



The Next New Game: Evolving Business Models of Free Play Games, MMOs, Virtual Worlds and In-Game Items

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Please Welcome Our Panel of Experts

Craig Sherman – CEO, Gaia Online

Andrew Sheppard –VP Prod. Management, Outspark

Min Kim – Director Games, Nexon

Daniel James – CEO, Three Rings

**Mark Friedler – Consultant, Founder/CEO:
GameDaily, Gigex, V-Cast**

Let's Start By ALL Playing a Game!

In The Past 2 Weeks I've...

- 1) Played a casual game on the web**
- 2) Logged onto Facebook, MySpace or social net**
- 3) Been in a virtual world like Gaia, Club Penguin**
- 4) Played a game on a mobile or handheld device**
- 5) Played an XBox360, Wii or PS3 game**
- 6) Been on an MMO like WoW, Maplestory, etc**
- 7) Wondered why your kid won't come out of their room**
- 8) Sat a conference wondering what I'm doing here**

A High Level Overview:

Console Games vs Free Games/Virtual Worlds

Buy it and play through	Download/in-browser, buy items
Retail, sell in, sell through. Retail driven marketing	Direct to consumer, Internet marketing
Drive sales, build next version equity, sell ads, subscriptions and online services/expansions	Drive user acquisition, items sales. Goal is R.P.U, engagement Drive long tail, fight churn
Licenses important, high development costs, \$1 billion + franchise revenue potential	New IP, many similar to popular console games, lower develop costs. RPU and long tail

Online Gaming Is Hot – The Fastest Growing Segment

Quarter of Global Web Users Game Online

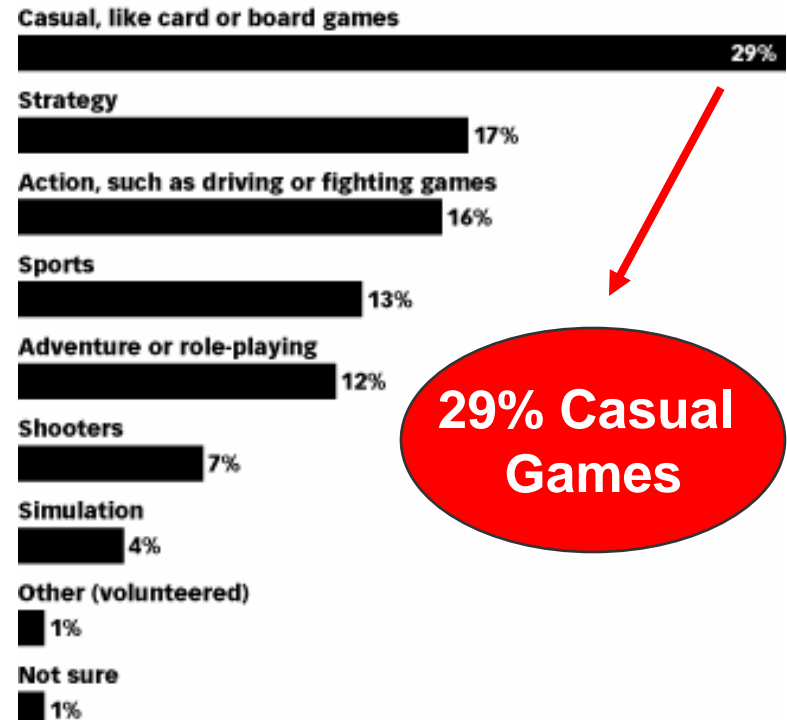
“...217 million people worldwide visited online gaming Web sites in May 2007, according to comScore’s “World Metrix” report. That is up almost 17% from May 2006, and represents 28% of the total worldwide online population ages 15 and older.

- eMarketer.com

Recently, at least three separate studies have testified to video games' ballooning appeal, particularly one that has **female gamers outnumbering male gamers in the 25-to-34 age category 2-to-1**, regardless of platform. In addition, **on PCs, female adults are almost twice as likely to spend more than 20 hours per week gaming compared to men**, according to the CEA's "2006 Gaming Technology Study."

- Hollywood Reporter

Favorite Type of Game according to US Video Game Players*, April 2006 (% of respondents)



Note: *adults who play games on a computer or game console
Source: Ipsos commissioned by the Associated Press and AOL Games, May 2006

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www.eMarketer.com

Rapid Growth in Virtual Items, Goods and Services

Microsoft is claiming **\$125 Million** in Virtual Asset Sales on Xbox Live with 45 million items sold.

Tencent (with over 250 million active user accounts in China) generated **\$100 million+** in Q1 of 2007 and over **65%** of their revenue comes from virtual goods.

Habbo Hotel has over 75 million registered avatars in 29 countries and **90%** of their **\$60 million+** yearly revenue comes from virtual goods.

Gaia Online does over 50,000 person to person auctions and 1 million message board posts a day - they employ **people** whose sole job it is to open snail mail envelopes full of cash that people send in for virtual goods.

