gameplay involves socialising or social activities like trading, or growing	YoVille, Pet Society, FarmVille, Cupcake Corner, CityVille
Turn-based card, board and parlour games that are played within a social context or with friends	Texas Hold'em Poker, Farkle Pro, Monopoly, Bingo
Competitive casual games that include friends-only leaderboards and are often word-based	Who Has the Biggest Brain?, Word Challenge, Scramble, Scrabble
Dating and Flirting type games where the aim is to meet people (or dump them)	Friends for Sale, Human Pets, I Woo You (MTV), CupidsPlay, ChumpDump, Bet Your Followers
Sports games	Premier Football, Tennis Mania, FIFA Superstars
Virtual joke-style gimmicky games that tend to be popular when initially launched and then fade in popularity	Pillow Fight, Kickmania, Water Gun Fights

Social Gaming Channels

The success of social gaming developers such as Zynga and Playfish (see profiles in Chapter 7 of this report) can largely be attributed to them being on Facebook, a platform that offers several elements that are attractive to developers:

- an audience approaching 700m users at the time of writing that is more loyal and long-term
- viral-enabled
- possible monetisation
- third party integration tools.

Meanwhile, the companies that make up the 'other 70%' of social networking traffic outside the Facebook space are beginning to realise the engagement and monetisation benefits of social games. Some sites, such as MyYearbook and Quepasa, have made social gaming a central part of their strategy and are seeing significant growth despite the fact that more and more users are still being drawn to Facebook.

The Major Players

The year 2010 was one of strong expansion in the social gaming industry with the market dominated by Zynga, largely fuelled by the developer's success with FarmVille, Texas Hold'em Poker and CityVille. Zynga's dominance continued in the first six months of 2011.

According to analysts, overall market growth has been driven by operators acclimatising to changes in Facebook's user notification policies, which undermined the cheap viral marketing success of the market in 2009.

Operators have concentrated their efforts on improving user engagement and monetisation — in effect targeting better lifetime value from existing users, rather than commercial growth delivered purely through market expansion.

Outside Facebook, growth in the market has been driven by the continued adoption of games content from other social networks across all regions. These developments have helped the market outperform forecasts.

In terms of value for investors, analysts believe that smaller independent social gaming companies can be risky whereas large game operators tend to have a diverse portfolio of popular games and a strong game pipeline that provide fair visibility into future earnings and cash flows and can help cushion the impact of a disappointing new game release. Whilst social games companies are almost all private, there is an active secondary market in their shares.

One industry insider believes the winners in the social gaming industry will be a mix of the successful incumbents who have built-in distribution (such as the likes of Zynga, Disney/Playdom and CrowdStar), start ups that have enough funding to market games as well as develop them (such as RockYou), or companies with existing businesses and audiences that are entering the field (for example media companies like Sony, Fox, Sugar Inc and Break Media).

Top 5 Social Apps Developers on Facebook By MAU, June 2011

Rank	Developer	MAU
1.	Zynga	244,528,050
2.	Electronic Arts	31,752,778
3.	wooga	30,554,580
4.	RootMusic	29,457,073
5.	Playdom	28,653,189

Source: AppData

New Entrants and Gamification

With social media becoming a more prevalent mode of entertainment, games designed to turn 'likes' and followers into direct revenue streams will likely pick up steam in all industries.

In terms of marketing, one of the hottest areas in the last 12 months or so has been 'gamification'. Marketers, inspired by the rise of social-gaming and reward-base applications, see in games the potential for the holy grail of customer engagement and loyalty.

Gamification is a process by which the ordinary is made extraordinary for brands, potentially more enjoyable and engaging for customers, positively reinforcing desired behaviour through the addition of game mechanics.

What insiders are seeing in this emerging space is that the level of third party branding in a game depends on how much an advertiser or sponsor is willing to spend towards its social media strategy. A fully branded game on one of the leading social media platforms is more costly than a single branded good in a virtual store.

Market Valuations

An industry which barely existed three years ago, social gaming now boasts at least one company with a multibillion-dollar valuation, and has seen several significant exits. Various players including major entertainment companies are becoming more involved in the space, as is shown in Chapter 2 of this report.

According to Business Insights, the global social gaming market was worth just under $1.5bn in 2010, and is forecast to reach almost $4bn by 2015. The most important market is the US, with revenues of $670m expected to grow to $1.2bn in 2015. Japan is in second place, with an $180m market that is forecast to reach $570m in 2015.

eMarketer is less bullish than Business Insights claiming that social gaming revenues were worth around $856m in 2010. The market is predicted to top $1.3bn by 2012. In terms of monetisation, virtual goods will barely move, retaining a nearly 60% share of the social gaming revenue pie with $792m in 2012. Advertising will grow from a 14.1% share of the market with $120m spent in 2010, to 20.5% share with $271m in 2012.

