

LA Games Conference 2009

April 28-29, 2009

The Historic Roosevelt Hotel

Los Angeles, California

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Report Date: May 5, 2009

Introduction:

The United States is a video gaming market like no other: It is distinct from Asia and Europe. Its great diversity stems from its attitude, culture, and consumerism. From this vantage point it is suggested that the future of gaming will depend on the “three-way marriage” of mobile, massive multiplayer online gaming (MMOG) and social media networks (i.e. Facebook, MySpace...).

Market researchers, and industry experts, have a thorough understanding of why people choose to play games, but can only provide an adumbration for effective game play monetization. Take for instance the Asian market. Does it really matter that, in 2008, the virtual goods market in Asia was valued at \$2 billion USD? -- This is make-believe goods, using make-believe money. From Alice in Wonderland, Alice says: “If I had a world of my own, everything would be nonsense. Nothing would be what it is, because everything would be what it isn’t. And contrary wise, what is, it wouldn’t be. And what it wouldn’t be, it would. You see?” No wonder numbers are like gossip.

Reviewing the latest achievements in the gaming market may unlock a better understanding as to why a video game becomes a commercial success; however, past success does not ensure future success. Much can be learned by studying the nuances of mobile, social media, music, film, and the impact of technology on these industries. Playing an equally important role is the mindset of the publisher, and digital rights management (DRM).

Report:

Top Gaming Trends – Analytics Presentations

(1) Nick Williams, Director, Media & Entertainment Insights – OTX Research

OTX Research is a video gaming market research company which has developed a real-time tracking system collecting data from on over 25,000 gamers across more than six hundred games. Web analytics are only as accurate as the editorial content the user may have making OTX's approach, through its real-time tracking system, unprecedented. It is easy to analyze a large franchise, but within the gaming industry there are numerous niche markets that require a specialized understanding.

Most developers and publishers work with many unknowns when launching a game. A product's market success may be characterized by a decision making funnel. A pictorial representation begins, wide at the top, with "consumer awareness", tapering down to "positive buzz", "purchasing intent", "intent to rent", and concluding with "purchase preference". The various steps provide leverage points for the marketing team. Tie this in with real-time data, and management can arrive at a tailored solution for the lifecycle of the game.

(2) Mr. Greg Short, Executive Chairman - EEDAR

EEDAR is an independent research firm devoted one-hundred percent to gaming analytics. EEDAR uses proprietary technology to analyze its market. The company speaks of a refinement in analytics such that over 15,000 objectively quantifiable aspects of a video game are considered. The data provide information such as sales projections, risk mitigation and game feature valuation, to name a few. Statistics/trends suggested include:

- a) The appeal for Action Games peaked in 2004-2005.
- b) General entertainment games were up twelve percent in 2008.
- c) Downloadable content has been growing exponentially presenting enormous potential.

(3) Mr. Ethan Titelman, VP Media & Entertainment Group - Penn, Schoen & Berland

Despite the recession, the state of the video gaming industry is growing. Gaming is expanding to new audiences. It also has to get away from a product-driven approach. Four key trends happening in the current gaming industry:

- a) Social Interaction – people/families are again learning to play together.

- b) Back to basics – simple fun interaction works best.
- c) Every vote counts – this is about expanding-the-pie to bring in new customers. Hollywood film industry is doing this with the “immersive experience” and 3D.
- d) Consumers are the critics – the best criticism comes from the users.

Massive Multiplayer Online (MMO) gaming needs to expand well beyond niche geeky users. There has to be more of a social impact with game play.

Gaming and Music – New Business Opportunities in the Wake of The Guitar Hero and Rock Band Phenomenon

Ryan Barkan, Sr. Dir. Advertising/Video Gaming, Primary Wave Music Publishing

Alex Hackford, Head of A&R, Sony Computer Entertainment America

Michael Rubinelli, SVP, Game Development, Genius Products

Scott Scherer, VP, Product Management, Hands-on Mobile

Tommy Talerico, CEO/Executive Producer/Host, Video Game Live Moderator – Ted Cohen, Managing Partner, TAG Strategic

Q: How has the gaming industry evolved for you over the last few years?

Tommy: The creative and technology were always separate. We are now seeing that they must now work in tandem from the beginning of the development process. Also, I think I saw a statistic recently that, that in 2008, thirty-two percent of all music industry revenues were generated by the gaming industry. Moreover, video games have become the music of choice, and the culture of choice, for this generation.

Ryan: First of all, Rock Band is an extension of the “live” experience, rather than the “recorded” experience. Our company is going beyond the typical “licensing 101” for all of our catalogues. It is the vision they saw because of the market success of Rock Band and Guitar Hero. The “big publishers” are starting to get it.

Q: What’s beyond Rock Band as far as innovation goes?

Tommy: Publishers now want to take the music game into another direction - to a new generation. They want listeners to explore the history of the band, to build a deeper relationship with the artists is the publisher’s

goal.