Nexon (South Korea) reported **\$230 million** in revenue for 2005, the bulk of which stemmed from millions of “microtransactions”. In Feb. 2007, Maplestory was making about **\$1.6 million** a month in the U.S.

Many SK companies are coming to the U.S. with micro-transaction based models, iiji.com (NHN), Cyworld, Maple Story, K2 Network (aggregator), and JCE (FreeStyle Basketball with Vivendi/Sierra Online)

Sources: Microsoft, Techcrunch (Susan Wu's guest post on June 20th 2007), Parks Research

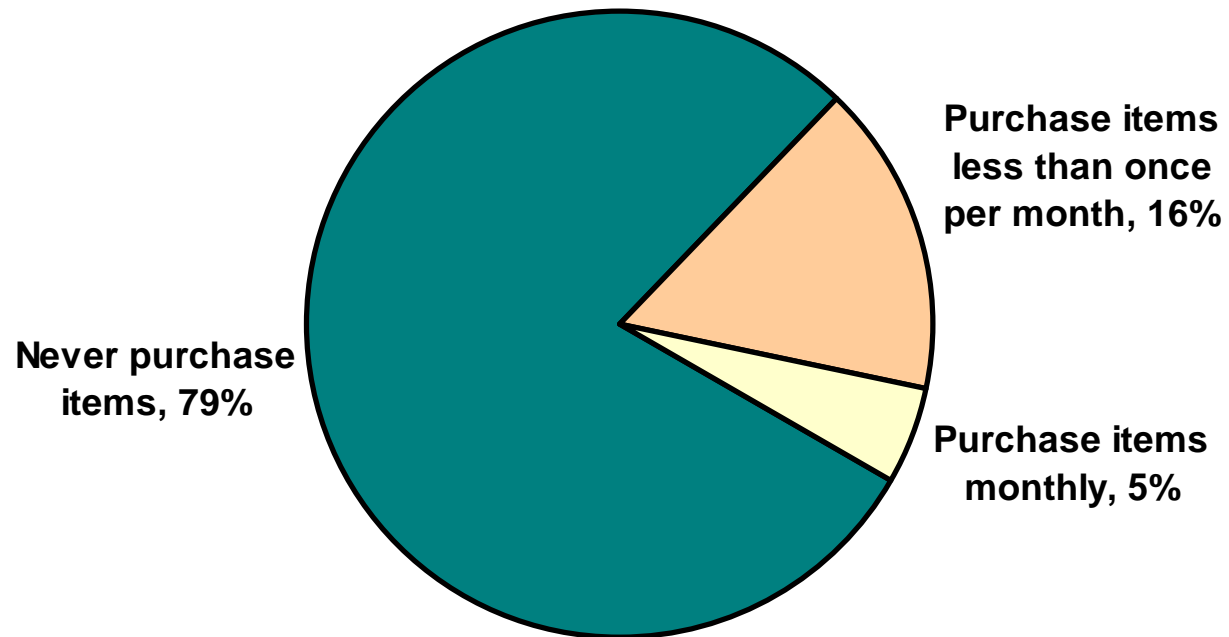
An Overview – Console v Free Games/Worlds

<p><u>Console/PC Games</u> - Contain different gameplay, objectives, goals, and other rich features. Each game is contained on a specifically designed console disc</p>	<p><u>Free Game</u> – Download or web-based, free play with virtual items and goods,</p>
<p>Business: \$15B (projected) in 2008, retail based ecosystem of developers, publishers, platform owners, retailers.</p>	<p>Business: \$1B and growing rapidly. Online based models, items, goods and subscriptions</p>
<p>Experience: Rich graphics, complex game play, many hours of experience. Many licensed based. Online communities (PC and growing on consoles) Time consuming.</p>	<p>Experience: Easy to access via small download or browser. Both 2D and 3D. Community driven. Snacking, low learning curve.</p>
<p>Key Benefits: Large brands, licenses, great brand awareness. In depth play experiences. Strong retail channel. Living room experience with DVD.</p>	<p>Key Benefits: Large potential audience, community driven, browser experiences and low barrier to adoption, interface with social networks. Viral, quick growth</p>
<p>Risks: Rising development costs, retail channel dependent, destiny of platform owners, time “crowding out” by other Internet and mobile applications.</p>	<p>Risks: Lower barriers to entry, increased dependence on ad business model, fluid audience with ease of migration, easier to replicate hit products.</p>

In-Gaming Trading Activities (Q2/06)

"Certain MMOGs, allow you to purchase virtual merchandise with real money and you can exchange or sell the goods later. Which of the following statements describe your involvement in such in-gaming trading activities with real money?"

(Among MMOG gamers, n=117; +/-9%)



Source: *Electronic Gaming in the Digital Home*
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Your Panelists Are:

Mark Friedler – Consultant, markfriedler@gmail.com

(April 08 – starting new strategic consulting firm focusing on online games, virtual worlds, community and advertising)

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