Meanwhile Parks Associates forecasts that revenues in the social gaming market will increase by five times from 2010 to 2015, due in large part to advertising revenues and sales of virtual items. These factors already pushed revenues over $1bn in 2010, according to the international research firm.

ThinkEquity claimed that the worldwide market for social media games will hit $6.1bn in 2011 and $12.1bn by 2014.

Business Models for Monetising Social Gaming

Gaming is proving to be an important way for social networks to monetise their user bases and is one of the few areas where a successful model has been created in persuading consumers to make small payments for online content such as virtual tractors, seed, or rare swords and wands to build status, improve the gaming experience, or gain a competitive edge.

Whilst early movers in the social gaming space often missed revenue opportunities, savvier entrants soon realised that monetisation could scale massively and could have very high profit margins. By improvising game design and cultivating a better understanding of conversion trigger points, social game operators now realise that they can gradually increase the rate at which they convert free gamers to paying customers and also how much these customers spend.

Implementing a successful social games strategy is not easy however; new technology, new skills, and an ongoing commitment are required to succeed. There are three main areas that anchor a successful strategy: the platform, the content, and the distribution. If any one of these areas is lacking, the true potential of social games and the virtual goods sold within them will remain unrealised. However, if developers get these elements right, a social game could be a great way to monetise consumers.

Social games are similar to other online games in many ways but have one major difference – they do not monetise in the same way. Despite being essentially free to play, in 2009, social games generated over $500m in revenue, the majority of which came from social games on Facebook. Representing a third of total social networking direct revenues, there is a substantial growth opportunity in the social gaming market.
The global market for social networking games, including consumer spend on microtransactions and operator revenue from lead generation and advertising, amounted to $1.4bn in 2010, up 116.4% from $636m in 2009, according to IHS Screen Digest.

There are three main ways for social games to generate revenue for a games developer:

1. the sale of virtual goods (microtransactions);
2. in-game branding/sponsorship;
3. and pay-to-play or subscription-based content.

Getting Social Games to Market

Substantial growth in social gaming has lured hundreds of companies and operators to the industry, resulting in fierce competition for gamer attention and spending.

Gamer preference however tends to be fickle after the initial excitement of a new game has worn off, plus the market is highly fragmented and competition is high. This makes it extremely difficult for developers to build durable competitive advantages and consistently deliver good returns. Despite considerable operating leverage and strong cash flows for successful games, gaming operators need to plough the cash back into further research and marketing to sustain their businesses.

The speed to market of new games provides developers with the opportunity to capitalise on trends and target offerings to interest and excite customers. In order to keep people hooked on their games, a constant pace of developing, upgrading and launching usually separates social gaming from the traditional game industry, for example German developer Wooga dedicates half its entire workforce to game development.

Where Electronic Arts can afford to spend millions of dollars on a team of hundreds, more than two years before a console game hits shelves, social gaming companies may spend only weeks or months on a game, launch multiple betas to test new features and adapt the game on the fly. The immense player base of these games keeps the pace viable, because there are multiple avenues for monetisation, including micropayments (see Chapter 4 of this report).

Market Outlook

Social gaming will undoubtedly be a hotbed of development activity for some time to come. But whether companies in this space will succeed largely depends on their ability to both develop compelling products and negotiate the market forces that are affecting the industry.

The first generation of social games tended to be built by people with traditional web developer backgrounds. Often, what made a game attractive and go viral took a lot of the same skills that made websites successful.

The success of the next generation of games, as Zynga demonstrated with FrontierVille, are expected to depend less on virality and more on real and impactful gameplay. High-concept games will tend to be easier to market and therefore, will perform better as an advertisement for a producer, resulting in lower user acquisition costs.

Apart from market entry costs, development in the industry (or in individual online markets) could be hindered by factors such as broadband or mobile penetration not happening as fast as predicted, the bubble bursting in social gaming in general, legislation (if social gaming starts crossing the regulatory line) and online payment crackdowns.

With Facebook being the platform of choice for the majority of social gaming developers, and the network both charging for advertising and taking 30% of all revenue generated via credits, similar to Apple's take on the App Store – some companies looking to enter the space now simply cannot afford it.

Smaller operators may consider that they may have more success on other smaller sites (such as Spil Games or Bigpoint that are looking to attract smaller developers) or emerging platforms such as the mobile/tablet space.

