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## Casual Games Overview - 10 Phrases To Explain It All

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thinktank updates highlight key trends in the digital landscape, complementing our primary research and strategy services. To learn more, contact Robin Boyar, [robin@thinktank8.com](mailto:robin@thinktank8.com).

**SUMMARY:** Summertime normally means lazy days, but with the recent Casual Connect conference in July and new acquisitions and activity, the casual games landscape is heating up. Defined by online, mobile and handheld games, and the latest entrant, social games, the industry is redefining video gaming, as more consumers gravitate to casual games.

Recovering from the global recession, casual gaming has been rejuvenated by emerging regions, new platforms such as social networks and Apple's iPad, increased adoption of smartphones, digital distribution and new revenue models that benefit independent and traditional content creators. Acquisition is ramping up from giants such as Disney and Google. Those that succeed will need to be savvy about their strategies, as there is no longer a "one size fits all" plan for success.

### Overview

- 1. \$20 Billion.** Estimated size of 2010 online games revenue, according to Lazard Capital Markets. Now the fastest growing entertainment medium, online gaming is poised to grow by a third, eclipsing 2009 revenue of \$15B. Greatest areas of growth includes social games, light MMOs and mobile games.
- 2. BRIC and Beyond.** Reflecting global economic development, North America and Europe are no longer the only key markets. China now comprises a quarter of all online games revenue. Fast developing regions such as Brazil, Russia, and India are becoming gaming strongholds. Long entrenched markets such as Korea and Japan will continue to provide stable revenue.
- 3. Multiplatform and Mainstream.** Today's consumers are playing games on a variety of platforms. In the West, over two thirds of consumers are playing on an average of 2.5 platforms, with the PC, console and mobile platforms most popular. With the increased penetration of smartphones, mobile gaming is rapidly growing. Many online gamers (often middle aged women) don't even consider themselves gamers, though their time and money spent playing casual and social games rivals that of "hardcore" male console players.  
  
Increased economic mobility in Asia and developing regions means more consumers can afford to play games in online cafés and via their mobile handsets. For many developing regions such as Africa, the mobile platform is the sole communication and entertainment platform.
- 4. Zero Sum Game.** Entertainment consumption is a zero sum game. Even with multitasking, consumers can only digest so much content throughout the day. Thus, consumers' mindshare is shifting to new platforms and content that provide more flexible, accessible, and community based ways to engage, such as games on mobile phones, the iPad and games on social networks.
- 5. Facebook: The New Kid (Bully?) On The Block.** With 500 million users worldwide, Facebook is a global platform, supporting a thriving ecosystem of communication, commerce and entertainment. Consumers are spending more time online on social networks and playing games within them. Games played on social networks are estimated to generate \$800M via digital goods in 2010.

Yet, with new developments such as limits on notifications, Facebook credits, and privacy gaffes, Facebook risks alienating their content partners and consumers. Additionally, they face competition from Apple and Google who want to own the digital consumer either through investment in infrastructure or gaming.

**6. Distribution and Consolidation.** The retail model is dying as consumers gravitate from the shopping malls to online digital distribution mechanisms such as Apple's App Store, Valve's Steam and Xbox Live. Leading online games portal Bigfishgames.com just celebrated 1 billion downloads and according to NPD, digital downloads comprised half of all PC games sales in 2009.

With tens of thousands of games, content creators need to rely on a variety of aggregators and distribution networks to promote their games and leverage the viral capabilities of word of mouth.

Ngmoco's Plus+ network and Open Feint (who just received funding from China's The9, to distribute mobile games there) have developed mobile games networks. MySpace founder Chris DeWolfe's MindJolt and Asia's 6waves are well poised to provide distribution for social games. With Disney's recent acquisition of social games leader Playdom, the social games space has become a three way race between powerhouses Zynga, Playdom and EA's Playfish, all of whom have their own cross promotion networks.

**7. ARPU (It's Not a Whale).** Average revenue per user. With less than 5% of online casual game players purchasing games or content, game makers now must depend on a variety of revenue models such as advertising, sponsorships, subscriptions, offers, free to play (F2P) and micro-transactions (MTX).

**8. Metrics Matter.** In the immortal words of Peter Drucker, you can only manage what you measure. As games move to an online service model, developers and publishers are more likely to rely on metrics to measure and improve game performance in real time. Companies such as Zynga rely on old school tactics such as A/B testing to improve customer retention, acquisition and revenue.

**9. Quality Gameplay + IP Beats Graphics.** For console players, graphics are paramount. Yet, casual gamers are willing to endure lower graphical fidelity in favor of addictive play, cute characters and enduring IP.

Perhaps the best example of this phenomenon is independent developer PopCap, who just celebrated the 10th anniversary of its flagship game, Bejeweled. PopCap's attention to detail and high production values has resulted in over 50 million copies sold and 150 million downloads of the game across various platforms. Creating quality content enables gamemakers to develop long lasting franchises that differentiate themselves from the competition and provide greater revenue opportunities.

Entrenched media corporations such as USA, Discovery Networks, Lifetime, National Geographic and BBC are looking to extend their IP via gaming. If executed properly, there exists the opportunity to increase revenue, brand awareness and customer loyalty through these brand extensions.

**10. The Next Big Thing.** Every year, there's a belle of the ball and social gaming is it. Budding debutantes include the Android platform (outselling the iPhone), cloud gaming (e.g., OnLive and Gaikai), and the iPad.

Wallflowers appear to be Sony's Move and Microsoft's Kinect motion sensor platforms, and the Wii. Lack of innovative games seems to be contributing to the decline of Wii software and hardware, suggesting gamers have moved on, and these peripherals may be poorly received this holiday season. However, PS3 and Xbox 360 holiday sales should surge as these boxes continue to evolve as entertainment centers supporting a variety of great content (e.g., online casual games, hardcore titles, streaming video, and music).

With Nintendo's DS platform aging, the platform and the upcoming 3DS were nearly invisible at the conference. Anecdotal research suggests the once kid and tween mainstay may soon be pushed aside in favor of Apple's iPlatforms, especially given the free or relatively inexpensive cost of content vs. Nintendo's game cartridges. A recent conference statistic noted that 80% of books downloaded on the iPad were for kids, suggesting that the iPad may have a use as an expensive version of the Leapster.

While geo location based services such as MyTown, Gowalla, and Foursquare are receiving increased visibility, hitting milestones of 1M+ users, conference pundits had mixed feelings about the viability of these services, similar to predictions about Twitter in its early days.

Finally, untapped areas of games content include online sports games as well as games for good (brain games, cause based, health based and educational games).