

Inside Social Apps 2010: Social Gaming Has an Even Bigger Future

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Our Inside Social Apps 2010 conference kicked off this morning with a panel of top social gaming executives: Peter Relan, chairman of CrowdStar; Keith Rabois, executive VP at Slide; Vish Makhijani, COO of Zynga; Kavin Stewart, VP of product at LOLapps; and John Pleasants, the CEO of Playdom.

Our own Eric Eldon moderated, and got some interesting answers from the panelists about monetization, international markets, the next big hit and more. Full edited interview notes are below; we'll start off here with a recap of the high points.

Note: You can check out tweets from this and other conference sessions via the #isa2010 hashtag on Twitter.

Most of the panelists agreed that 2010 will bring better social features and potentially more complexity to social games, along with more options for asynchronous interaction between players. Right now, players don't directly interact and have little effect on each other. Synchronous interaction is also a possibility, but not all of the panelists agreed that it should be a feature in social games.

Independent developers have a tougher future ahead. In 2009 and earlier, many of the top developers were small independents who shot to the top with viral hits. Now that Facebook has changed its policies to discourage the most viral features, the independents will need to find financing to pay for advertising and other marketing, as well as the engineering ability for challenges like making more complex platforms scale.

There is, however, a large undeveloped market remaining: the international market. None of the panelists felt like they had really mastered the international market yet, and they even had different visions of how they should profit from international users — Keith Rabois of Slide, for example, said that his company is most interested in seeing users in developing countries create virtual goods that can be sold to users in developed countries.

Another potential way for an independent to break in — or for an established company to reach a new level of growth — is the possibility of a “network effect” through Facebook Connect, according to Peter Relan of CrowdStar. By using Connect, social game companies could potentially create a huge community outside Facebook, that is nevertheless enabled by the social network. This is already starting to happen with Zynga’s FarmVille.com, which now has millions of monthly active users off of Facebook.

Finally, there was an interesting question from Dean Takahashi of Venturebeat about whether Zynga could be worth \$5 billion, as SecondShares.com recently speculated. The answer: yes, it very much could be. The panelists are all expecting huge growth over the coming year, making social gaming even larger than the existing \$1 billion market we’ve estimated.

Here are the full edited panel notes:

ISG: When FB took away 3rd party notifications, what did you do?

Vish: We focused more on just delivering content. Changes may result in a dip in traffic, but people come back one way or another. We’ve found a relatively high replacement effect.

ISG: What’s your approach now to the market?

John: We’ve been growing a lot, so we’re trying to just catch up with ourselves — we have 9 studios now with their own mandates and budgets, and in theory they run almost like independent companies. Then there’s an intelligence center that focuses on monetization, analytics and so forth. Our smallest studio is around 10 people, the biggest around 45.

Peter: We’re differently organized. I’m not from the game industry, so I’d never heard of a studio before. We’re centralized, with one studio that builds all our games.

ISG: What are the big trends in 2010? So far we’ve seen treasure hunting, city building games — what’s next?

John: I think you’ll see more mash-ups between different mechanics out there. And all of us in the industry need to continue to make our games increasingly social. Last year was the year that virality was most important; now Facebook’s platform changes are forcing a positive change. We’re only in the first or second inning of becoming social. In our newest game, Social City, the social stuff is limited, with neighbor dating being the mainstay. But when we look at the platform, we think there’s a lot more we can do. Intellectual property and and multi-player will also become more important.

Kavin: I think the question about how to become social is really important. What we'd like to think is how the actions in the games influence what's happening. Right now you can go help your neighbors farm, but it doesn't seem to have a significant impact. So instead suppose that you have various characters; you could go to your friend's environment and piss off one of his characters, then when he logs on he'll see a message about that. It would be having the environments that you're in really interact with each other in a way that generates conversation.

Vish: We haven't nailed it yet, but we're getting incrementally better. We've found from our own research that different things appeal to different folks; some are more social, some are looking for something deeper. But they're also sticking around and doing things with their friends, despite the fact that we haven't yet nailed the right piece of software.

ISG: Are social games getting more complex in general?

Vish: We're at almost 800 people now. Our games have hit the mass market, so it's tough to tune to just one thing. So we have social threads for how to develop, as well as deeper ones. Being that 5 minute experience in your browser is something we have to stay in touch with.

Peter: There's going to be a bit of coverage of all the genres. I think this year you'll see continuation of the genres. What's difficult to predict is the next big hit, a huge cultural shift toward an aspirational new game. Nobody knows which one that will be, and it's out there for whoever gets it.

ISG: Facebook Credits: What are the pros and cons?

Kavin: I think the best thing about credits is that for the first time it really feels like our interests are aligned with Facebook's. The only disadvantage is that it's still early, and they're still figuring things out.

Peter: The big picture is that 98% of your users are non-paying. What Credits focuses on are those paying users. In that category, you have the coverage. Among the non-paying users, there are a lot of people without a credit card, so you'll see more people paying with offers.

