

## Generating Growth in the Media Industry: Lessons from the Best Social and Casual Games Companies

In the series, "Generating Growth in the Media Industry," L.E.K. Consulting will take a look at key growth drivers in several sectors of the media industry. In this first installment, we examine the hot and fast-growing social and casual games sector. We'll review companies that are leading this growth and what is making them succeed.

In subsequent installments of the series, we'll chart how the growth models of social and casual games companies can be applied to **traditional media** to restart growth. This report will:

- Define the sector
- Show why the sector is attractive and will continue to grow
- Provide a typology for understanding the various types of games
- Define how to chart success for social and casual games
- Identify companies that are driving growth today

### What are Social and Casual Games?

Until 2010, the gaming industry was defined by increasingly sophisticated games that run on advanced consoles, computers and data networks. These advanced video games attracted (and are designed for) serious gamers. However, new games are

emerging that are intended for the rest of us. These games can be both social and casual in nature, and they take advantage of technologies that serve multiple purposes in our lives, like smart phones, tablet computers and social networks.

Based on their ability to attract new users into the gaming community (and because they represent a bright spot in the gaming sector), social and casual games stand out as a sector to watch.

**Social games** (like Zynga's Farmville) are simple games that leverage community-based attributes of popular and quickly growing social networks like Facebook. Unlike most traditional console or PC games, social games are driven by social interaction rather than strategy. The social network contributes to the game's "virality" and fosters social camaraderie. As a result, social games prove more addictive than traditional casual games.

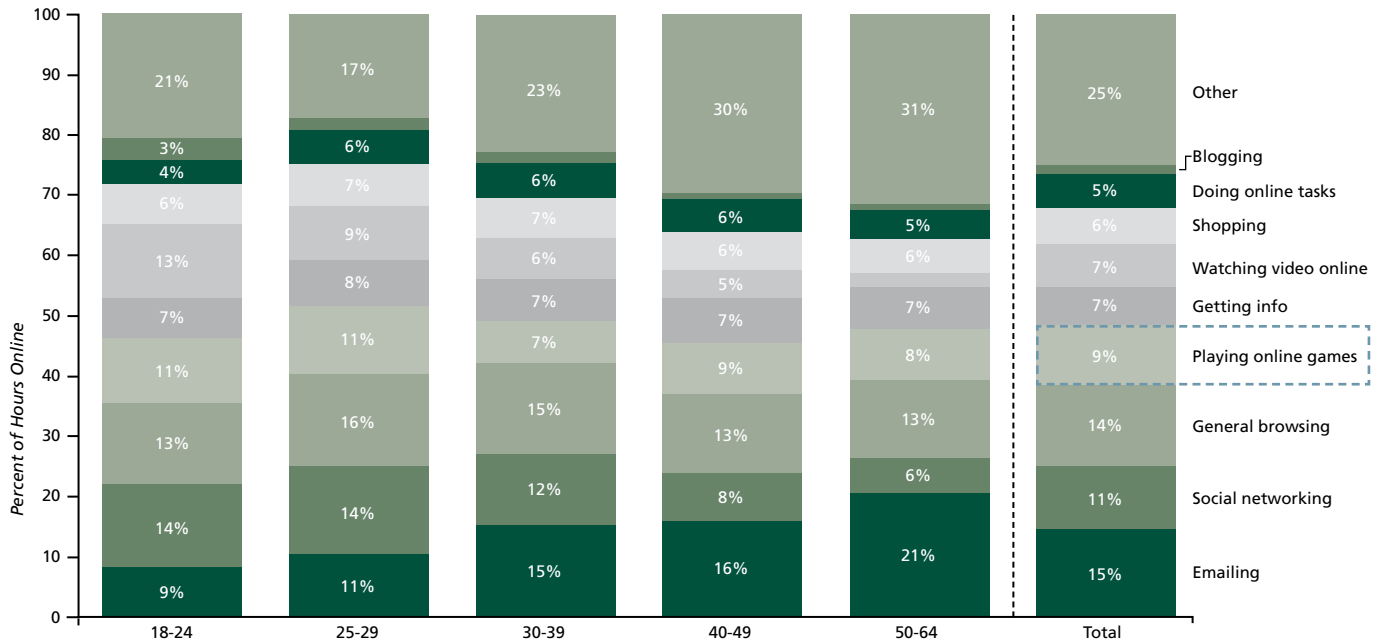
**Casual games** (like Angry Birds) offer simple, fun and short-duration experiences for a single user. They are developed for the mass consumer and are fun, quick to access, easy to learn, require no previous special gaming skills or expertise, and don't require a regular time commitment to play.

