

Social Gaming and Gambling: chapter one

A short history of Social Gaming and how it is being monetised today



The logo for WorldPay, featuring the brand name in a white, sans-serif font with a registered trademark symbol. The background of the entire page is a dense, repeating pattern of various white icons on a purple field, including symbols for finance (dollar signs, percentages, charts), technology (laptops, Wi-Fi, mobile phones), and gaming (dice, cards, soccer balls).

About this whitepaper

WorldPay is launching a three-chapter whitepaper series on Social Gaming and Gambling in partnership with Yazino.

The whitepapers will explore the history and monetisation of social gaming, how to accept payments to achieve maximum transaction success, and the global future of these converging sectors:

Chapter one:

A short history of Social Gaming and how it is being monetised today.

Chapter two:

Bridging the Gap: Maximising Transaction Acceptance.

Chapter three:

Globalisation of Social Gaming and Gambling and Future Trends.

Introduction

The whitepapers have been created in partnership with Yazino, the home for both social and real-money casino games. Yazino players connect, compete and chat with like-minded people, live, all over the world, from web, smartphones and tablets.

WorldPay is a global leader in payment processing, risk and alternative payments.



Hussein Chahine is the Founder and CEO of Yazino. He holds a degree in Mathematics and Computing from Kingston University. In the late 1990s, he was part of the FICS Group, helping to build Europe's first Internet banking service. He then joined Reef, where he created enterprise CMS solutions for e-commerce. In 2003 Hussein founded Signature Technologies, a UK company that delivered leading-edge IT solutions for clients including UPS, the Daily Mail Group, iii.co.uk, AbsolutePoker.com and StanJames.com. Hussein founded Yazino in 2009 with the goal of bringing innovative casino games to the mass market in a socially acceptable, appealing format. Yazino's proprietary synchronous game platform is designed to accommodate both social (play-for-fun) and iGaming (play-for-money) casino games.



Phillip McGriskin is the Chief Product Officer on the eCommerce board of WorldPay. He has over 15 years of experience in the online payments sector and has held positions including Director of Sales at Neteller Plc and Commercial Director of Earthport Plc. Phillip was a founder and CEO of Envoy Services, which has been acquired by Worldpay. As the world's largest payment provider for the online gambling sector, WorldPay has an established portfolio of products including card acquiring, payment gateways, alternative payments, treasury services, online fraud management technologies and age verification.

History and the social gaming opportunity

Social gaming is as old as humanity. Board games dating back to 3000 BC have been found in ancient Mesopotamian tombs, although we tend to think of the advent of Dungeons and Dragons as the dawn of social gaming. Although Dungeons and Dragons first appeared as a role-playing game in the 1970s, it was one of the earliest to move into the online space in the form of a massively multiplayer online role-playing game, where individual gamers log on to a central server to join a virtual world and play either on their own or by banding together.

Perhaps the best-known of these massively multiplayer online role-playing games (MMORPGs) is World of Warcraft (WoW), which was launched by Blizzard in 2004. A series of expansion packs and a mix of social interaction and carefully managed game dynamics has kept WoW ticking along ever since, with some 8 million people paying a monthly fee of £8.99 to keep playing.

WoW has however declined since its peak of some 12 million subscribers in 2010, but gaming has moved away from closed-world platforms such as that of WoW and similar MMORPGs on to other platforms: mobile devices and social media, with Facebook particularly driving that move.

An early conqueror of the mobile platform was Rovio's Angry Birds, which was launched into Apple's App Store in December 2009, and has since clocked up some 1.7 billion downloads on all platforms.

While many users think of Facebook as a website or a mobile app, it is in fact a platform on which applications run – including games. A quick look at AppData's rankings of top apps on Facebook for May 2013 makes the opportunities clear: the Candy Crush Saga game – which has of late been heavily advertised on Facebook's mobile (iOS and Android apps) is the number one application on the platform, with 1 million-plus daily average users. In second place is Farmville 2, and a classic card game, Texas HoldEm Poker, sits just behind the TripAdvisor app at number four.

The move to social media has meant the growth of a wider audience that participate in gaming – the demographic of a social gamer includes all ages, gender and geographies. The accessibility of games on mobile devices has created an even bigger opportunity.

Social gaming today

Social gamers enjoy interacting with friends and competing in online gaming environments. According to a report¹ from Morgan Stanley, the merchant bank, some 12% of the world's population (which it estimates at 800 million people) plays one or more form of social gaming every month. Morgan Stanley believes that social gaming is the next stage for many gambling providers: it expects to see social gaming growing from a present market size of about US\$1.7 billion to US\$2.5 billion by 2015.

North America and Asia dominate the social gaming industry, which Morgan Stanley estimates to be worth US\$8 billion per year. It reckons that Asia leads and makes up 36% of the market, with North American players just one percentage point behind, at 35%. North America has seen the biggest growth since 2010 by value. With social gaming on the rise, there is a clear opportunity for providers to monetise their gaming channel and dip into the social gambling market.

¹ Morgan Stanley Blue Paper – Social Gambling, Click Here to Play, November 14 2012

Global spending patterns and behaviours

There are regional differences in how people play games and spend money. Data prepared for Yazino², the social gaming company, by Social Casino Metrics, showed that social casino does best in the US, where traditional gambling is heavily regulated and restricted. According to Social Casino Metrics, the US audience for social gaming was 35.4 million people in July 2012, with the UK a very distant second at just 8.5 million.

