



For social networks, it's game on

By Jon Swartz, USA TODAY

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SAN FRANCISCO — Life on *FarmVille* has had a transformative effect on Laura Phillips.

For 45 minutes a day, Phillips, a 41-year-old marketing contractor in the [Silicon Valley](#) town of [Morgan Hill](#), Calif., gets lost in the digital game on [Facebook](#), managing crops and animals on her virtual farm.

"This is my escape from city life; it's my relaxation," she says. "Since Day One, I've been a complete addict. I lose sleep at night, worrying about my farm."

Phillips is one of more than 56 million monthly users of the game created by Zynga, a company that specializes in social games for platforms including Facebook, [MySpace](#), iPhone and [Bebo](#). *FarmVille* had just 354 users on June 20, the day after it launched. It's widely believed to be the largest and fastest-growing social game ever.

FarmVille's addictive qualities tend to sneak up on the casual interloper. Then again, so has its entire genre: Games are the killer app on social networks. Tens of millions of consumers are opting to play simple, quick games on Facebook, MySpace and elsewhere — often via their mobile devices. An estimated 100 million people are recent devotees of social games such as *FarmVille*, *Mafia Wars*, *Sorority Life* and *Bejeweled*.

The gamers, many of whom eschewed traditional video-game consoles, have spurred revenue for Facebook. The 5-year-old social-networking site recently announced it was operating in the black — a major feat in an industry beset by doubts about its ability to be profitable.

Meanwhile, the radical change in the way Americans play games has had a ripple effect on the \$45 billion gaming industry. Developers large and small are designing easy-to-play diversions in hopes of capitalizing on the craze. For some, such as [Nintendo](#) and [Electronic Arts](#) (EA), it's a return to simpler graphics and elementary objectives.

Social games are expanding the audience beyond traditional young male video-gamers and casual gamers, who tend to be women over 35. Such games are the hottest thing going in the \$13 billion online-gaming market.

Atul Bagga, a gaming analyst at market researcher Think Equity, expects the \$500 million to \$600 million social-gaming slice of the online market to at least double, to \$1 billion, in 2010.

"It is one of the fastest areas of media growth, period," says Pete Moran, general partner at DCM, a venture-capital firm that has invested in social-game developers RockYou, PlayFirst and Outspark.

Pay to play up

Social games are free, widely available and easy to play. They load in a few seconds and require only a few minutes at a time to play. They allow friends already in contact via social-networking websites to match wits for bragging rights.

"People, at their core, like being social," says [Andrew Stein](#), vice president of mobile business development at [PopCap](#), maker of *Bejeweled*, a gem-swapping game with 10 million monthly active users on Facebook.

Gaming is the most popular application category on Facebook and MySpace. There are eight games on Facebook with more than 12 million monthly active players. That surpasses paying customers for *World of Warcraft*, the most popular multiplayer online game.

With the equivalent of a large nation of people matching wits on social games, many social-networking companies see dollar signs after years of struggling to come up with revenue models for their business.

"It has the most promising profit potential for us," says Mike Trigg, vice president of marketing at social-networking site Hi5. One-third of its 60 million members play games on the site. Popular games can generate \$2,000 to \$5,000 in revenue each day.

Much of the revenue is pouring in via a new model in the USA called "freemium," as well as old-fashioned advertising.

The freemium model, with roots in Asia, is built on the concept of giving away games, then charging players 25 cents to \$10 to buy so-called virtual goods that enhance their gaming experience.

Micro-transactions can be for virtual farm tools, poker chips or swords, depending on the game, says Craig Sherman, CEO of Gaia Online, a social-gaming website that introduced the concept in the U.S. in 2004. It sells more than \$1 million in virtual goods a month.

"You can have plenty of fun and not spend a nickel," says Rob Solomon, a partner at Technology Crossover Ventures, which has invested in Super Rewards, a monetization service for online games and social networks.

To get deeper in games, though, you have to buy virtual goods or invite friends to play via online invitations, creating a potential domino effect on spending, he says.

The worldwide virtual goods market is \$5 billion to \$6 billion this year, with gaming accounting for about 75% to 80%, says analyst Bagga.

That bodes well for companies such as Offerpal Media, a leader in virtual-currency monetization. In two years, Offerpal has helped facilitate 250 million transactions — more than half of them in gaming.

