

# Engage Digital MEDIA

## Virtual Goods Industry Forecast 2010

The Virtual Goods Industry Forecast 2010, published by Engage Digital Media, collects responses from over 30 industry executives, analysts, observers, and thought leaders on what the coming year holds for the virtual goods industry. The answers below have been edited only lightly for formatting and a consistent style. Otherwise they've been left untouched, providing a snapshot of the industry's status, mindset, and goals regarding 2010.

### About Engage Digital Media

Engage Digital is a leading producer of trade events and media that focus on social media, games, virtual worlds, and user engagement. The company also publishes timely market research and leading industry news blogs VirtualWorldsNews.com and VirtualGoodsNews.com. More information about Engage Digital can be found at <http://www.EngageDigitalMedia.com>

Please join us for the **Virtual Goods Conference at @ Engage Expo** taking place February 16-17, 2010 in New York City. Details are available at <http://www.EngageExpo.com> and <http://www.VirtualGoodsConference.com>

### Questions Asked and Answered

We asked Virtual Goods Industry Forecast 2010 participants the following questions:

1. What are your top three trend predictions for the virtual goods sector in 2010?
2. What challenges do you expect 2010 to bring for the virtual goods industry?
3. What was the most significant evolution at your company over the course of 2009 and what are your business and product goals for 2010?
4. How has the global economy affected your business, and how has it impacted strategy?
5. Who are the one or two companies or individuals you think are most likely to have the greatest impact on the virtual goods sector in 2010 and why?

### The Results

Of all that 2009 will be remembered for, for those involved in virtual worlds and online play in general, there is little that can outshine the explosive growth in virtual goods as a business model; the ability for virtual goods to enhance play and help connect a global audience, and virtual goods as a means to end in the context of often-spectacular funding events that competed for top-page billing in the business press, especially in the back half of the year.

This Industry Forecast 2010 polled a number of players central to the growth of the virtual goods sector; they represent a cross-section of the digital goods value chain, but the themes are generally constant -- with just a few contrarians in the mix who see a different road ahead.

By in large, the themes in this year's forecast boil down to the following:

- 1) the amount of money spent of virtual goods will rise;
- 2) the preeminent platforms on which the item-based eco-system currently relies on for distribution will continue to be the predominant vehicles to reach consumers but will also give way to solutions which are platform agnostic, relying more and more on the open web;
- 3) the importance of virtual currency which can be used across various games or social networks where virtual goods are present -- something that will likely spawn new and creative payment schemes;
- 4) triple-A brands will invade the virtual goods marketplace in order to tap the appeal with an increasingly broad consumer base, as a means to drive reach and engagement (though not necessarily revenues);
- 5) as the virtual goods marketplace reduces friction among buyers and draws more participants along the entire value chain (more goods creators, more infrastructure solutions, more dollars), it will inevitably draw greater scrutiny from government regulators and also be the driver of disputes that will end up in court -- either seeking redress or prompting regulation; and finally,
- 6) of all the companies and individuals who played a roll in the growth of the virtual goods marketplace, the buzz surrounds just a few, with named companies to watch in the coming years focusing narrowly on Facebook (mentioned as a company to watch by 11 of our 32 respondents) and Zynga (11 mentions) while personalities Mark Pincus (Zynga founder and CEO), Mark Zuckerberg (Facebook CEO), and Trip Hawkins (Digital Chocolate founder and CEO) also named as driving the virtual goods market forward in 2010.

Among the most basic views of the sector is that it is bound to grow in terms of how much consumers are willing to spend on digital good. John Pleasants, the CEO of social games maker Playdom (and a former senior executive at traditional game maker Electronic Arts) said he thought that the virtual goods market was on track to double in size over each of the next three years. "I think the western market is somewhere between \$0.5-1.0 billion today and it can be \$3-5 billion over the next three years. It's growing more than 100 percent a year and all the metrics are moving in the right way." Our respondents tended to agree.

### **Dollars and Cents**

Vikas Gupta, Co-founder/CEO, Social Gold by Jambool, said "Social gaming will continue to help spur the growth of the virtual goods sector, propelling it to exceed more than \$2 billion in revenue within 2010," while Joe Hyrkin Entrepreneur in Residence at Trinity Ventures echoed Gupta, saying, "Virtual goods revenue will exceed \$1.5 billion in the US [in 2010]." Benjamin Joffe, CEO of Beijing-based +8\* and a partner in social game maker Cmunne offered a global perspective, saying the global virtual goods market should tally more than USD \$10 billion in 2010. "The US market was about \$1B in 2009 and our estimated for Asia was a conservative \$7B. Factor in growth in US (maybe \$2B next year) + Asia (\$9B?) + rest of the world and we're there easily."

## **It's the Platform**

All virtual goods need a vehicle or platform to reach consumers, and by far, Facebook is seen as the 900-pound gorilla. "All the action is on Facebook, and that's where we've focused our energies," says RocketOn CEO Steve Hoffman. Ditto Lauren Bigelow, COO of WeeWorld, who said, "Right now Zynga on Facebook has mindshare with a slew of games all patterned on the same back end with Facebook as the distribution platform."

But that hegemony will show cracks. Lee Clancy, VP/GM of IMVU predicts "stalled growth for some Facebook-based virtual goods players as the double whammy of stricter viral guidelines on the Facebook platform and higher FB advertising costs hit social gaming firms hard," while Lightspeed Venture Partners' Jeremy Liew predicts broadly that in 2010, "social games [will] spill out of Facebook and into the open web."

## **The Brands Are Coming, the Brands Are Coming**

One pervasive view of the virtual goods sector is its increasing allure to brands as a way to evangelize and lock down loyalty (though not necessarily revenues). Trinity's Joe Hyrkin: "Virtual goods will become a strong option for brands to drive engagement in social media and will become the standard for branded advertising in social media, finally providing clear value proposition for brands in social media and social gaming." Nir Eyal, CEO, AdNectar agrees, predicting "major brands will jump in, spending big bucks to create and distribute socially endorsed branded goods." And Second Life's Tom Hale, the Chief Product Officer at Linden Lab, says he expects to "continue to see large brands experiment with engagement based investment to maximize exposure during zeitgeist events, for example the Olympics."

## **Conclusion: Hang On Tight, Steep Incline Ahead!**

Save for a few who predict a pause in the growth of virtual goods -- Three Rings' Daniel James said that virtual goods were "over-promised to investors and 2010" and that some businesses in 2010 "will see a reckoning in many cases," and Pileated Pictures' Michael Levine thinks that in 2010 "the bubble breaks, or at least lets out some air" -- most saw growth which defied being quantified. "We are early on in this industry and we're just getting started," says WeeWorld's Bigelow. "Virtual goods and virtual worlds are evolving into the new normal and there is room for exponential growth across the entire sector."

For detailed thoughts on these topics, and more, browse through the responses below.

## Editors

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## Contributors

Joakim Achrén, Founder, Ironstar Helsinki Oy Ltd.  
Lauren Bigelow, COO, WeeWorld  
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Corey Bridges, Executive Producer and Co-Founder, Multiverse  
Lee Clancy, VP/GM, IMVU  
Nir Eyal, CEO, AdNectar  
Hill Ferguson, VP, Product & Marketing, ZONG  
Vikas Gupta, Co-founder/CEO, Social Gold by Jambool  
Tom Hale, Chief Product Officer, Linden Lab  
Eric Hartness, Chief Marketing Officer, Playspan  
Trip Hawkins, CEO, Digital Chocolate  
Ron Hirson, CEO, BOKU  
Steve Hoffman, CEO, RocketOn  
Charles Edward Hudson, VP, Business Development, Serious Business  
Joe Hyrkin, Entrepreneur in Residence, Trinity Ventures  
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Ian Swanson, CEO and Co-Founder, Sometrics, Inc.  
Michael Trigg, VP of Marketing, Hi5  
Kevin Xu, Chief Operating Officer, IGG.com

# 1. What are your top three trend predictions for the virtual goods sector in 2010?

**Joakim Achrén, Founder, Ironstar Helsinki Oy Ltd.**

- Social games, with half a billion people playing, bring virtual goods to a much wider audience.
- Real user feedback drives more strongly virtual goods design and pricing.
- Original ideas start to reward developers, copying less attractive in item design.