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*Generating Growth in the Media Industry: Lessons from the Best Social and Casual Games Companies* was written by **Dan Schechter**, a Vice President and Co-Head of L.E.K.'s Global Media, Entertainment & Technology Practice; and **Brad Finkbeiner**, a Manager in L.E.K.'s Los Angeles office. Please contact us at [mediaentertainment@lek.com](mailto:mediaentertainment@lek.com) for additional information.

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**Figure 1**  
Average Hours Spent Online Per Week for Specific Activity by Age



Source: L.E.K. Consulting Hidden Opportunities in New Media Survey

## Why Social and Casual Games are Attractive

In an environment with increasing consumer options in media and competition for consumer's time, social and casual games continue to grow, primarily due to the following reasons:

- 1. Increased broadband penetration:** Social and casual game play has benefited from fast Internet connections which provide a higher quality online gaming experience.
- 2. Growth of smart phones and tablets:** The rapid growth of iPhone, iPad and Android has provided a compelling platform for large-scale adoption of social and casual games.
- 3. Penetration of social networks:** The social network-based distribution strategy of social and casual games will continue to benefit as social networks gain even more users.

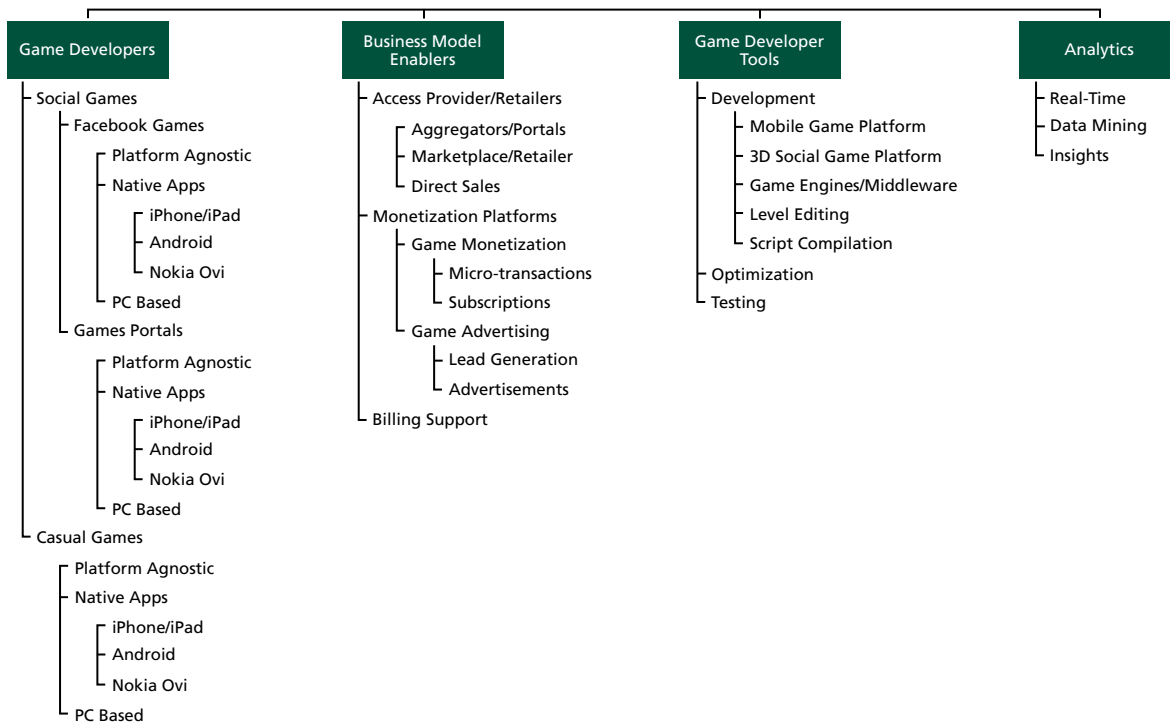
**4. Mass market appeal of social and casual games:** These are targeted towards all users instead of a more dedicated niche of serious gamers.

