Opportunities in social gaming

The booming casual gaming segment that can be found in social networking websites is still untapped, writes RYOHEI NAKATSU.

ONLINE gaming is a multi-billion dollar industry today and, contrary to popular belief, there is much more to it than just high-intensity games such as World of Warcraft or Maple Story.

Here’s the good news: There is also the relatively untapped yet fast-growing casual gaming segment that can be found in social networking websites such as Facebook. Under the world of social gaming, a new hybrid of casual gaming that blends and reinforces the power of real-life social relationships into the gameplay itself. If the success of the Nintendo Wii has taught us anything, it is that casual gaming is the future of gaming.

In the online context, this future might lie in the millions of users registered with various social networking websites. Facebook, for instance, is seeing two billion minutes of gameplay a month, according to a December 2008 article published in The Guardian newspaper.

Investments have also been forthcoming from venture capitalists and angel investors who funded over US$50 million in 2008 on startups such as Zynga, SGN and Playfish. An investment in March this year by Fremantle Media in Canada-based social games startup Ludia is another affirmation of the potential of this US$2.25 billion market.

Distribution platforms

Social networking websites have evolved in recent years. The main user activities on these websites have changed from simply adding friends to deeper interactions such as games, thereby kick-starting the social gaming genre.

The catalyst for this genre has been the opening up of application programming interfaces by Facebook in May 2007. This was followed by similar initiatives by similar websites such as Friendster, Hi5, MySpace and LinkedIn. This industry-wide movement has turned social networking sites into invaluable distribution platforms for social games.

On Facebook, an example of a popular social game is Fluff Friends, where users get to keep virtual pets, interact with their friends’ pets and earn virtual coins to spend on gifts and accessories for pets.

At its peak, Fluff Friends had a million users within its first year of its launch and made about US$100,000 a month. It was subsequently acquired by an undisclosed price by a larger social gaming startup, Social Gaming Network.

The business model behind Fluff Friends is common among other social game-makers, which is a combination of offer-based advertising (for cost-per-action advertising) and the “free-mium” model (free-to-play but pay for premium items). The offer-based advertising model for Fluff Friends is not based on traditional website banners, but promotional offers from advertisers. Gamers are spurned through certain game interactions to register for these offers to acquire additional playing points or rare gaming items.

This form of offer-based advertising is non-intrusive and voluntary, unlike in-your-face ads. In the case of Fluff Friends, this advertising service was provided by a Singapore-based company, Peanut Labs.

This model is not new and is responsible for the growth of e-commerce giant Amazon.

Such a model has also proven successful for another Facebook social game, Mob Wars, which reportedly earns some $51 million a month from offer-based advertising networks, according to industry blog VentureBeat. Venture capital-funded Zynga is reported to have made about US$35 million in 2008, according to PaidContent. The “free-mium” model is often attributed to Korean game-makers, who has resisted distributing their games online for free in order to combat rampant piracy. Hence, many players pay for free, but there will always be a minority of players who are willing to spend money on premium game items and accessories to get a better playing experience.

One can think of the free players as a “marketing expenses” and word-of-mouth marketing channel, while the paying players are the real customers. An example is the online game Maple Story, a flagship product of Korea-based game-maker Nexon that is popular in many parts of the world, including Singapore.

Nexon sells virtual goods ranging from 30 US cents to US$25 and in their most recent public financial reports, made revenues of US$330 million with a 33 per cent profit margin in 2005, according to the Wall Street Journal.

Local social game-maker, Tyler Projects, is also a beneficiary of the “free-mium” model. The company was started by three game enthusiasts who studied together at the National University of Singapore (NUS). Tyler has developed Battle Stations, which is Singapore’s first social network game.

Recognizing the company’s potential early on, the NUS Enterprise helped incubate the company and has since seen Tyler progress from strength to strength, as evidenced from its 250,000 and growing – registered users.

Opportunities in a recession

Personal entertainment budgets are likely to see more displacement, rather than depletion, in the current economic downturn.

Consumers are more prudent and are becoming extremely savvy in getting the highest returns per entertainment dollar, or unit of entertainment time. All these points towards general trends of greater time spent online, preferably on websites where they can hang out with friends. The rise is up to enterprising businesses to devise creative ways to get maximum returns per marketing dollar or create new sources of income.

Entrepreneurs and businesses need to pursue product development or marketing models that are economically lean and resource-agile in the current economic climate.

For social gaming, the almost-free (except for server hosting fees) distribution costs of gaming products provide a great advantage to continuous product innovation and customer feedback.

Many incumbent businesses lament the difficult monetisation landscape in fast-changing digital industries such as games, music and consumer media. The only way to survive the disruptive technologies in their industries is to be equally creative and flexible in thought and action, not inertia and punitive measures.

If history taught us anything, remember that phone company Nokia was once a wood-pulp mill.

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