**Lauren Bigelow, COO, WeeWorld**

- Social networking, gaming and virtual worlds will continue to converge.
- Virtual currency evolves: Millions of consumers are addicted to virtual goods and the virtual currency that lets them buy -- this trend will only increase. There will be innovation in how to take advantage of the drive to earn more currency, and because of the volume of different currencies there will be attempts at a common virtual currency.
- Advertising: The buy cycle for digital media is becoming more like traditional media, with upfront ad buys on the rise. As the ad market recovers digital upfront ad buyers will increasingly include social games and virtual worlds because of their high engagement levels and integrated placement opportunities.

**Ludovic Bodin, CEO, CMUNE**

- A new market is going to emerge, between casual games a la Zynga & MMO a la WoW.
- More non-US/Europe companies become visible, making geography less and less relevant.
- Crossover titles become a must have. MMO and a lighter and more social version of them, kind of Social MMO works closely together. This collaboration create for both companies additional line of revenue and it become an invitation and conversion loop enhancers.

**Corey Bridges, Executive Producer and Co-Founder, Multiverse**

- Greater ubiquity of the virtual goods model in games, as the advertising model continues to underperform in the casual space and the subscription model appears in fewer and fewer MMOs in the hardcore space. I predict that the glut of "harvesting" games will drive even Facebook players to experiment with new types of gameplay like synchronous interactions; these new elements of gameplay will at first appear nestled within the current asynchronous harvesting and RPG-lite games like you see from Zynga. These games will all still have virtual goods elements. And finally, you'll see casual games with much more of a real MMO feel--complete with persistent worlds with thousands of people interacting synchronously--with virtual goods as the underlying revenue model. These games will be like World of Warcraft or Guild Wars in the breadth and scope of customization and exploration, but will encourage players to spend anywhere from 30 seconds to 10 minutes playing at a time, unlike traditional MMOs.

### **Lee Clancy, VP/GM, IMVU**

- Increasing uptake of virtual goods models by non-virtual goods companies (e.g., Facebook, Hi5, RockYou, EA after Playfish acquisition).
- Growing involvement of major brand advertisers in the virtual goods space, either via virtual goods tie-ins with established virtual goods companies or via new brand-specific virtual worlds.
- A major transaction (acquisition or IPO) by a major US player in the wake of the Shanda and Changyou deals.

### **Nir Eyal, CEO, AdNectar**

- The first US based Virtual Goods companies go public...generating excitement, investment...but user growth will begin to level off, so publishers will focus on growing ARPU (average revenue per user).
- Major brands will jump in, spending big bucks to create & distribute socially endorsed branded goods.
- Zynga, Playdom, and others will integrate branded virtual goods into their line-up.

### **Hill Ferguson, VP, Product & Marketing, ZONG**

- Virtual goods sales continue strong growth rates and double in 2010 y/y
- Virtual goods sales grow beyond social networks and social gaming, into more traditional online games (MMOs, MMORPGs, and Casual) as subscription business models wane.
- 2010 is the year major brands begin selling their virtual wears online.

### **Vikas Gupta, Co-founder/CEO, Social Gold by Jambool**

- Social gaming will continue to help spur the growth of the virtual goods sector, propelling it to exceed more than \$2 billion in revenue within 2010.
- New companies will emerge to become the leaders in the virtual goods sector. While some established leaders have come to the forefront in 2009, only companies that can truly adapt and keep up with the changing trends in the virtual goods economy will rise to the top of the industry. To do so, companies must retain a deep IP and differentiable brand. Just as with any retail product, the top virtual good providers will be able to adapt with evolving consumer needs.
- Monetization in virtual goods will continue to grow, and we will see the emergence of a select few successful platforms, as well as several popular virtual currencies. Once such currencies have been established, the growth of secondary markets and currency exchanges will most likely follow.

### **Tom Hale, Chief Product Officer, Linden Lab**

- Continued consumer adoption and growth as experimentation with delivery mediums (Social Media, social gaming, Flash MMO, stand alone virtual worlds) continues to make headlines and legitimize the market outside of Asia.
- Expect offers to be minimized as a \*primary\* long term sustainable business model outside of the offer companies themselves.
- Continue to see large brands experiment with engagement based investment to maximize exposure during zeitgeist events, for example the Olympics.

**Eric Hartness, Chief Marketing Officer, Playspan**

- There will be rapid growth in the industry as more developers adopt virtual goods business models and consumers adopt and use them.
- There will be an explosion of digital goods on iPhone and other mobile devices.
- The player to player secondary market will grow beyond gold farming as more publishers and players embrace it.

**Trip Hawkins, CEO, Digital Chocolate**

- It is inevitable that virtual goods will become a big deal on mobile devices, because the mobile phone is the true social computer. This transition should make enormous strides in 2010.
- Offer completion networks are coming to mobile devices and should provide new lift for mobile social games.
- Innovative new kinds of virtual goods such as NanoStars will be a step forward for consumers.

**Ron Hirson, CEO, BOKU**

- Social Gaming companies, like Zynga, Playfish & Playdom, that grew tremendously on the Facebook platform will leverage their acquired gaming population to create destination sites. The destination sites outside of Facebook.com will continue to monetize via virtual goods and will contribute to the double-digit growth in 2010.
- The top gaming companies, EA, Ubisoft, Activision, will move more of their models to virtual goods monetization, even for shrink-wrapped games.
- Companies that have had great success with the Free to Play model in Asia will gain increased traction in the US; Facebook social games will grow outside of the US faster than within the US.

**Steve Hoffman, CEO, RocketOn**

- Virtual goods will continue to migrate into apps and services beyond games/worlds. I see strong growth for the segment as a whole.

**Charles Edward Hudson, Vice President, Business Development, Serious Business**

- iPhone becomes a big opportunity.
- Downloadable casual guys figure out virtual goods.
- A new company will come out of nowhere and achieve Zynga-like scale.

**Joe Hyrkin, Entrepreneur in Residence, Trinity Ventures**

- virtual goods revenue will exceed \$1.5 billion in the US.
- mobile payments will increasingly become a more viable option as carriers decrease their cut to closer to 25% than the current 50%.
- virtual goods will become a strong options for brands to drive engagement in social media and will become the standard for branded advertising in social media, finally providing clear value proposition for brands in social media and social gaming.

### **Daniel James, CEO, Three Rings**

Facebook and 'social games' were the big story and virtual goods driver of 2009, hence my emphasis.

- Flattening and beginning of decline in Facebook active audience (outside of some international territories). There just aren't many more people left who haven't made a FB account, and people will start to churn out in significant numbers. There's nowhere to go but down from a point where ~50% of the adult population are active users.
- A cruel thinning of the proliferating payment providers as Facebook takes control of payments on its platform, marginalizing all other solutions. A general feeling that 'yet another' payments solution is not going to move anyone's dial.
- By year-end a 'back to basics' meme with a thinning 'industry', slower growth expectations and more emphasis on product quality, depth and user-acquisition models on and off social networks.

### **Benjamin Joffe, CEO, +8\*; Partner, Cmun**

- Virtual goods expand beyond online games, social games and virtual worlds to be used in various online media properties. Virtual currencies being a combination of "prepaid credit" and "mileage", it is actually old practices in new media.
- More people wake up to the fact that selling 100% replicable pixels for dollars is more profitable than selling black sugar water.
- Global virtual goods market over USD 10 billion: the US market was about \$1B in 2009 and our estimated for Asia was a conservative \$7B. Factor in growth in US (maybe \$2B next year) + Asia (\$9B?) + rest of the world and we're there easily.
- Virtual goods go mobile too. Thanks to its 95% penetration of 3G and widespread data plans, Japan already has 2 mobile SNS making hundreds of millions with virtual goods (GREE and Mobile Game Town) and even another with an open mobile platform (Mixi). There is no reason why other countries can't replicate this success, especially with Flash spreading on mobile.