Ryan: I think the biggest innovation is the leveraging of the copyrights for revenue generation.

Michael: What we are seeing is an evolution of thinking of the publishers and artists. They are thinking about how to extend talent to all genres. We have artificial intelligence that grades the interactive experience of the person, and the music, in the framework of a game. That is fun and interesting.

Q: How does one present new opportunities to the music publishers

Michael: [When we approached the publishers] we knew that their default response would be NO. The concepts of remix, mash-ups were dirty words to their ears. Therefore, we told them exactly what we were going to do, and how we were going to do it. Then we showed them a real demo. Something they could touch with their hands. When the publishing executives saw the actual products, they said: "Now we get it."

Scott: We had a whole different set of challenges. How does one take a social game, like Guitar Hero, to an individual experience? Music licensing was a big challenge mainly around revenue sharing rates. Also, rapid changes in hardware and software are always a concern.

Q: What element do you need to make a music game successful in the future?

Scott: From a mobile perspective, the wireless carrier's always wanted to see every single hand set covered [portability of content to various handsets, often three-to-four hundred models, was costly]. Going forward we are focusing on sub-groups, of ten-to-twenty handsets models, with specific capability.

Michael: The future of gaming has to be exploratory and expressive, but it also has to have rigidity, which can propel the user experience forward. Historically, in gaming, once you have a hit, everybody seems to follow, and then the genre dies. We desperately need innovation to keep this industry growing.

Gaming, Film and Television – Breaking Down the

Barriers Between Hollywood and the Game Industry

Kate Connally, VP, Addicting Games, MTV Networks

Spencer Hunt, VP, Game Production & Digital Development, Sony Pictures Television

John Kavanagh, SVP, Videogames, Paramount Digital Entertainment

Bill Kispert, VP, Interactive, NBC Universal

Dave Long, CEO/Co-Founder, Exponential Entertainment, Inc.

Moderator – Steve Goldstein, Senior Counsel, Stubbs Alderton & Markiles, LLP

Q: What has changed in the royalty pool?

Dave: Depending on the platform there was always a fixed royalty split. Now, studios better understand the time and resources needed to bring a game to market. Therefore, there is more flexibility on royalties today.

Bill: You have to spend a lot of time hashing through the creative issues. That involves speaking continuously with all interested parties [IP holders] to mitigate any problems. Every detail is looked at with respect to release date of DVD, games, and movies simultaneously.

Q: While mobile is focused on downloadable content (DLC), how are you looking at the social media space?

John: Social media has spread the word, but we have not seen the Facebook applications and the revenues. It's probably coming soon.

Dave: Tapping into the passion that people have about film is our approach.

Spencer: We started to look at the social platforms from a promotional stand point, as well as from micro-transactional.

Gaming and Mobile Phones – What are the latest Trends in Games for the Third Screen?

Michael Chang, CEO & Co-Founder, Greystripe

Time Chang, Principal, Norwest Venture Partners

George Kurtyka, 3P Account Manager, Nokia

Kyu Lee, President, Gamevil

David Zemke, Director of Marketing, Glu Mobile

Moderator – Nicole Lazzaro, President, XEODesign, Inc.

Q: Where are we at as far as innovation? I see the iPhone applications store as being a marvelous success. What is next?

George: We are seeing the “operator model” emerge. The top 10 list exists on the iPhone store. We are going to see location, social networks playing a larger part of this business. For example, utilizing your contact list to see what they are playing, and what their high score was for a particular game.

Michael: Apple’s iPhone store has created a mechanization issue regarding staying power. There are simply too many apps now on the store. Apps like iFart are just a fad. Pricing needs to be tiered with low, mid and high price points. Split screens may help with social discussion to find what to play.

Kyu: The iPhone has set the innovation bar high. It is not coming from the game itself, but from other areas. In Korea, the micro-transactions, and the discovery, have advanced game play. How we market directly to the user will change. In the U.S. the carriers market directly, but this needs to change. Based on our market research direct with Korean users we have found working with brands, end-user products, and individual commercials for specific games, has been very effective. A few statistics from Korea are:

- Thirty percent of carrier revenues come from games.
- Three dollars USD per game is the average.
- Items are sold from ten-cents and up.
- We are seeing an up-sell of anywhere between twenty-to-eighty percent per game.
- Free play is huge, but is exclusive to the top five games.
- More and more hybrid subscription and micro-payment models are developing.

Michael: Our model is to serve ads through an aggregated portfolio of games. It is generally a full screen, pre-roll or interstitial advertisement. Mobile games are becoming more like main stream media. There are three strategies they are tracking: (1) Free, (2) Windowing Strategy – Launch for-pay for six months, and then transition to free, (3) Simultaneous free and for-pay.

Q: Where are we going with audience segmentation?

David: We look at the audience in two levels: (1) what are they actually playing, (2) what socially-enabled apps are people using. We then target ads to these groups.

