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Playfish

There are currently around 500 million active Facebook users in the world[1]. A decade ago, nothing like Facebook even existed. The rise in popularity of social networking sites has had an immense influence on all aspects of the past decade. One outcome is the invention of a completely new \$1.3 billion gaming industry[2]: social games.

What exactly is a social game? A social game is a game that utilizes a social networking site through some sort of interaction between the player and his/her friends in the social network. The majority of social games are played through Facebook, the social networking site that started the industry. Its introduction of Facebook Platform in 2007 opened the most popular social networking site in the western world to third party developers, leading to an influx of innovation. Now, there are more than 1 million developers making all kinds of applications for Facebook[1]; but the top Facebook developers all had one thing in common – they made social games.

The difference between social games and other video games is that they target a demographic normally untapped by the gaming industry. While the rest of the gaming industry competes for young men in their teens and 20's, social game players are the rest of the population, girls and older people, who do not normally play video games[6]. This makes social games a relatively new market with a huge growth potential.

One of the most popular developers of social games is Playfish. Founded in 2007 by Kristian Segerstrale, Sebastien de Halleux, Sami Lababidi and Shukri Shammas[3], Playfish has

created a string of extremely popular games on facebook, resulting in more than 40 million active users[4]. Its most popular game, Pet Society, drew in 21 million active players at its peak[4]. In 2009, Electronic Arts bought Playfish for \$400 million[5]. As a subsidiary of EA, Playfish not only maintains complete control over itself but has also taken over EA's old social game department.

Unlike most video games that require subscription fees or an upfront purchase of the software, social games are completely free to play. The most common business strategy is to first entice players with a free game and then slowly introduce virtual goods or game upgrades for real money. The problem with this model is that very few percentages of players are actually willing to pay for these games. A relatively successful game can only monetize about 1% of its player base while even the extremely successful games can only monetize 3%-5% of their player base[8]. Even for games that have millions of players, this micro-transaction model must still be supplemented by advertisement companies.

Playfish has 2 different pricing schemes based depending on the game type. One category of games is based on real world games such as Poker Rival (poker), GeoChallenge (geography Trivia Pursuit) and Who Has the Biggest Brain (Trivia Pursuit and Cranium). Millions of players are initially attracted to the free versions. However, in order to access additional game content, players must pay around \$10 for an expanded version. This category has a business model that more closely resembles traditional video games and software sales with a free trial version and a more expensive, professional or extended version.

The other category consists of games with repetitive daily tasks that simulate certain aspects of life or fantasy. These are the games most people think of as social games. Playfish's

most popular and most profitable games, such as Pet Society and Restaurant City, all belong in this category. All of the games in this category use a unified currency called the Playfish Cash Coin that is bought using real currency. This virtual currency can then be used by players to purchase virtual items and shortcuts for tedious in-game tasks, usually costing \$1 or less. Playfish also partners with an advertisement company called Trialpay. Trialpay offers to purchase Playfish Cash Coins for players if they make online purchases or complete surveys.

So far, Playfish earns an estimated \$30 million per year from its business model[9]. While the revenue is already substantial, it faces internal pressure from its parent company, EA, to increase revenue. In addition, Playfish faces outside pressure from competitors in a battle for the rest of the social game market. Playfish's main competitor is Zynga, another game developer that makes games with identical concepts to Playfish's games. Currently, Zynga is the biggest social game developer in the world. Its most popular game, Farmville (a game extremely similar to Playfish's game, Country Story), attracts more than 80 million active players worldwide[4]. However, Zynga is focused on short term growth by using strategies that alienate players. These strategies include choosing quantity over quality for game development, spamming Facebook users with advertisements, invites from other players, and cooperating with unscrupulous advertising companies that pay Zynga to offer scams disguised as promotions[9]. The other two top game developers are Playdom and Crowdstar, both of which engage in activities similar to Zynga.

Playfish sets itself apart from its competitors by focusing on a long term strategy of brand loyalty. It focuses on developing a few quality games with excellent graphics and game play[9]. Playfish also only works with one trusted advertisement company, Trialpay, to ensure its players

do not fall prey to scams. Playfish believes that it has fostered a long term relationship with its players that none of the other game developers have.

However, despite the quality of its games, Playfish continues to lose players simply due to the nature of video games. People in general have very short attention span for video games. Even extremely complex games cannot hold players' interest indefinitely. Since social games are simple games with little narrative or advanced game play, it is even harder to keep players engaged for more than a few months. Under this context, the competitors' hit and run strategy appear much more advantageous than a loyalty building strategy.

Adding to its problems is Playfish's complicated relationship with Facebook. In the beginning, Playfish benefited greatly from launching its games within Facebook. Each social game is its own mini network where a player's success is dependent on how many friends they have who also play the same game. Operating by itself, Playfish would have never been able to overcome problems such as enticing players to join initially and finding the best way to lock in players. Facebook was the solution to both of these problems. It had 500 million potential players and a thriving network already in place. A Facebook user would only need to click a button to play any Playfish games. Facebook also provides an easy and effective advertising process, friend invitations. Playfish was able to access any player's Facebook data and send the player's Facebook friends game invitations. In addition, Facebook has a natural lock in process where every player's in game progress is integrated with Facebook features such as photos, wall posts and friend lists.

Playfish also benefitted Facebook in many ways. Playfish games created more value for Facebook users, creating positive network externalities that encouraged even more users to sign

up for Facebook. In addition, these games also provided extra incentive for Facebook users to spend more time on Facebook, thus making more ad money for Facebook. Recently, Facebook implemented an even more lucrative method of benefitting from Playfish. Previously, Playfish and other Facebook game developers all have their own payment system with credit card companies and Paypal to conduct sales. Within the past year, Facebook restricted all third party developers to process all sales through its own payment system, Facebook credits. Now, a player can only use Facebook credits to buy in game items and upgrades. The problem for Playfish is that Facebook has a steep exchange rate. For every dollar worth of Facebook credits spent in a game, Playfish only receives 70 cents[7]. Playfish has no choice but to accept a potential 30% decrease in revenue.

In the midst of so many problems, Playfish must change its business strategy in order to maintain its top status and revenue stream. There is no other way of pricing its current products without provoking a strong reaction from its current players. This is especially true since Playfish must charge competitively and in a similar format to other social games. Its best strategy would be to expand its product offerings. It has recently made several of its games into iPhone applications. However, these are the games that only require onetime payments. Most of Playfish's revenue is from its micro-transaction games where some players pay daily to buy virtual items[9]. If Playfish made iPhone and Android applications for the top revenue earning games, it could take advantage of the user base within smartphone networks to recruit additional members. In addition, purchases made through phone applications would be processed through a separate payment system that does not take a percent of the revenue.

Another strategy Playfish might want to consider is creating more value for its players outside of Facebook. Often, social games promote more player interaction on Facebook than

through the games. In addition, social games cannot actually promote meeting new people or making new friends since Facebook discourages interacting with strangers. Yet, what often keeps players locked into a game is its vibrant community of players who befriend one another and offer game support. If Playfish can implement an in-game chat or forum, it could increase player loyalty and prevent players from losing interest. These new structures for social interaction could include additional features, such as the ability to add friends from within Playfish games. This would help players to feel a stronger sense of community within the game, a model that has proven to be very effective in other genres of gaming, especially Massively Multiplayer Online Games.

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