### **Charles Ju, Founder, Playmesh**

- Facebook will push aggressively for their credits to become the primary source of virtual transactions on their framework.
- Asian companies are going to take a significant cut of the action by porting their existing infrastructure.
- Growth will continue to be exponential as social gaming becomes more and more mainstream. Everyone will make more money as the pie grows bigger for all of us collectively.

### **Sean F. Kane, Principle, Kane & Associates LLC**

- I believe that the brilliant level of success that Zynga, Playfish and Playdom has demonstrated this past year will result in a slew of new VC backed companies attempting to monetize social games.
- I think we will see the virtual goods model becoming somewhat ubiquitous and being used in areas other than games and social networks.
- I think that platform companies like Live Gamer will see significant continuation of their growth as the virtual goods market continues to flourish.

**Thomas Lee, Senior Director, Gamepot USA**

- Economy: the global economy, especially the US will continue to struggle, and that will present even more opportunities for the F2P online games and virtual goods, and the so-called, Casual = Social = Viral Games
- Advertising: we'll have new opportunities in ad revenue with local and global brands for direct monetization from users.
- Browser Games: strong trend in Asia now, flavor of the month, but with new tools, these games both in quality and immersion will steal the 28 million daily actives from FarmVille and will change the perception of the Freemium and Micro-transaction games as we know it.

**Vili Lehdonvirta, PhD., Researcher, Helsinki Institute for Information Technology HIIT;  
Editor, Virtual Economy Research Network**

- I think the breakthrough of the virtual goods model in online games and social media applications is only a beginning. We will see adaptations of the model in other consumer industries as they realize that virtual goods can be used to achieve customer monetization and lock-in. It may be some time before banks and insurance companies start using badges and coins as integral parts of their online customer interactions, but in 2010 we will surely see increasing use of virtual goods in one-off marketing campaigns.

**Michael Levine, President and CEO, Pileated Pictures**

- the bubble breaks, or at least lets out some air.
- iPhone and mobile come into play.
- see release of many "high end" options for adults in Facebook and other social network.
- big brand integration.

**Jeremy Liew, Managing Partner, Lightspeed Venture Partners**

- Casual and Console game companies and media companies enter the social gaming industry through acquisition.
- Social games spill out of Facebook and into the open web.
- ARPUs increase as players get more comfortable spending money in this way.

**Matt McAllister, Director of Marketing, Offerpal Media**

- More branded goods will come into the market.
- More game developers, including large gaming and entertainment companies, will adopt the virtual goods model in favor of subscriptions or advertising.
- More companies will attempt to create a "universal" or at least a "quasi-universal" virtual currency (see Facebook Credits as an example).

**Keith McCurdy, CEO and co-founder, Vivaty**

- Quality will begin to matter more. 2D bit maps of glasses of beer will not be valuable to users. But 3D cats that purr your name will sell like hotcakes.
- Personalization will begin. Users will want to make virtual goods and give to each other.
- Virtual goods will expand beyond gaming and social networks.

**Rajat Paharia, CEO, Bunchball**

- Virtual goods will penetrate non-gaming sites even more deeply than they have now, and be considered a viable revenue driver.  
Site's virtual goods offerings will evolve beyond simple clip-art stores and become much more about reflecting the individual user's identity.  
We'll hear about at least one successful example of a brand driving value (brand-affinity, purchase intent, etc.) via the sale of branded virtual goods.

**Dan Porter, CEO, OMGPOP**

- Payment for goods evolves.
- High churn on Facebook.

**Kenny Rosenblatt, CEO, Arkadium**

- More big budget free-to-play games will be released and use virtual goods as the primary revenue model.
- Virtual currency exchanges will be more popular, allowing users to exchange one game's currency into another game's currency.
- Portability of items and characters from one game to another. For example, the ability to build up your character in one game and bring that character and all its virtual assets into another game, possibly by different game publishers.

**Andrew Sheppard, Executive Producer, Hi5 (former)**

- Applications that derive their revenue from virtual goods will continue to make in-roads into the traditional casual and core PC game markets.

**Brian Shuster, CEO, Uthervers Digital, Inc.**

Virtual Worlds and immersive environments will accelerate in popularity throughout 2010, probably reaching a breakout point late in the year or, more likely, in 2011. As the popularity of these Worlds builds, the size of the virtual goods sector will also increase. I foresee a growth curve in virtual goods that suggests that these goods will increase in value both individually and collectively as a sector over the next year, before these two elements diverge in 2011 or 2012 -- with the value of individual goods reaching a plateau, while the overall market continues in exponential growth for many years.

Therefore, my top three trend predictions are:

- The size of the virtual goods market will continue to expand at an accelerating rate throughout 2010, mirroring the accelerating expansion of virtual worlds and immersive environments;
- Creation of virtual goods will become an increasingly profitable area for individuals and businesses who will act as a cottage industry around the virtual worlds and games that support external development, as the goods themselves will continue to increase in value throughout the year (particularly high production value content); and
- More companies and individuals will move into the space chasing these increasing values, but not as quickly as demand will increase, thus creating a growth opportunity for the designers who move into the space early, but nonetheless, throughout the year.

**Ian Swanson, CEO and Co-Founder, Sometrics, Inc.**

- Zynga will go public end of 2010 or be acquired by Activision.
- The social gaming space will continue to grow and have over 10 companies with 40 million + monthly active players.
- Large MMO title will spawn dozens of mini RPG games on Facebook. These mini games will be used to generate traffic and acquire a new audience to the main game/site.

**Michael Trigg, VP of Marketing, Hi5**

- Better monetization and increasing market size as users in US/Western markets become more accustomed to purchasing virtual goods.
- Consolidation of payment methods and virtual currencies.
- Higher fidelity content, enabled by 3D web graphics.

**Kevin Xu, Chief Operating Officer, IGG.com**

- Having Zynga, Playdom and Playfish being the top three in 2009, and leaving all the other competitors far behind; In 2010, we will see the a few more interesting companies start to catch up with these three.
- Social games starting to get more complicated as the players get more savvy.
- Large MMORPG publisher/developers start to enter the arena.

Games, Toys, Virtual Worlds & Goods, Branded Apps

# Engage! Expo

February 16-17, 2010 New York City

## Keynotes



### Will Wright

Founder and Chief Executive, Stupid Fun Club  
Creator, Spore & The Sims

← Best-selling PC game franchise of all time w/ \$1 billion in sales



### Lane Merrifield

Executive Vice President, Disney Online Studios  
Co-Founder and General Manager, Club Penguin

← Sold to Disney for \$350 Million



### Tor Sirset

Vice President of Marketing Girls/Preschool  
Bandai America Inc.

← All their major products have internet tie-ins

## 2. What challenges do you expect 2010 to bring for the virtual goods industry?

### **Joakim Achrén, Founder, Ironstar Helsinki Oy Ltd.**

- There will be a need for a real second hand market for virtual goods.
- Many players are under-aged, virtual good purchases financed via advertisers and parents create complexity to the value economics.
- Virtual goods make sense only if you have reasonable commitment to the product via community or interesting game-play.

### **Lauren Bigelow, COO, WeeWorld**

- Proliferation of virtual currencies will lead to efforts to create a more common virtual currency.
- Although Social networking, gaming and virtual worlds will continue to converge, to be successful virtual worlds must differentiate themselves and address the needs of their particular audience. For example, WeeWorlders are young teens who interact and communicate through their avatar. Social play is a key part of what they're looking for and that's a very different experience than a social network (where you know everyone in your circle) or a casual game (where you know very few in your circle). Teens on WeeWorld have a balanced mix between real life and online life -- 50 percent of the people they interact with they meet through the service and 50 percent they know in real life.