**5. Low production costs:** Lower costs to develop than other types of games, which allow developers to iterate and experiment with a diverse range of games.

Source: GP Bullhound, March 2010, Inside Social Games

L.E.K.'s Third Annual Hidden Opportunities in New Media Survey found that the appeal of social and casual games is substantial across all demographics (see Figure 1). Across all age groups, online games ranked as the third or fourth most popular online activity (more than watching videos or shopping).

**Figure 2**  
Social and Casual Games Typology



Source: L.E.K. Consulting

## Typology of Social and Casual Games

Despite the sector’s early stage, social and casual games have already established a broad and interconnected ecosystem (consistent with more traditional game categories). The main players within this landscape are **game developers, business model enablers, game developer tools** and **analytics companies** (see Figure 2).

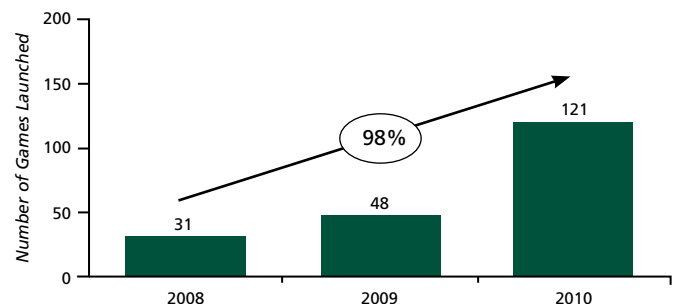
## Definition of Success

Social and casual games are hit-driven. Only a handful of games are able to attract a sustainable and meaningful audience. Given this dynamic, along with low production costs and short development cycles, game developers focus on producing a high volume of new games in hopes of finding a “hit.” In fact, the number of popular games launched each year has exploded recently (as seen from the number of social games generating more than one million monthly average users [MAU], as tracked by Facebook – see Figure 3).

However, it’s hard to break through the clutter of new games and attract players’ attention. Successful games tend to share two key characteristics:

1. They find a way to generate significant “buzz,” which leads to strong initial viral growth following launch.

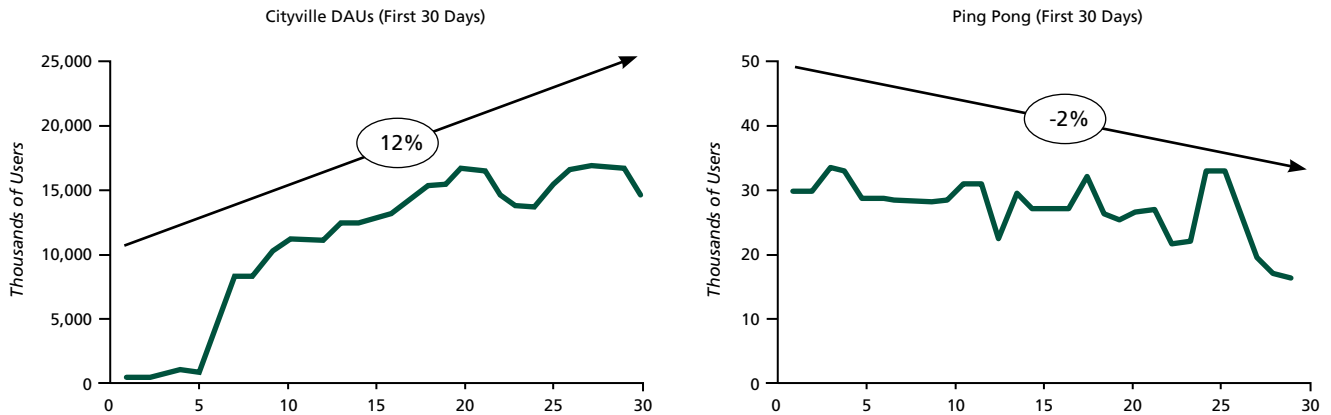
**Figure 3**  
Number of Popular Facebook Games Launched Per Year (2008-2010)



Source: Appdata.com Top Applications MAUs and Release Dates and L.E.K. Analysis

Figure 4

Viral Factor of Cityville vs. Ping Pong



Source: L.E.K. Analysis of Appdata.com DAUs

2. These games are more addictive to play (maintaining a larger player base over time).

**Viral Growth:** Three key factors can influence the degree of buzz and viral interest in a new game: marketing, past success of a game developer, and the developer’s connectivity in the gaming community. The ultimate success of a social game can be measured by its growth in daily average users (DAU), which can be tracked and reported on Facebook.

