What are social network games?

Social Network Games run on a Social Network. They typically require the player to be online, run embedded in the social network’s pages, and use social features as deeply integrated gameplay elements.

The Players

Social games revolutionized the western games industry. Solitaire, Bejeweled, and Mystery Case Files attracted millions of players in the last decade. As these games migrate to social networks, mainstream consumer gameplay habits are finally fully visible.

Female
- 40 years old

Male
- 37 years old

U.S. social network gamers audience (in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
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<tbody>
<tr>
<td>2010</td>
<td>57.4</td>
<td></td>
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<tr>
<td>2011e</td>
<td>69.2</td>
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<td>2012e</td>
<td>77.9</td>
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The Payers
How Social Games are Monetized

The name of the game is ‘free-to-play’ with most social network games using a ‘freemium’ model of distribution and monetization. A freemium game is free-to-play, but players pay to purchase optional upgrades, extra content, virtual goods, in-game currency, power ups, and other premium features. Only 1% - 5% of a social game’s audience purchase virtual items, but this source dominates most games’ revenue streams.

Social network games rely heavily on their big spenders, or ‘whales’. Whales spend more than $25 per month, on average. While whales represent less than 15% of a game’s paying users, they account more than 50% of a typical game’s revenue.

Moderate paying players spend $5 - $10 per month, represent 25%-40% of the payers, and generate about 25% of the revenue.

Most payers spend only $1 - $5 a month and generate less than 15% of a game’s revenue, in aggregate.

Top Developers & Publishers

The top 10 content providers reach more than half of the total gaming audience on Facebook. Social Network Games require careful user research, economic tuning, and technical demands not typically encountered during casual game development. Successful social network content providers must also deal with the additional complexity of maintaining and evolving a live service.

When examining this market, you must look beyond Monthly-Active-Users and Daily-Active-Users (MAU, DAU). In the retail market, price points are well known and monetary success is directly proportional to products sold. In the online world, with widely varied Average Revenue per User (ARPU) depending on game type, quality, and monetization technique, the audience size is not always an indication of business health. Furthermore, seemingly identical games may have very different revenue markers and player retention. This makes it very difficult for an external observer to estimate a game’s success.

Most paying users spend between $1 and $5
Social network games are currently experiencing exponential growth that is expected to continue through 2014, helping to fuel audience and revenue growth in the online games segment.

What the Future Holds for Social Gaming

Will Facebook continue to dominate social gaming?
Through 2012e, the portion of social network game revenue associated with Facebook peaks as Facebook continues to push into new markets. Following 2012, Facebook’s portion begins to decrease as niche social networks expand their games offerings and developers seek out less crowded markets.

Emerging Markets
Emerging markets are a key component of revenue growth in the global social network games market. Brazil and Russia are prime examples of current emerging markets for social network gaming. Use these three attributes to evaluate if a market is ready for social network games:

1. High speed internet and smartphone penetration
2. Attractive social network audience
3. Existing payment systems for processing online purchases
**Key Terminology**

**FREEMIUM**
Offering a game, product or service free of charge while charging a premium for advanced features, functionality, or related products and services.

**COST PER ACQUISITION (CPA)/CUSTOMER ACQUISITION COST**
Cost of acquiring new customers. Calculated by dividing the cost of a campaign by the number of new application installs attributable to that campaign.

**LIFETIME VALUE (LTV)**
Total amount that a player will spend with a particular game during his or her lifetime with the game.

**VIRTUAL GOODS**
In-game items or game-related services such as power-ups, premium content, or a temporary subscription that enable or enhance gameplay.

**MONTHLY ACTIVE USERS (MAU)**
The number of unique users that have used an application at least once over the course of a month.

**DAILY ACTIVE USERS (DAU)**
The number of unique users that have used an application at least once over the course of a day.

**ARPPU** Average Revenue Per Paying User.
**ARPU** Average Revenue Per User.

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