### **Ludovic Bodin, CEO, CMUNE**

- Defense of IP for games with low barrier of entry becomes a very serious issue -- core expertise lies not in game production anymore, but running a service and distribution networks. How many farm games on Facebook? Which was the first? (answer: it was before Facebook existed!)
- Companies with good games but low expertise on analytics and viral mechanics struggle.

### **Corey Bridges, Executive Producer and Co-Founder, Multiverse**

- We've already begun to see a backlash against some arguably nefarious practices in terms of offering and selling virtual goods to consumers. While some will argue "caveat emptor," we can expect to hear louder criticism of these practices in 2010, which could lead to stricter rules and governance designed to protect the consumer.

### **Lee Clancy, VP/GM, IMVU**

- Consolidation as weaker players close up shop or are acquired by larger firms, especially in the payments and managed offers space.
- Consumer fatigue from a few too many copycat social games.
- Stalled growth for some Facebook-based virtual goods players as the double whammy of stricter viral guidelines on the Facebook platform and higher FB advertising costs hit social gaming firms hard.

### **Nir Eyal, CEO, AdNectar**

- The “easy money” from incentivized offers is gone...so publishers will have to focus on integrating quality brands into their user experience.
- Publishers will struggle with monetizing the 97% of users that currently don't pay for virtual goods (and will turn to branded goods as a solution).
- Facebook will start to reach saturation levels (in terms of total numbers of users), so publishers will have to transition from user acquisition to growing ARPU.

### **Hill Ferguson, VP, Product & Marketing, ZONG**

- Lack of portability of some virtual goods will limit growth potential, while sellers will continue to wrestle with low conversion rates of traditional payment methods (like credit cards and PayPal).

### **Vikas Gupta, Co-founder/CEO, Social Gold by Jambool**

- Increased competition will force companies to strive to build differentiation. Consumers will seek unique products and aim to get the most value from virtual goods. Companies must be able to meet these needs.
- Games will need to be multi-platform. Going beyond a single medium, developers will need to incorporate virtual goods across not just one, but multiple outlets to achieve maximum brand recognition and results. The iPhone, Android and Facebook will serve as the platforms of choice for game developers.
- The bar for games will go up. In order to retain consumer attention, developers will need to churn out products of higher quality than what is available right now. Along these lines, development cycles will be longer and more expensive.
- As games rely on inherently global platforms, they will need to increasingly rely on scalable virtual economy platforms in order to compete in the marketplace.
- As virtual currencies and goods become popular, secondary markets will emerge that could expose consumers to potential fraud. Controlling fraud and related issues will become central to payment engines. Once again, virtual economy platforms will play a key role in helping the industry continue to tackle and grow past these challenges.

### **Tom Hale, Chief Product Officer, Linden Lab**

- The offers industry that has sprung up in the virtual goods segment is highly fragmented. Expect consolidation in the sector as larger brands shy away from the negative publicity surrounding them and small companies fold or are absorbed.
- Micropayments pricing models from the major credit card processing companies continue to be an inordinate cost of doing business. We'd like to see the largest companies in this space, including those outside the virtual goods sector, such as Apple and NewsCorp, challenge the pricing model and open doors for lower cost transactions.

### **Eric Hartness, Chief Marketing Officer, Playspan**

- Fraud management will continue to be a challenge.
- Providing adequate microtransaction payment services to monetize digital goods will also continue to pose challenges.

**Trip Hawkins, CEO, Digital Chocolate**

- Social games on mobile devices will evolve and become functionally similar to PC-based social games.
- Advancing the quality of social games is a requirement because consumers are going to burn out on all the shallow clones of Dope Wars and farming games.
- Maturation of offer completion networks is critical so that consumers and game publishers can grow confidence in the viability of this critical part of the food chain.

**Ron Hirson, CEO, BOKU**

- Localized virtual goods for global games.
- Monetization in the long-tail of countries.

**Steve Hoffman, CEO, RocketOn**

- Weeding out scams in "offer" payments is a big challenge. It's critical to get rid of all scams, but this will also hurt the bottom line, since some of the highest paying offers were from dubious companies.
- Everytime Facebook changes the rules, the playing field shifts, and it can seriously impact revenue forecasts. This will continue to happen as Facebook restricts certain actions and cracks down on abuse.

**Charles Edward Hudson, Vice President, Business Development, Serious Business**

- Law of large numbers will make compound growth rates hard to achieve.

**Joe Hyrkin, Entrepreneur in Residence, Trinity Ventures**

- One challenge will face some of the smaller publishers. As the big social gaming companies continue to grow and increase market dominance, the smaller and medium size publishers will have to be more creative in how they get users' to spend with them instead of just the big players.
- Another challenge will be how stand alone destination sites retain relevance in the face of most major social gaming sites taking advantage of platforms like Facebook. Additional challenges will be dealing with frivolous law suits brought on to bring the industry down.

**Daniel James, CEO, Three Rings**

- Virtual goods were over-promised to investors and 2010 will see a reckoning in many cases.
- Acquisition of players for Facebook games becomes increasingly competitive, with reduced virality and Facebook taking a much larger slice of revenues through promotion, ads and payment solutions. This will be a familiar pattern to those who've studied the mobile games business.
- A lack of any 'new platform' to flock to post-FB, the iPhone having too many games, too small an audience, an opaque distribution channel, and limited customer willingness to purchase virtual goods. A lot of small and large developers may start pondering how to execute on the open web, not necessarily a friendly customer acquisition environment.

**Benjamin Joffe, CEO, +8\* ; Partner, Cmune**

- Many people still don't "get" the fact that virtual goods are consumer goods.
- Maybe starting to regulate legal issues with virtual goods, from convertibility to consumer protection.

**Charles Ju, Founder, Playmesh**

- Platforms are going to start to control their value chain more aggressively which will make it harder to monetize and distribute for new social gaming companies.
- The Asian social gaming giants are going to start looking west to expand their business. Western-based companies will play catch-up to their tech stacks, but remain competitive based on understanding the market better than their Asian competitors.

**Sean F. Kane, Principle, Kane & Associates LLC**

- With the amount of money that is being spent on virtual goods it is only a matter of time until lawsuits start to abound. Whether these are based on some sort of Intellectual Property claims or consumer fraud class actions we will see more filings being made. While I think that this will be a horrible result of the innovation that is occurring in this space it don't expect that my fellow lawyers will allow so much money to be left on the table without looking for ways to get a cut. Moreover, the government will eventually figure out what is going on in this industry and look to regulate or tax it to some degree. Whether this happens in 2010 or soon thereafter it will eventually happen.

**Thomas Lee, Senior Director, Gamepot USA**

- Retention: Social/viral games overflow out of Facebook .
- Too many choices, and too many games with all the copy cats of the next Maple Story.

**Vili Lehdonvirta, PhD., Researcher, Helsinki Institute for Information Technology HIIT;  
Editor, Virtual Economy Research Network**

- As more people spend increasing amounts of money on virtual goods and related offerings, it's natural that consumer protection and regulation become increasingly prominent issues.

**Michael Levine, President and CEO, Pileated Pictures**

- Over saturation of options = More competition.

**Jeremy Liew, Managing Partner, Lightspeed Venture Partners**

- Reduced virality causes customer acquisition costs to rise.
- Litigation may increase the cost of doing business.

**Matt McAllister, Director of Marketing, Offerpal Media**

- Controlling fraud and security.
- Can the industry continue its torrid growth?
- Will the government try to tax virtual currency and virtual goods?

**Keith McCurdy, CEO and co-founder, Vivaty**

- Consumers will be flooded with choices and there will be lots of confusion and bad user experiences.

**Rajat Paharia, CEO, Bunchball**

- Payment options, fraud & scams will continue to be an issue.
- If enough sites adopt virtual goods, will users be interested in creating (and spending \$ on) multiple identities?

**Kenny Rosenblatt, CEO. Arkadium**

- Theft and security problems will be on the rise as players' virtual lives become more valuable.
- Taxation on virtual goods will start to get state and federal attention as the money spent on these purchases are in the billions.