For example, Cityville (from Zynga) is one of the most popular games on Facebook today. It was launched in December 2010, and achieved an average DAU growth rate of 12% for its first 30 days. By comparison, Ping Pong (from Social Point) is an average performing social game on Facebook, launched in

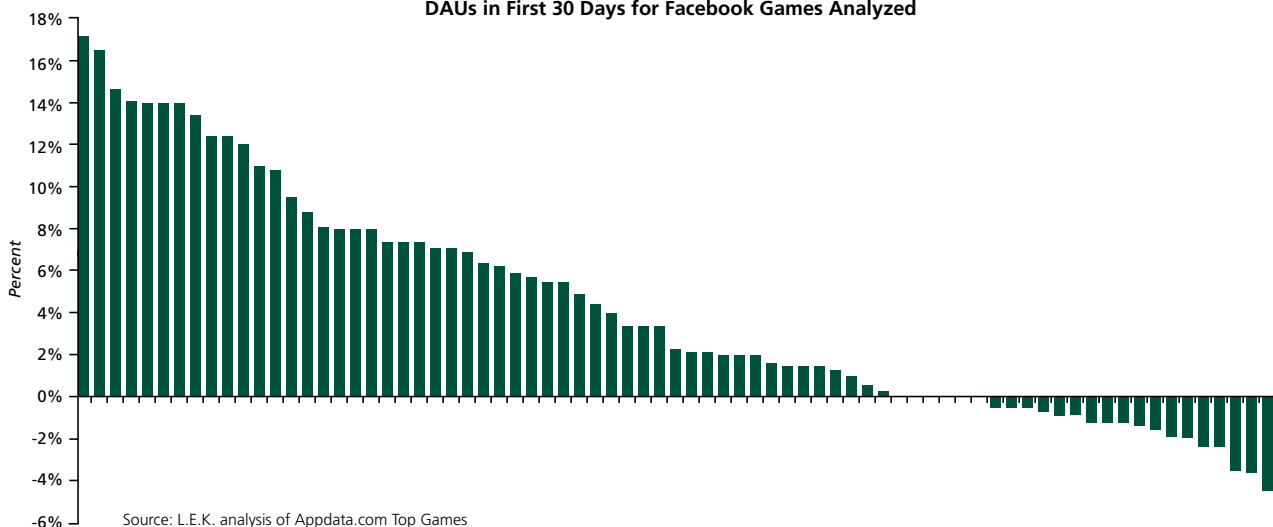
July 2010 (with a 2% decline in DAU over its first 30 days – see Figure 4).

A key factor behind successful viral games like Cityville is that the game includes features that motivate users to invite friends. For example, in Cityville having more neighbors determines one’s success in the game, thus encouraging players to invite others to join.

Interestingly, successful games don’t necessarily need to show strong growth in the first month. Based on a random sample of 75 games within the top 500 most popular games on Facebook (based on MAU rank), 31% didn’t even achieve a positive DAU compound growth rate within the first 30 days (see Figure 5).