Reasons Not to Launch a Game on Facebook: Source: ZagZig Media

Reason	Why
Too competitive	Share of voice is hard to achieve without deep pockets for marketing
Too expensive	Not only is sharing 30% of microtransaction revenue turning off some developers but the costs of promoting the game once launched can run into the millions, as well as keeping the game up to date
Facebook Credits	It is hard to retrofit games to encompass Facebook Credits

In terms of future trends for the social gaming industry, several elements have been identified as being potentially the most important or likely to happen (and are discussed further in Chapter 8). These include:

- More targeting of emerging markets and more localisation
- More monetisation outside microtransactions
- More genres produced
- More games for mobile and tablets
- Growth outside the Facebook model
- More ‘traditional’ gaming and betting companies entering the market
- More non-gaming brands and celebrities entering the market
- More promotion offline/licensing
- Growth in 3D gaming

Roundtable Discussion: Why Has Social Gaming Become So Popular?

Lisa Marino, CEO, RockYou!

“Most importantly, social gaming has brought a new demographic to social gaming. Casual gaming was popular in the early 2000s but there was no way to aggregate that until Facebook came along. The development of games on Facebook introduced the 40-year-old mom demographic to gaming by allowing them by play in five minute increments if they wanted – or equally, for longer amounts of time if that is what they wanted.

The last 12 months have witnessed the emergence of different genres succeeding in this space including management games such as FarmVille, PopCap’s parlour games and combat/strategy ones too.”

Ravi Mehta, VP of Publishing, Viximo

“There are three primary factors that have led to the popularity of social games. The first is accessibility. Traditional games often require the user to download software and learn complex game mechanics, whereas social games are instantly accessible in a browser and provide lightweight mechanics that are easy to learn. As a result, social games are able to reach and engage a much wider audience than traditional games.

The second factor is viral distribution. Facebook's app platform has provided a powerful way for game developers to integrate their game experience into a person's daily social habits. When used effectively, the social channels available on Facebook can turbocharge word-of-mouth marketing an enable a social game developer to reach thousands or even millions of users in a short period of time.

Lastly, social games benefit from a free-to-play business model. This enables the majority of users (anywhere from 95-97%) to enjoy the game without barriers to entry while providing an effective monetisation path for the 3-5% of a game's most avid fans. The large base of users, both paying and non-paying, allow game developers to maximise virality whilst the small base of paying users provides a lucrative revenue channel through virtual goods microtransactions. Since microtransactions provide perfect price discrimination, the most highly monetising users (some of which are whales that spend hundreds or thousands of dollars a month) subsidise the game for non-paying users.”

Nick Berry, President, DataGenetics

“I think social networks have made gaming popular because they have revealed the true nature of what is a game. At its most basic, a game is any non-obligatory activity that is performed for fun, and this certainly describes many of the pastimes on social networks. Be they simple, complex, challenging, or script-based click tasks, games are activities that people enjoy doing. It’s almost impossible to draw the boundary around all the activities that can be classified as games, so it’s easier to state the opposite: ‘games are not work’. Anything that a person elects to do, that they are not required to, for fun, is a game.

Since time began, people have thrown rocks in ponds or drawn doodles on paper, and deeds analogous to these performed on social networks are just as qualified to be called games as the more traditionally classified diversions such as chess, draughts/checkers or backgammon.

Social networks have exposed people to copious quantities of non-essential activities and provided easy channels to announce participation in these entertainments to others. Players broadcast their indulgences, performances and achievements (both actively and passively). Either because of curiosity, invitation, peer-pressure or simple thrown-down-gauntlet challenge, the viral channels inherent in social networks massively reduce the barriers of discoverability to new activities, swiftly exposing an exponential number of people to new pastimes.

Another essential element that makes social networks such an efficient distribution mechanism for entertainment is the ease of accessibility. In no more than a couple of clicks, users can be having fun, and jumping on the latest bandwagon of distraction.

Finally, whilst 'social' could be considered a poor adjective to describe games when many games are solo activities, these activities do earn it the moniker 'social' because they offer a 'shared experience'. Albeit asynchronously, all the people who have enjoyed the same activity have been down the same path.

Even though they might be separated by thousands of miles and/or hours of time, players share a camaraderie with their friends who have run the gauntlet of the same challenge.

The trinity of discoverability, accessibility and camaraderie, along with the refined definition of fun (something that is not work) makes for a very venomous combination, and explains why gaming is so prolific on social networks."