**Andrew Sheppard, Executive Producer, Hi5 (former)**

- Although there is still a great deal of market growth to be had, I see 2010 being defined by rapid consolidation of the application developer landscape. This shift will ultimately put more pressure on everyone competing within the space.

**Brian Shuster, CEO, Utherverse Digital, Inc.**

- I envision 2010 being a benchmark year for legal issues, with copyright and trademark (and trade-dress) squarely in the forefront. Each enterprise that deals in virtual goods, either directly or indirectly, will start to encounter issues of counterfeit items and goods or the threat of such counterfeiting, and a patchwork of protocols and industry practices will lead to a shakeout.
- Probably by late 2011, the legal system will have begun to catch up to the industry, though participants who did not plan for methods to police the distribution of virtual goods through their systems will likely find themselves paying out damages or put out of business entirely.
- The good news is that the industry overall will become stronger as a result of the creation and implementation of best-practices and technological development that will protect designers of virtual goods, and thus provide incentive for designers to be more creative, as the creativity will be protected and rewarded.

**Ian Swanson, CEO and Co-Founder, Sometrics, Inc.**

- I think that platforms like Facebook will start to take more control of the gaming revenue - "taxing" the platform through Facebook credits. This will impact 3rd party payment providers and game publishers.
- In addition, smaller social gaming companies will find it harder to gain critical mass with the recent Facebook platform changes. It will now take a much larger advertising budget and calculated marketing plan to grow an audience.

**Michael Trigg, VP of Marketing, Hi5**

- Continuous need to impart real-world value (e.g. in the form of status) that users attribute to the acquisition of virtual goods.
- An industry shake-out of some of the “one trick pony” developers/companies that have rushed into this space.
- Similar to the early days of e-commerce, it’s very important to minimize fraud in the industry so that user trust and confidence in virtual goods providers overall continues to increase.

**Kevin Xu, Chief Operating Officer, IGG.com**

- Cost to acquire users may start to skyrocket!

Games, Toys, Virtual Worlds & Goods, Branded Apps  
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Founder and Chief Executive, Stupid Fun Club  
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← Best-selling PC game franchise of all time w/ \$1 billion in sales



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Executive Vice President, Disney Online Studios  
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### **3. What was the most significant evolution at your company over the course of 2009 and what are your business and product goals for 2010?**

**Joakim Achrén, Founder, Ironstar Helsinki Oy Ltd.**

- Business goal: to make MoiPal break through to social games market via Facebook.
- Product goal: to achieve 100 000 MAUs for MoiPal game in Facebook.
- Overall: strong user contribution is sought to develop our business further, and key part of our practical implementation in product or business development.

**Lauren Bigelow, COO, WeeWorld**

- There are now over 32M registered WeeMees throughout the world and we more than doubled our revenue in very challenging economic times.
- WeeWorld will continue to provide young teens better and richer tools and experiences to evolve their personal identities through social play.

**Ludovic Bodin, CEO, CMUNE**

- We implemented and experimented to understand user behaviors
- 2010 is going to be about reach, scale and conversion !

**Corey Bridges, Executive Producer and Co-Founder, Multiverse**

- Over the course of 2009, Multiverse put its advanced platform technology to work powering a number of web-based games, including two associated with the worldwide marketing campaign for Twentieth Century Fox and James Cameron's motion picture epic AVATAR. Moving into Flash was a significant shift in focus for us away from traditional, downloadable 3D virtual worlds and MMOs, which had been our primary focus for a number of years.
- With our Battle series, which was designed to live in casual game sites like Kongregate and social networks like Facebook, we married proven genres of gameplay (consoles and PC-installed games) with the ubiquity of the web browser. As we head into 2010, we believe many, but not most, consumers will continue to demand more complex and engaging forms of entertainment, especially as the deluge of purely asynchronous games common to Facebook whets their appetites for competitive gameplay, but leaves them wanting more. And those deeper gameplay experiences will be happily received at game portals like Kongregate before they migrate into the Facebook zeitgeist.

**Lee Clancy, VP/GM, IMVU**

- Major milestones for IMVU in 2009: 1) achieving profitability and 2) reaching a \$30M run rate.
- Continue our own explosive revenue growth and business strength in 2010.

**Nir Eyal, CEO, AdNectar**

- Biggest Evolution: Top brands like Nestle, Pernod-Ricard, Warner Bros, 3M, and Gillette spent aggressively to launch their first branded virtual goods campaigns...and came back for more with follow-on campaigns.
- Top Goal: Help publishers monetize the 97% of users who don't pay for virtual goods.

### **Hill Ferguson, VP, Product & Marketing, ZONG**

- 2009 was a banner year for Zong. We signed major accounts, such as Facebook, IMVU and Gaia, and launched a ground-breaking new product, Zong+, which makes mobile payments are more attractive economic proposition for merchants and consumers alike. For 2010, our product goals are to continue rolling out new customers on our Zong+ platform, while expanding our global footprint of direct carrier connections.

### **Vikas Gupta, Co-founder/CEO, Social Gold by Jambool**

- 2009: Along with the industry, we continued to innovate on in-app payments. Our release of in-flash payments was the biggest innovation for in-app payments and games in 2009 and will be the driver of business growth moving forward.
- 2010: Our goal is to continue to innovate and enable the most frictionless virtual economy and payment service for every user around the world. As the space matures, we expect to see continuously greater demand for our virtual economy platform.

### **Tom Hale, Chief Product Officer, Linden Lab**

- At the beginning of 2009, Second Life already had the world's largest repository of virtual goods, all of which were created by our Residents and available within Second Life. We purchased the most successful web based third party marketplace for Second Life virtual goods and integrated it into our platform. We've seen the market in Second Life for virtual goods increasing as a result.
- In 2010 we will continue to meld the efficiency and speed of the web into the depth and breadth of the Second Life platform to drive an unparalleled virtual goods shopping experience.

### **Eric Hartness, Chief Marketing Officer, Playspan**

- PlaySpan experienced significant marquee client growth and introduced three revolutionary products, its digital goods monetization platform, a global universal currency, UltimatePoints, and an optimized payment panel, UltimatePay.

### **Trip Hawkins, CEO, Digital Chocolate**

- We embraced the mobile app store phenomenon in 2009 and found that our innovative and high-quality games do really well in app stores that work more like the web. People want to tell their friends about our games and in about a year we've had 50 million downloads on Apple devices alone.
- In 2010 we are aiming to break through as a premium social game company with advanced gameplay and revolutionary virtual items like our NanoStars.

### **Ron Hirson, CEO, BOKU**

- BOKU launched in 2009 and now has leads the mobile payments companies in merchants and countries. Via the acquisitions of two leaders in the 1st Quarter and the funding from Benchmark, Index & Khosla, we've been able to build out a management team that has brought global scale to mobile payments. We now power the top games on Facebook, MySpace, Hi5, Free to Play as well as power games from the largest gaming company.
- Our goals for 2009 are to extend our lead in countries and merchants and start to increase the transactions running through our payments system while decreasing the fees from carriers by leveraging the scale that we're achieving.

**Steve Hoffman, CEO, RocketOn**

- We're looking to sell our platform and technology. That's a big change. :-)

**Charles Edward Hudson, Vice President, Business Development, Serious Business**

- We spend more time working on monetization than we used to.

**Joe Hyrkin, Entrepreneur in Residence, Trinity Ventures**

- Most significant evolution at my company was continued growth, both in users and revenue during a very challenging 2009. Business and product goals for 2010 will be sustainable profitability and increasing logged in spending users.

**Daniel James, CEO, Three Rings**

- We pivoted our product development process to be highly test oriented. Our goals are to pursue this process and create hit games in 2010, distributing over Facebook, other social networks, and the good ole fashioned Internets.

**Benjamin Joffe, CEO, +8\* ; Partner, Cmune**

- Experimenting dual virtual currencies.
- Analyzing user reactions regarding pricing of functional and visual items.