ISG: Right now credit cards are the biggest revenue stream, followed by offers and then advertising. Will it stay that way?

Keith: There's a theoretical day when everyone will have a credit card linked to their account, but that's years away. Facebook takes that 5-10 year view, while we're in the month or quarter. So at the moment Credits is not an ideal system. There's a big gap between the reality and the vision.

Vish: I think you'll be surprised how fast things move. We have a gift card, for example. Aside from the oddness of seeing our brand in these stores, we've been surprised by how fast it has been picked up. Our games as an industry have an ability to tap into that desire to engage.

ISG: Are you finding ways to monetize around the world?

John: We do make money from international countries, but I think it's a big opportunity. It's going to be more about localization of games. We just put one of our first games in China, Tiki Resort, and I think it's doing really well in Hong Kong and Taiwan. You have to have the local language and customization, but we haven't been able to focus on it enough.

Keith: We look at the rest of the world and say, there's a lot of artistic content in Indonesia and other countries, where selling \$10,000 in virtual goods can make the difference between a family that's extremely successful and one that's starving. So we want people to load content into our product and sell it to people in the US or the UK. We don't want to take money from the international users, we want them to profit.

Peter: The hardest market to crack is China, because it's very local. The Chinese social networks are interesting, but the Western companies haven't cracked them.

ISG: Are there still good opportunities for independent developers on Facebook's platform?

Kavin: The thing you'll run into is the distribution barrier, if you don't have enough money to buy ads.

John: Innovation can come from anywhere. But the reality is, if you go back a year and look at the top 25, there were twice as many independents. If you don't have unbelievable innovation, you need enough muscle to get out there. That means money for ads, a technical system that can scale, understanding how the system is changing, and cross-promotion capability.

Keith: It's also becoming far more difficult to grow organically. Facebook has made incentivized growth harder. The sharing of content and invitation of friends has to be driven by the voluntary action of the users, and most of the independents pioneered virality. But Facebook has quite a large enforcement staff at this point.

ISG: Where else are you looking besides Facebook?

Vish: We've done some experimentation around our experience on FarmVille.com. Facebook is still demonstrating that it has this massive audience, that's still growing. We under-index Facebook's growth internationally. [Ed: Vish means that most of his users are still in the US, while Facebook is growing quickly overseas.]

Keith: We invested in a destination site — basically the most vibrant users go to it. On an average day we have 300,000 to 400,000 forum posts per day, completely off Facebook and MySpace. We still invest in MySpace — about half our revenue comes from there, and both our key applications are cross-platform. But even if you look at just the growth, not the base of Facebook, it's pretty hard to find other companies with that level of traffic.

Peter: I think the interesting X factor is Facebook Connect. There's the potential of a network effect that occurs off Facebook, but around Facebook. That would be quite interesting for the indies. If you can find Facebook Connect meets something else with a network effect, that would be an open distribution play.

Keith: In the years since we started, Facebook has emerged as, at worse, the second most company in the world [after Google]. It's really in its own league.

Audience question: How do you see multi-player being integrated? Will there be synchronous play?

Kavin: I think there's an existing market for that that serves it better. You can play games like World of Warcraft. If you want to play synchronous games with your friends on Facebook, it's not going to necessarily be the case that your friends will be online at the same time, so you have to set up events, and it automatically becomes more hardcore.

Peter: I'm slightly more optimistic. There's a place that's much different from hardcore multi-player. I think in the next 12 months something will emerge there.

John: I tend to agree with Peter. I think you may see it as an extension — it won't be black and white. More like an option to play synchronously.

Audience: Zynga has been estimated at \$5 billion. is that realistic?

Vish: We don't comment on that.

Peter: Maybe I should comment then (laughter). Here's the difference between casual and hardcore markets: by definition, hardcore is limited to tens of millions of users, WoW is 10-15 million. The scale effects of casual gaming are 10x if not more over time. So I think the Chinese companies that have scale effect in the social RPG markets are valued at several billion dollars each. You start to see that if you have a broad market, there is multi-billion dollar value. I think Activision bought Blizzard [WoW's publisher] in a \$1.5 billion dollar sale. It's different because WoW has revenue but no growth. Where do you go from there? With casual social gaming it's unlimited. My guess is that it's not inaccurate.

Audience: What kind of forum do you have with Facebook, as large developers? Do they respond in any way?

Kavin: For our company, I'd say no.

Keith: They solicit feedback.

Peter: They're bigger than all of us at some level. Well, for Vish and Zynga, maybe not.

Keith: They've certainly enhanced the level of dialogue in the last year or two. It's not clear that even if all five of us agreed something was a disaster they'd change it. If you're in the way of something that's Facebook's macro-vision, it doesn't matter who you are. But in other things we have a chance to alter policy.

Peter: Two thirds of the pageviews on Facebook today are attributed to games. I think if all of us were not into something, it wouldn't fly.