Figure 5

DAUs in First 30 Days for Facebook Games Analyzed

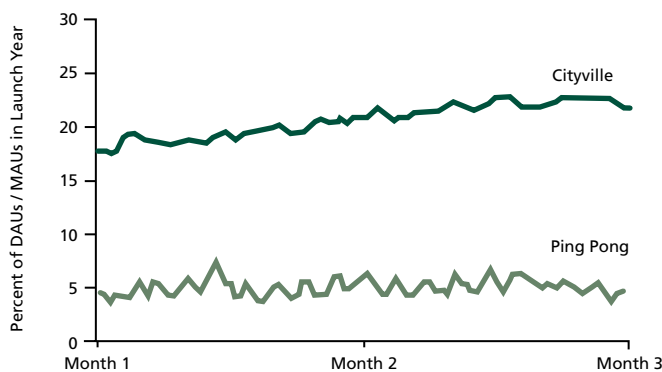


Source: L.E.K. analysis of Appdata.com Top Games

**Stickiness:** For social games that can build a community, their ultimate success is driven by how addictive they are to play. One way to measure this factor is analyzing frequency of play as measured by the ratio of daily average users over monthly average users (DAU/MAU), beyond the initial 30 days. For example, Cityville was able maintain (and slightly grow) its frequency of play, whereas Ping Pong realized lower game play per user (see Figure 6).

**Figure 6**

**Stickiness of Cityville vs. Ping Pong in Launch Year**



Source: L.E.K. Analysis of Appdata.com DAU and MAU data

These factors (viral growth and stickiness) together can help identify successful social games (see Figure 7). The distribution of games across these two dimensions can be segmented into four quadrants based on the midpoints (point equidistant from the endpoints) of the DAU growth and DAU/MAU data set:

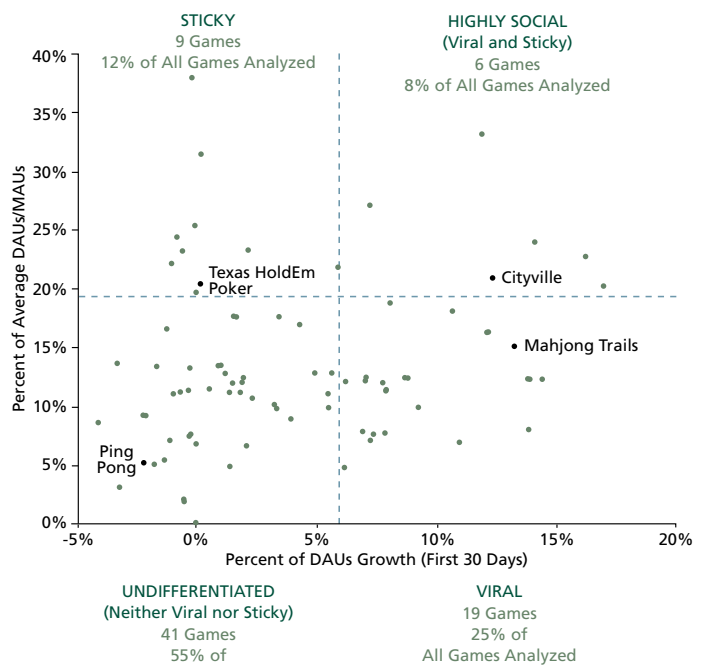
- **Highly Social Games (upper right):** Rank above the midpoint on both viral growth and stickiness (8% of games analyzed). Select games (like Cityville) have been able to encourage players to invite friends, leading to viral growth, and their ability to maintain player interest over time.
- **Sticky Games (upper left):** Rank above the midpoint on stickiness but below the midpoint on viral growth (12% of games analyzed). These games (such as Texas HoldEm Poker from Zynga) are able to maintain the interest of a more selective/niche audience.
- **Viral Games (lower right):** Rank above the midpoint on viral growth but below the midpoint on stickiness (25% of games analyzed). These games (such as Mahjong Trails from

MegaZebra) generate good buzz, but fail to retain their users over time.

- **Undifferentiated Games (lower left):** Rank below the midpoint on both viral growth and stickiness (55% of games analyzed). This represents the largest category of games (like Ping Pong), which fail to generate significant buzz and interest at launch and are unable to keep those few players interested over time.

**Figure 7**

**Viral vs. Stickiness of 75 Games Analyzed (Randomly Selected from the Top 500 Most Popular Facebook Games)**



Source: L.E.K. Analysis

### The L.E.K. Value Proposition

In the fast-changing social and casual games landscape L.E.K. can identify and analyze the drivers of success and what differentiates makers of highly social games such as Zynga. L.E.K. can further help in applying the lessons learned from analyzing social and casual games to achieve viral growth and increase customer retention in areas of traditional media. Further installments of this series will examine how these growth models can be applied to traditional media like cable, MSOs, TV, theater and music events.

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.

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