

The Economics of Facebook Games

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Last week at SXSW, John Pleasants, CEO of Playdom, spoke about "The Future Of Social Gaming", but the greatest takeaway was the current economics of Facebook Games. If you are looking to get into the business or are already a player in the space, there were a number of important facts disclosed by Pleasants. What's clear is that the business is a smaller version of the movie industry with the difference being that games can be improved as users interact with them.

The Cost Of Facebook Games

One of the most interesting statistics disclosed by John Pleasants was the cost of developing games. According to Pleasants, the average game costs between \$100,000 and \$300,000 to produce. When asked about the total cost of marketing the game, he stated that it wasn't included and that the marketing budget is often upwards of 50 percent of the cost of developing the game. For games that become hits, marketing budgets can skyrocket into the millions as the game grows over months.

So with such a large marketing budget, how much does it cost to drive users? Right now large gaming companies continue to measure everything on a cost per install basis. The average cost per install is around 50 cents, however Pleasants suggested that when they are really pushing hard, the company could pay upwards of \$2 to \$3 per install.

Generating Revenue

While numerous gaming companies are generating revenue through advertising sources, Playdom has opted to generate most revenue through micro-transactions, primarily consisting of virtual goods sales. Right now these micro-transactions account for 90 percent of Playdom's revenue. Approximately 2 percent of the company's user base pays for virtual goods. So how much do the paying users spend?

According to Pleasants, if the average paying user for a game is paying \$20 a month for 3 to 6 months, it's considered a successful game. With these numbers, you can quickly do the math on how much revenue is being generated. Let's use Farmville as an example. The application currently averages around 30 million daily active users. That means 600,000 are paying each day. If each of those paying users are generating \$20 a month, that application alone is generating \$12 million each month, or almost \$150 million a year.

MySpace Is Becoming Less Relevant

Playdom started out with all of their applications being based on MySpace. When we interviewed Playdom last March, the company was just beginning their expansion to Facebook. Now the company has 75 percent of their traffic coming from Facebook and MySpace continues to be on the decline. However John Pleasants suggested that a healthy MySpace platform would be beneficial to all application developers.

Now with 350 employees, Playdom is still a third of the size of Zynga and they are an even smaller fraction when it comes to monthly active users. However with over 30 million monthly active users, the company has a large enough footprint to produce statistics that are found across the industry (e.g. 2 percent of a social game's user base pays).

Harder To Break In

One other thing John Pleasants highlighted during his talk was that it's becoming increasingly difficult to break into the social gaming space as the market is becoming increasingly saturated and competitive. With multiple games launching on Facebook each day, it's difficult to stand out from the pack and the only way to really drive installs is through buying Facebook ads.

The shift toward Facebook advertising becoming a critical component of the social gaming business model also forces one to ask how sustainable this business is for Facebook. It has been reported that Zynga is the largest advertiser on Facebook, making Facebook's business model similar to that of the early "dot com" startups which imploded in 2001.

Social Games Are Booming

Following the Game Developers Conference in San Francisco, it's clear that just about every gaming industry professional is focused on social games, most of which reside on Facebook. As Facebook continues to grow as a gaming platform, the market will become more competitive, and the cost of production will most likely increase as well.

As John Pleasants highlighted, we are in the first inning of social games, and while the players may have already been selected for the most part, there is a long evolution ahead.