**Charles Ju, Founder, Playmesh**

- We're one of the first players to straddle synchronous and asynchronous social gaming on the iPhone and our business and product goals for 2010 is to continue producing quality games using our core platforms.

**Thomas Lee, Senior Director, Gamepot USA**

- The number of competitors entering the market from all over Asia, looking to cash in on US, but Gamepot has been a leader in F2P online games SERVICE and we plan to extend that warm service by offering Console Game QUALITY game experiences for the first time in the free to enter micro transaction vertical.

**Michael Levine, President and CEO, Pileated Pictures**

- At PlanetCazmo.com, we in 2009 put on over 20 virtual concert events with celebrity pop stars and forged relationships with the major record labels. 2010 is all about expansion of the platform for us now.

**Matt McAllister, Director of Marketing, Offerpal Media**

- Advertisers starting to enter the channel directly.
- Product goals: more high-value ad offers, more unique ad formats.

**Keith McCurdy, CEO and co-founder, Vivaty**

- We moved away from a downloadable plug-in technology to creating a revolutionary 3D in Flash user experience.

**Rajat Paharia, CEO, Bunchball**

- We refined our virtual goods offering (avatars and virtual rooms) and added payment options so that any of our customers could turn virtual goods on as a revenue generator.
- Our goal for 2010 is to get several large customers live on our virtual goods solution.

**Dan Porter, CEO, OMGPOP**

- Understanding how virtual goods can be used to drive serial daily activity.

**Kenny Rosenblatt, CEO, Arkadium**

- The mass audience of people playing games in social networks can not be overlooked and has resulted in several social game products being released by Arkadium in early 2010.

**Brian Shuster, CEO, Uthervers Digital, Inc.**

- In 2009, Uthervers launched the Virtual World Web, which is the 3D version of the internet. The VWW toolset provides users with thousands of maps, textures and animations that makes it simple for anyone to build their own complete Virtual World.
- The worlds that users create are interlinked through the VWW so that any person with the Uthervers 3D web browser can visit any of these virtual worlds.
- Already, more than 7,500 Virtual Worlds have been created, and more than 5,000,000 people have registered to browse the VWW.
- The goals for Uthervers in 2010 include the completion of our VWW Search Engine (January) and expanded 3D browser capabilities (also January). We expect to have more than 100,000 full Virtual Worlds participating in the VWW before the end of 2010; and we would like to see at least 100,000 full-time jobs created as a result of the VWW before the end of 2010 in the areas of virtual goods creation and sales, virtual worldmaster construction and services, online real-time sales and retail, and online services. (The economy of Uthervers and the VWW already accounts for about one thousand jobs).

**Ian Swanson, CEO and Co-Founder, Sometrics, Inc.**

- Sometrics has always focused on virtual currency solutions that are both good for the consumer and publisher. We featured industry leading ad/offer optimization along with top notch consumer customer support. While competitors in the industry were exposed by "scamville", Sometrics continued to be a valuable and trustworthy solution to all partners - MMOs, Virtual Worlds, and Social Games.
- In 2010, Sometrics will continue to launch innovative offer products that provide results and extend the lifetime value of a gamer. We will be promoting our video and survey solutions more heavily and be launching new innovative ways for publishers to gain an audience.

**Michael Trigg, VP of Marketing, Hi5**

- 2009 started with the launch (in Dec '08, actually) of our virtual currency, hi5 Coins, and first virtual goods store. Over the year, we have extended our evolution from hi5's original position as an international social networking site into a social entertainment destination – adding a games portal, first-party games, third-party game content, avatars, and other capabilities in 2009. We expect to continue this successful evolution in 2010.

**Kevin Xu, Chief Operating Officer, IGG.com**

- In 2009, IGG has evolved from a 100% MMORPG publisher/developer to 95% MMORPG, 5% Social game. In 2010, IGG will evolve to about 70% MMORPG and 30% social game.

Games, Toys, Virtual Worlds & Goods, Branded Apps

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## Keynotes



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## 4. How has the global economy affected your business, and how has it impacted strategy?

### Joakim Achrén, Founder, Ironstar Helsinki Oy Ltd.

- Advertising revenues/media business model can be only part of our business strategy, hybrid business model i.e. viral user growth and aggressive virtual goods b2c sales are also needed in addition to media sales in order to gain revenues.

### Lauren Bigelow, COO, WeeWorld

- We've been cushioned from the economic situation because of our young teen demographic. A recent teen survey of more than 4,000 WeeWorld users found that despite the declining economic forecasts, more than half of teens claim to have the same or higher allowance than before, while only 11 percent noted that they are getting less allowance now than in the past.
- Even with tightened budgets, virtual worlds still reap the benefits ... when compared to real world goods like movies, virtual goods are a bargain.

### Ludovic Bodin, CEO, CMUNE

- 2009 was not the best climate to raise money.
- But was an excellent time to experiment as not many companies are getting started due to the economic climate.

### Corey Bridges, Executive Producer and Co-Founder, Multiverse

- Since Multiverse was founded, we have run lean and remained focused on strategic objectives to grow our long-term business. As a group, we've lived through the Valley's boom and bust cycle enough times to understand that success is not simply about who has the best technology, but about who has the vision and business discipline to adjust to rapidly to changing economic climates. Of course, your technology must also evolve as market demands change. 2010, however, is already starting to look like a breakout year for us as a company; we're very excited about a number of opportunities that lay ahead.

### Lee Clancy, VP/GM, IMVU

- Minor impact: Since the global financial crisis began in September 2008, IMVU has posted 15 months in-a-row of record revenue and become profitable, so we're seeing that despite the economic situation, users continue to want IMVU to be a part of their lives and spend a portion of their disposable entertainment income with us.

### Nir Eyal, CEO, AdNectar

- It hasn't...companies continue to spend on this important strategic component of their marketing budget. AdNectar's strategy remains consistent...powering digital word-of-mouth marketing for top brands at massive scale.

**Hill Ferguson, VP, Product & Marketing, ZONG**

- In many ways, the global economy has catalyzed our business significantly as online publishers look to monetize audiences through the sales of virtual goods vs selling ads. This new business model requires frictionless transaction methods, and Zong is in front of the pack as far as payment conversion rates go.

**Vikas Gupta, Co-founder/CEO, Social Gold by Jambool**

- 2009 has been a great year -- we've seen our revenues grow 2000% in 2009 alone, and we continue to see very strong growth in this sector. As the popularity of virtual goods grows, we expect these numbers only to increase. Despite continued economic hardship, consumers have displayed a strong willingness to spend on virtual goods.
- We've been aggressive in our product development, hiring and strategic partnerships to build a platform. As we come out of the recession, we expect to ride the wave with a very solid platform and a huge advantage over other competitors.

**Tom Hale, Chief Product Officer, Linden Lab**

- Like many entertainment businesses, we've seen interest in and growth of our business rise as more people look for entertainment closer to home. Second Life is free to join, and many of our Residents are able to build inworld businesses that are so successful that they never add money into the ecosystem, with some even making enough money to fund their real life due to Second Life's unique currency exchange back to real world currency. Starting a business is a dream of many people throughout the world, especially during troubled times, and Second Life makes it possible to get started quickly with very little financial investment.

**Eric Hartness, Chief Marketing Officer, Playspan**

- The increase of in-home entertainment through gaming significantly helped our business and reinforced our strategy to increase our global leadership in the monetization of online games, virtual worlds and social networks.

**Trip Hawkins, CEO, Digital Chocolate**

- When the economy is bad the financial markets freeze up. Small companies have to be cash-flow positive and have strong balance sheets. You have to be very disciplined about spending efficiency and how you leverage your game development.

**Ron Hirson, CEO, BOKU**

- Virtual goods are growing so rapidly, domestically and globally, that the challenges of the global economy haven't had an impact on BOKU's business. For both carriers and merchants/publishers BOKU represents an incremental revenue stream.