Meanwhile, advertisers are gravitating to the popular social-gaming sections of social networks to reach tens of millions of consumers.

"It's attractive real estate," says Hi5's Trigg. [Hewlett-Packard](#), [Verizon](#) and [Netflix](#) are among major brand names running banner ads on MySpace's gaming areas.

'Things can change so quickly'

The social-gaming movement took off in 2007, when Facebook opened its site to applications developers.

The chatty nature of Facebook's enormous user base makes for potential distribution — think electronic word-of-mouth among millions of friends — that game developers would figuratively kill for.

[Microsoft](#), by comparison, has sold more than 30 million Xbox 360 consoles to date worldwide, and [Sony](#) has moved 24 million PlayStation 3 devices.

"The eye-opening moment was when Facebook launched the open platform," says Sebastien de Halleux, chief operating officer of games maker Playfish. "It does not favor brands, retailers or marketing, but pure content. There is no (retail) shelf space to compete for."

Playfish's first game on Facebook, *Who Has the Biggest Brain?*, launched in December 2007 with 200 friends. One month later, 100,000 had played the game. By March 2008, 1 million had played. Today, 20 million.

There are hundreds of players in the burgeoning social-gaming market, but three stand out:

- Zynga's coterie of games —*FarmVille* and *Mafia Wars* included — boasts more than 125 million monthly active users, or about three times the audience of [Twitter](#). It's the dominant developer on Facebook, and is credited with the first social game, *Zynga Poker*, in July 2007. Its newest game, *CafeWorld*, has zoomed to 10 million users in about a week.

"I would be surprised if they don't go public," says Mitch Lasky, a general partner at [Benchmark Capital](#). He cites Zynga's estimated \$150 million in revenue this year. Zynga declined comment.

- Playdom, with more than 25 million monthly active users — most of them on MySpace — sold more than \$200,000 worth of virtual pink [Volkswagen](#) Beetles in two days, Playdom says. Its revenue is about \$75 million this year, Lasky estimates.

- Playfish has more than 50 million monthly active players across 10 games on Facebook. The company's three most popular Facebook games —*Pet Society*, *Restaurant City* ("It could not exist outside of social networks," de Halleux says) and *Country Story*— attracted more than 32 million players in August.

As popular as social games are, users' loyalty can be fleeting.

The churn rate for social games is high — two to three months for most titles. Hot gaming categories seemingly change with the seasons. Before Mafia-tinged games were big, zombie games were in. Farm games are hot now; aquarium-themed games are on the upswing.

"Things can change so quickly — just look at *FarmVille*," says Charles Hudson, vice president of business development at Serious Business, a 2-year-old start-up that makes social games.

A good chunk of players — 25% to 33% — play a particular game two to three months before moving on, says Ro Choy, chief revenue officer at RockYou, a developer of games played by more than 10 million people a month on Facebook and MySpace.

By comparison, only about 5% are defined as active users who play a title for more than a year.

There also are concerns about privacy. Some users take umbrage at what they call aggressive settings on *Mafia Wars* and other games that send promotional messages, without their approval, to Facebook friends and Twitter followers.

"People have accused us of being spammy," says Zynga CEO [Mark Pincus](#).

He says when a user takes an action during a game — say, adopting a stray cow on *FarmVille*— an e-mail notification is sent to the player's friends. He adds that such notifications are optional, and that players can choose not to send them. Meanwhile, friends of players can choose not to view such notifications.

Keeping it simple

The new model of gaming simplicity and convenience didn't come entirely from the Facebook/MySpace/Twitter era.

The megapopular Nintendo Wii and [Activision's *Guitar Hero*](#) helped usher in the concept of gaming while socializing, says [Trip Hawkins](#), the Electronic Arts founder who now runs [Digital Chocolate](#), a games developer for social networks, handheld devices and consoles.

Those games, in particular, served as a bridge from traditional games to social games. Games went from complex and graphics-rich to simple and social. A major influence was Nintendo and its introduction of the Wii console in late 2006.

"Nintendo changed all that with Wii. They, like us, did not compete on high-end graphics, production values," says Playdom CEO John Pleasants.

"It was more about simple graphics, short games and socializing."

But socializing on Wii and *Guitar Hero* has limits: Only four people can play at once, and they have to be in the same place.

"The Wii democratized social gaming, but the always-on Internet took it further," says analyst Bagga. "So, many people who would not play games now do so on Facebook."