

Social Gaming Alliances Gain Pace

David Gelles, *Financial Times*
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The multi-billion dollar industry that has built up around "social gaming" - casual video games played on social networking websites - is rapidly consolidating.

Hundreds of small software development studios have sprung up in the past two years to create the games, but a few large companies - led by Zynga and Playdom - are beginning to dominate the market.

Playdom has bought at least five companies since August, including Three Melons, a 50-person studio based in Buenos Aires, and Merscom, a small company from North Carolina.

Zynga is also cherry-picking small studios and has bought two in recent months. "Doing acquisitions is definitely part of how we grow," said Vish Makhijani, Zynga's chief operating officer. "To date, it's mostly been about talent, not buying market share."

Success for all social games companies has become more elusive in recent months as it has become harder to promote games through viral marketing. Facebook, the social networking site, has stopped letting games send updates to users.

To launch a successful game, companies must either promote it from within existing hit titles, or spend heavily advertising on Facebook.

"The viral channels have been morphed, and in some instances tamped down," said Christa Quarles, Playdom's chief financial officer. "You need a lot of ad dollars to get your game first played."

This has been especially tough on cash-poor start-ups, which are increasingly looking to be acquired rather than make it on their own.

One senior executive at a leading social games company said in recent months that several small developers have approached him with the intention of being bought.

Compared with just a few months ago, he added, it seems the smaller developers were more interested in being acquired than running long-term businesses.

"What's the right endgame for these little companies?" said Charles Hudson, who sold his social game start-up, Serious Business, to Zynga - the largest social game company - last year. "Is life for an independent going to be as much fun in the future as it was in the past?"

Electronic Arts, the second-largest developer of console games, got into the social games market last year with its \$400m acquisition of Playfish, the UK studio that had risen to become the second-largest social games company.

Consolidation is likely to continue among social games companies large and small in the year to come.

Ms Quarles said: "Developers want to see their game touch as many people as they can, so they're looking for partners who can do that."