**Steve Hoffman, CEO, RocketOn**

- Yes, it always has an impact. The most significant impact is that virtual worlds as standalone sites are no longer the way to go. All the action is on Facebook, and that's where we've focused our energies.

**Charles Edward Hudson, Vice President, Business Development, Serious Business**

- Not much on either count, actually.

**Joe Hyrkin, Entrepreneur in Residence, Trinity Ventures**

- I think in the social gaming and social community space, to a certain extent we have been sheltered from the current global economic challenges. We're a relatively new industry and users are increasingly gaining awareness of our services as an industry. Prices for virtual goods and virtual currency are relatively low and so users feel comfortable extending their spend even in this challenging environment. We haven't all grown as fast as we may have in 2006 and 2007, but we're continuing to grow and I think that is testimony to the industry and the long term viability of the engagement and experiences we are all providing. I think the general global economic environment has motivated us all to be more careful with what we spend and focus efforts on making sure that we're creating experiences and products that are BOTH great for the user and revenue generating. Perhaps the biggest impact in the last year is to recognize that a great experience incorporate both user interaction/fun and a clear revenue model. It is no longer acceptable to create a "build it and hope revenue will follow at some point" strategy.

**Daniel James, CEO, Three Rings**

- We saw a direct impact on revenues in November 2008 and a general slowing in 2009, but it's not been as dramatic as one might have feared. We have become more focused on capital efficiency and testing anything that can be tested ahead of making any significant investments.

**Benjamin Joffe, CEO, +8\*; Partner, Cmun; Founder**

- Postponed fundraising, which helped us focus on building a proper business first.
- If advertising as a revenue model ever crossed our mind, it's past now.
- We're hiring!

**Charles Ju, Founder, Playmesh**

- We started at the lowest point of the recession, so we have only seen improvements to date. As the economy hopefully continues to pick-up will be pushing to grow aggressively forward with it.

**Sean F. Kane, Principle, Kane & Associates LLC**

- Given the interconnected nature of online gaming and social networks it is important for developers to understand that its members may be located in various jurisdictions. In the past where companies were just looking to build systems accessible in a few countries this was fairly easy. Now, our firm works with our various clients to advise them how to generally do business across all international borders. In some instances this entails only allowing people from certain geographic locations to access a site or purchase a virtual item. In other cases it requires working with a client to design a system which will be in compliance with all the various guidelines of the different international jurisdictions.

**Thomas Lee, Senior Director, Gamepot USA**

- So-net Entertainment, the parent company and Gamepot, saw this time as an opportunity to enter the US for its global expansion, but we are being conservative at the same time.

**Michael Levine, President and CEO, Pileated Pictures**

- It hasn't significantly yet. Parents still buy entertainment for their kids, even in bad times.

**Matt McAllister, Director of Marketing, Offerpal Media**

- Insignificantly. If anything, the downturn has had a positive impact on our business, driving more people to spend small transactions on online games rather than going out for dinner or the movies.

**Keith McCurdy, CEO and co-founder, Vivaty**

- Fund raising has gotten tougher.

**Rajat Paharia, CEO, Bunchball**

- Customers are less willing to spend money on experimental or new concepts (which always seems counter-intuitive). So the burden is on us to prove the immediate revenue value of our offering.

**Dan Porter, CEO, OMGPOP**

- Small discretionary purchases don't seem to be affected.

**Kenny Rosenblatt, CEO, Arkadium**

- Arkadium caters to a western game audience however we have a wholly owned studio in Ukraine. The volatility of the Ukrainian economy has caused the local currency to drop heavily in value and resulted in our employees receiving big bumps in their paychecks because they get paid in American dollars.

**Andrew Sheppard, Executive Producer, Hi5 (former)**

- The slowdown in the global economy had a direct impact on our advertising business. It did not, however, have an adverse impact on our virtual goods business.

**Brian Shuster, CEO, Uthervers Digital, Inc.**

- The global downturn has altered the focus of our users. Whereas in prior years, users were more inclined to visit Uthervers Virtual Worlds for entertainment, they are now more inclined to visit the network as a place to earn income (either primary or supplemental). More users have begun to work in the Uthervers, which has increased the size of the economy considerably.
- The shift in user focus has allowed us to put more attention toward developing tools that enable users to provide services (educational, entertainment, business-to-business...) to each other, as opposed to focusing on providing those services to the users ourselves.
- Overall, the downturn has created a better environment for the VWW to take hold and grow as an area of economic opportunity and services between users.

**Michael Trigg, VP of Marketing, Hi5**

- The economy hasn't really had an impact on our product strategy, audience, or monetization. We launched a new revenue model (direct user payments via hi5 Coins) in the midst of last year's recession and it has been very successful – already accounting for over 15% of our revenue. Overall, our revenue has increased more than 50% from last year. So, if anything, the down economy has had a positive impact on our core business – as can be the case with inexpensive forms of entertainment during recessions. If you look at the virtual goods industry as a whole, it has experienced tremendous growth the last year and has been one of the few bright spots in the economy.

**Kevin Xu, Chief Operating Officer, IGG.com**

- The down turn in economy has actually helped the Free2play MMORPG business to grow, since these games are the most economic way of entertain and people have lot more time to spend at home.

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## 5. Who are the one or two companies or individuals you think are most likely to have the greatest impact on the virtual goods sector in 2010 and why?

### Joakim Achrén, Founder, Ironstar Helsinki Oy Ltd.

- People who enable users to participate in virtual goods design and creation limiting the innovation in that way that output will be quality stuff.

### Lauren Bigelow, COO, WeeWorld

- Right now Zynga on Facebook has mindshare with a slew of games all patterned on the same back end with Facebook as the distribution platform. But what you're really seeing the leading edge of what is a powerful combination of social, gaming and virtual goods. We are early on in this industry and we're just getting started. Virtual goods and virtual worlds are evolving into the new normal and there is room for exponential growth across the entire sector.

### Ludovic Bodin, CEO, CMUNE

- Unity3d! Bringing the quality of console games / MMOs to the browser is going to be a game changer.
- Cmune (us ^\_^ ) - as our first product, Paradise Paintball 3D will show the emergence of a new segment of the gaming market, between Social Games & MMO, and we hope to lead the way !

### Corey Bridges, Executive Producer and Co-Founder, Multiverse

- Naturally, the big three asynchronous companies – Zynga, Playdom, and Playfish – will have a huge impact on this sector because of the number of active players their respective offerings have attracted. There are a number of innovative companies, however, that are bringing revolutionary technology to the market that will bring about dramatic change. We envision a landscape where consumers will have more dynamic, interactive, and customizable experiences...and this reality is not far off.

### Lee Clancy, VP/GM, IMVU

- Facebook (for changes to their platform and for their own virtual currency offering).
- Zynga (for their inflationary effect on the cost of Facebook advertising, especially after today's funding, and their current market power in social apps).
- Honorable mention: Apple (if they relax policies regarding paying for virtual goods on iTunes/iPhone).

### Nir Eyal, CEO, AdNectar

- AdNectar (of course!), Facebook, and Zynga.

**Hill Ferguson, VP, Product & Marketing, ZONG**

- We believe Facebook will have a tremendous impact on the virtual goods sector in 2010. Their platform connects over 350 million people across the globe and they have the delivery platform and the payments infrastructure (in Facebook Credits) to really drive significant growth for the whole industry. Similarly, leading social app developers Zynga and Playdom will be in a great position to fuel future growth by continuously cranking out hit games that appeal to broader audiences.

**Vikas Gupta, Co-founder/CEO, Social Gold by Jambool**

- As we're focused on monetization and managing virtual economies, we feel strongly that our company and platform, Social Gold, is poised to have a great impact on the virtual goods sector in 2010. As games strive to compete in a rapidly growing market, our platform will enable games to reduce development cycles, efficiently monetize an international user base, control fraud and generate insightful analytics. We anticipate that Social Gold will become a core element to online game development.
- Facebook will continue to have a large influence in driving the overall social aspect of the web itself. Facebook platform will continue to help games and applications get distribution at a lower cost to a larger audience, and hence will be just as attractive in 2010 as it was in 2009.