Alexey Kostarev, Co-Founder and General Producer, iJet Media

"The main reason why social games have become so popular is their core feature which includes playing with friends, and even dozens, hundreds or thousands of them, wherever they might be at a certain moment. Lots of people around the world have used social networks only to share photos, music, news, and so on. Social games provide another way of communication with friends. The game allows you to hook the biggest fish and show it to everyone, to fight your friend in a star war, to hire your brother as a restaurant manager, to buy the most expensive car, or to burn with shame having neglected your farm and left your plants withered. Of course, it's all virtual, but... I know exactly that for many people a new virtual jacket means the same as the real one.

Social games are a new and quickly growing sphere of the entertainment industry. The industry already ranks with the television, music and film industries. While preparing for another forum in Switzerland in February this year, we compared the popularity of TV programmes and social games. It turned out that social games are very successful at competing with the TV for the audience, and several top Facebook applications are by far more visited than the most popular TV shows. It's likely that we'll see the same situation on other markets soon because the market of social networks and games is growing actively whereas the number of TV viewers declines or stagnates.

There's also another important thing. Social networks discovered a new section of the population for the internet and entertainment industry. Social games are very simple. This allowed any housewife to plant a carrot. You do not even need to buy or download anything – just go to your favourite social network, click on an app, and that's it! As a result, social games have become the first digital entertainment for this demographic."

Pauline Malcolm-John, EVP of Global Sales, SGA Network and WeeWorld

"Social games have evolved into the new escapism of the 21st century. During periods of immense economic decline such as the Great Depression people have always coped with hardship through escapism. Whilst going to the movies and watching soap operas gained prominence in the 1930s, the 2008 financial meltdown paved the way for a new era of escapism – this time taking the form of social gaming.

Casual games have always been a popular form of escapism. Together the openness of the Facebook platform, digital audience explosion and innovative companies like WeeWorld and CrowdStar, which have delivered engaging cross-platform interactive experiences, combined to create the ideal environment for social gaming domination.

With Facebook now approaching 700m users (10% of the world's population) and 40% of them playing social games, it's clear that social gaming has exploded. In fact, the powerful homemaker demographic is now more likely to be buying crops on Farmville or spending time in online parenting communities like BabyCenter than watching old entertainment formats like daytime soaps – hence the cancellation of longtime favourites like Guiding Light and All My Children [in the US]."

Margaret Wallace, CEO, Playmatics

"By their very nature, the best social game designs are masterful at tapping into typical player motivations – such as the need to achieve or to gain status – yet also have an amazingly deep social layer present throughout the entire gaming experience. This added social layer allows for rich player interaction. The best social games give friends and families opportunities to interact in a very light-touch fashion in the context of gameplay that sometimes approaches addictive levels for some players.

I think we currently occupy a third wave of social gaming. Each phase tells us something important about what makes social gaming so popular.

Social Gaming 1.0 – 'All Games Are Social'

The first wave of early Facebook games (like the first 'Parking Wars') reminded us that games are inherently social – and successful games on Facebook, for example, knew how to leverage the social graph to gain traction. We saw this used for better and for worse in the form of notifications, gifting, and news feed posts.

Social Gaming 2.0 – 'Metrics-Driven Social Game Design'

Fast on the heels of this initial crop of successful social games, we saw top social gaming companies perfecting tools and techniques for truly 'knowing' and measuring their audience. Enter the era of metrics-driven game design. Through constantly refined and cross-referenced data, these leading social gaming companies really have written the book on metrics-driven products and using data to maximise profits. The best social games these days design the player journey down to the moment interaction throughout the entire player lifecycle – all thanks to Social Gaming 2.0 I like to say.

Social Gaming 3.0 – 'Time & Engagement'

We're sort of back to the future these days as far as social gaming goes – with a renewed emphasis on such 'old school' principles as time spent and engagement. It's back to basics for Social Gaming 3.0 – but with the added support of never losing sight of deepening the social and using metrics to guide, but not drive, all decisions."

About The Report

Social Gaming: Opportunities for Gaming Operators examines how gaming companies and consumer-facing brands are reaching out to their audiences through social games.

It outlines the key elements in developing and executing a successful social network gaming experience. It includes social gaming overviews by region; areas of opportunity; factors affecting growth in the industry; the mobile revolution and how it is affecting social gaming offerings; best business models; monetisation and marketing strategies; regulatory issues and demographics of players as well as the future of the social gaming market

It provides case studies of the major social games and developers and takes a look at who the winners and losers will be as well as which countries/regions present the best opportunities for social gaming investment.

The report provides real insight and benefits to gaming developers and operators, sponsors, brand managers, marketers, agencies and others who are actively involved in the social media phenomena or that might be considering entering this dynamic space.