Tim: Advertising was the defacto model; however, there is a proven hybrid model as we have seen in music and film. The music industry is under tremendous stress with the digital rights management issues. Also, micro-transactions are completely tied to emotional components of the games.

David: Much more robust game play apps should command a higher premium, something in the \$2.99 - \$4.99 range. One should have twenty-to-thirty hours of game play from one of these premium titles. But there is currently a lot of noise (clutter) on the mobile deck.

Kyu: We have seen many companies in Korea develop a hit game, but not multiple hit games. The new wall will be built by the publishers in the U.S. They own the relationship with the customer. They have replaced the carriers in the U.S.

Keynote: Finding Money in Games

Mitch Lasky, General Partner, Benchmark Capital

Interviewed by: Eric Goldberg, Managing Director, Crossover Technologies.

The future of gaming business is in electronic distribution over the next three-to-five years. I would look at Steam (<http://www.steampowered.com>), or addicting Games (<http://www.addictinggames.com>) as a great example.

The iPhone market is a great market for small developers, but for building scale, it is not.

We have learned from other industries, such as music, books, feature film, etc., that once a company has five-to-seven percent market share they have achieved success. As the company grows its business the next inflexion point emerges at the fifteen-to-eighteen percent market share. Here the investors feel that the company is a front runner.

Social gaming is more than just releasing games to social platforms like MySpace and Facebook. It is more about monetizing game play. An interesting challenge for these market leaders will come with the introduction of payment processing. These types of functionalities will

create wrinkles in their communities. The companies will begin to look like operators.

I am making an observation here, but I would bet that the large gaming publishers will have a difficult time transitioning to digital distribution. Giving up the fifty-to-sixty dollar DVD game will not come easy. It is just too lucrative.

Advanced session-based games will have a profound effect on the growth of the gaming market. It will be the hard core gaming community, selling virtual goods, that will crack the revenue problem in the U.S., rather than the casual gamer.

Viral Gaming – New Ways to Promote and Distribute Games Online

Gareth David, Platform Manager, Facebook

Jim Drewry, Executive Director of marketing, Turbine

Nash Parker, Director, Emerging Technology & Media Alcatel-Lucent

Jason Oberfest, SVP of Business Development, MySpace

Dan Yue, Co-founder and CEO, Playdom

Moderator – Eric Goldber, Managing Director, Crossover Technologies.

Q: How important is the social factor in gaming?

Jim: The new generation of social gaming is now on Facebook (a community of two-hundred and fifty million registered users and growing), but originally they were Massive Multiplayers Online (MMO) and pass-along interaction. Viral marketing would occur through direct referrals and indirect referrals.

Dan: Viral means that you are going to try to introduce mechanisms into the game that you can suggest to a friend. You use the social networks to connect to their friends. Word of mouth is great, but sometime too slow. The virility mechanics are: (1) the conversation with them, (2) the “my team” effect – the bigger you are the better you are, and (3) the “collectibles route” – get your friends to collect key parts to complete the team.

Gareth: Game play must be fun. It must also use the social functionality of the platform. The top ten games on Facebook have sixty million users (aggregated) per month. The future is the shift between social activities

happening not only on your social network, but what is happening in your life overall. Also, the fastest growing demographic on Facebook is the age fifty-five and older. They are joining because their friends are joining.

Jason: Social is important. By creating demand for game play you are creating profitability for the developer. A few of the key components of viral marketing are that it is eminently self-expression. Also, it involves a process of discovery for new and entertaining games.

Nash: We build the telecommunications backbone. We are developing 4th generation wireless network equipment and technologies called LTE (Long Term Evolution) which will give interactive speed capacity of up to 60 Mbps download, and 20-30 Mbps upload. In the U.S., Verizon is planning to go active in 1 QTR 2010.

Q: How do we monetize the social communities?

Dan: We do not make too much money on display advertising because it is not effective for gamers. Instead, we are focused on two mechanisms: (1) Virtual goods (obsessive collectability of goods which give some minimal benefits to the virtual character in the game to show off to your friends), and (2) Game Advancement – where you can pay to advance your character through the game. For example, you can make it stronger, or provide more energy, etcetera.

Garth: The Internet has changed how companies make money because the cost of distribution is virtually zero. There are currently two ways of making money: (1) advertising – banners, sponsors... (2) Transactional - items for purchase – this is quickly becoming the primary revenue generator.

Conclusion:

Over the next decade gaming is going to permeate our lives in ways that one cannot even imagine. Just look at Korea. Though eighty percent of the South Korean population plays games, they don't see game play as game play. Interpreting this means that game play has become so ingrained in their daily lives that it has become the norm. The North American market is not there yet, but it is headed in that direction. The importance of virtual game play, make-believe goods, and make-believe money will be a pivotal part of this societal transition.

Understanding the purchasing behavior of the broader demographic will

unlock the commercial success for many publishers. Having broader band networks, both wireless and wired, will certainly facilitate the consumer acceptance of the three way marriage among mobile, MMOG and social media.

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