**Tom Hale, Chief Product Officer, Linden Lab**

- Obviously Zynga is seeing mass adoption in the social gaming sector and all eyes will be on them to see if their pattern of hit driven content will continue to drive growth of, and interest in virtual goods, overall. Can they monetize via virtual goods in a meaningful way? Their continued success or failure will determine the size of the wave of investment in the sector.
- Several visible virtual game purveyors are dependent on social media platforms for adoption. Facebook could change the rules of the game at any time as they showed with the offers situation.

**Eric Hartness, Chief Marketing Officer, Playspan**

- Apple and EA are two companies who could have a dramatic impact on virtual goods. Apple by opening its iPhone platform for digital goods for developers and EA by adopting digital goods for its broad portfolio of games.

**Trip Hawkins, CEO, Digital Chocolate**

- Kristian Segerstrale is quite capable and it will be very interesting to see what he does as an executive at Electronic Arts.

**Ron Hirson, CEO, BOKU**

- EA with Playfish will have a big impact.
- BOKU will add 15% incremental revenue to 75% of gaming.
- Zynga and Playdom become platforms for existing big titles (Disney's Cars or Harry Potter, etc.).

**Steve Hoffman, CEO, RocketOn**

- Zynga and IMVU.

**Charles Edward Hudson, Vice President, Business Development, Serious Business**

- Mark Pincus and Mark Zuckerberg.

**Joe Hyrkin, Entrepreneur in Residence, Trinity Ventures**

- Zong and Boku. I think pay to cell phone margins currently demanded by the carriers will decrease and so publishers will be able to keep a larger portion of their virtual goods revenues through this payment mechanism. As such publishers will promote this as a payment mechanism much more heavily and will see a strong revenue uplift as a result.
- EA's purchase of playfish helps legitimize the industry and demonstrates the value of virtual world and social gaming users. As a result, we'll see demand for additional services, payment mechanisms, game creators etc and virtual goods platforms.
- Companies like viximo that provide infrastructure for creating, selling and merchandizing virtual goods will have huge growth in 2010.

**Daniel James, CEO, Three Rings**

- Facebook's management team, chiefly Zuckerberg and Sandberg. I think they deserve to take a big chunk of FB game revenues, and should optimize their platform to do so. 'Social games' have been a bonanza because they've fed greedily upon FB's extraordinary user acquisition machine, exceptional openness, and generous viral features, without necessarily returning a lot back to Facebook Inc. or the net user experience of most users. I think Facebook will want to change that in 2010.

**Benjamin Joffe, CEO, +8\*; Partner, Cmune**

- Tencent in China should make close to 2 bln USD, most of it via virtual goods, in 2009. They could make 3 billion USD in 2010 and are entering cautiously Western markets with LOTS of experience.
- Regulation on virtual goods could start getting in the way.

**Charles Ju, Founder, Playmesh**

- Zynga will dominate the scene and potentially IPO in 2010. They have the biggest war chest and they execute perfectly. And to be a little self-serving, I am extremely bullish on our personal portfolio in the next 12 months. We have a set of blockbuster ideas for games that we think will be classics on the iPhone.

**Sean F. Kane, Principle, Kane & Associates LLC**

- I think that Zynga will continue to have a great impact on the virtual goods sector next year. They have led the way in monetizing the casual games market. Either by continuing their level of innovation to new heights or potentially by becoming a target for governmental intervention, I foresee Zynga continuing to be in the spotlight.
- Additionally, I am interested to see how the EA acquisition of Playfish will work out. Playfish has been successful to this part by being nimble and answerable to no one else. Now they will be part of a monolithic entity which could provide them with huge opportunities but which will also come with huge oversight.

**Thomas Lee, Senior Director, Gamepot USA**

- Google (YouTube) has a strategy to leverage their current advertising and viral know how to leverage the nature of this viral market, and they have the ability to cross promote on multiple platforms and they have the UGC content to keep the users tuned in.

**Michael Levine, President and CEO, Pileated Pictures**

- Big Brands will enter into the fray much more.

**Jeremy Liew, Managing Partner, Lightspeed Venture Partners**

- Zynga going public would give it additional capital to frontload customer acquisition programs, as well as a currency to potentially make acquisitions.

**Matt McAllister, Director of Marketing, Offerpal Media**

- Not to be self-serving, but I think our new CEO, George Garrick, will play a major role in raising the bar for the virtual currency offers industry, which in turn will improve revenues for all gaming companies selling virtual goods. I'm also looking forward to what Trip Hawkins and Digital Chocolate do in 2010 because they seem to have some great games lined up and Trip has a great pedigree.

**Keith McCurdy, CEO and co-founder, Vivaty**

- Facebook and Zynga.

**Rajat Paharia, CEO, Bunchball**

- Paypal and the other payment processors that can reduce the friction to getting \$ into the system.

**Kenny Rosenblatt, CEO. Arkadium**

- Facebook. The introduction of the Facebook wallet will be a huge advantage to social game developers and will result in a much higher conversion rate from non-paying to paying customers. If users don't need to pull out their wallet (because they already did that when creating their Facebook account), it will be a big win for game developers as the impulse purchase in games will that much easier to take advantage of.
- Adobe. If Adobe releases a secure way to allow purchases to be made within a flash game, it will also have a huge impact on the virtual goods industry. Right now, users must exit the game experience to make a secure purchase via a SSL webpage. This broken user experience drops the conversion rate as the user must fill out long forms outside the game. If that process can be baked directly into flash, virtual goods purchases will increase dramatically.

**Andrew Sheppard, Executive Producer, Hi5 (former)**

- Zynga will continue it's market leadership in social gaming, both in terms of overall market share and unique users. They will also continue to define the best practice for application virality. Facebook is the container of choice for all applications developers. As such, the features they develop and policies they implement will have an enormous impact on the application developer ecosystem.

**Brian Shuster, CEO, Utherverse Digital, Inc.**

- Without being too self-serving, I believe that Utherverse has changed the game with respect to virtual goods, and that change will become very apparent in the sector in 2010 as the VWW continues to grow at an accelerating rate. If we are able to achieve our target goal of 100,000 complete virtual worlds by the end of the year, I believe that the mass of the VWW will draw at least 10 million new users to the 3D web. This will create an enormous new market for virtual goods vendors in every segment - from texture artists to map-builders to clothing designers...
- I am very optimistic about the prospects for anyone in the virtual goods service sector for 2010!

**Ian Swanson, CEO and Co-Founder, Sometrics, Inc.**

- Mark Zuckerberg / Facebook - Facebook credits could become a standard for payment across the web - including games.

**Michael Trigg, VP of Marketing, Hi5**

- Zynga. Certainly if they file to go public in 2010, as widely expected, it would have a big impact on the sector – demonstrating to investors, VCs, entrepreneurs, big gaming and media companies, etc. that there is real money and liquidity to be had in this sector.
- Activision/Blizzard. EA paid its way into the social gaming sector this year with their acquisition of Playfish. Activision/Blizzard already has the most successful social game in World of Warcraft. How the big game companies play out their hands in social gaming and virtual goods from here will have a big impact on the industry.
- hi5, of course! Currently virtual goods and social games exist in two primary ways: single-experience destination sites (from MMORPGs like WoW to virtual world sites like IMVU or Gaia), or multi-experience social games distributed via a social network (e.g. Zynga on Facebook). hi5 intends to lead the next evolution in this category, by integrating a single-destination meta site with consistent look and feel, achievements, profiles, etc. with multiple game play experiences and game mechanics – all built on top of a true game platform that goes beyond the current social platforms. The recent addition of Alex St. John as our president and CTO brings tremendous thought leadership and innovation to our company.

**Kevin Xu, Chief Operating Officer, IGG.com**

- We do think Facebook may have the greatest impact on the virtual goods sector, simply depending on their future roadmap as on how well they would allow all the parasiting companies to survive.

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