That US user base of 35.4 million people was generating revenues of US\$64.7 million, with the UK's user base of 8.5 million people generating revenues of just \$7.4 million. Social Casino Metrics believes that strong performance in the US has been due to widespread acceptance of social games as well as the extremely limited options for online gambling.

However, Australia is the region that monetises most strongly: the Australian user base of 2.9 million people produced revenue of US\$6.3 million, double that of Italy, where revenue was US\$3 million on an audience of 5.4 million people.

Social Casino Metrics points to South Africa as a growth opportunity, noting that its audience, revenues and average revenue per paying user continues to grow. However, it's Asia that Social Casino Metrics really expects significant growth, noting "we expect social casino revenues in Asia to grow by more than 13% each year, reaching \$569 million by 2015".

² Social Casino Metrics, Industry Trends & Analyses, August 2012

From free player to paying user

So how do you convert those who play for free into paying customers? “The challenge is to make the experience as immersive as possible so that they not only stay with the game, but start to pay for the game,” says Chahine. The average conversion rate for social gamers into paying customers is between 2% and 3%. With online gambling, he expects that rate to be between 5% and 6%.

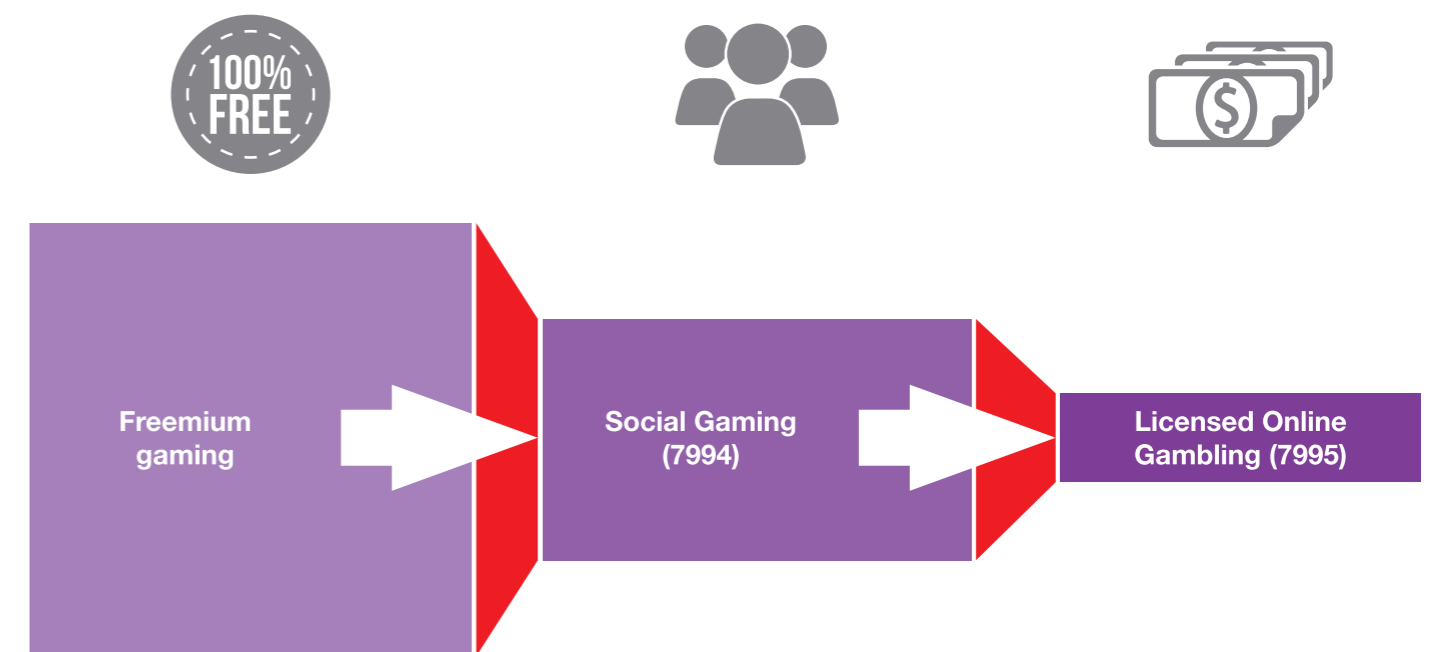
“It’s all about engagement and a good user experience,” says Chahine. “The user needs to trust you, and feel that the game is fair. Unlike online gamblers, social gamers are driven by more than monetary reward. Merchants need to tap into the right emotive triggers such as achievement, recognition, and social standing among their social gaming peers. The role of the community is very powerful.”

Chahine takes this a step further by pointing to the need to “determine the DNA” of the player. “We want to build a bespoke way to play” he says, and suggests that a single gambling sign-in could be created.

Understanding cultural preferences for payment methods is also an important factor in converting free players to paying users. While social gaming allows users to engage with any other player regardless of geography, their preferences for how they pay for any additional services or features will be determined by culture preference. For example, in Germany transactions are predominately made using Sofort, in Japan i-BANQ, Australia POLi, UK Intercash and Todito Card in Mexico. Understanding these preferences will maximise transaction acceptance rates.

Social Gaming providers should also put in place adequate responsible gaming policies to protect players, especially the under aged. For example, by ensuring that they implement a Return To Player (RTP) formula that doesn’t encourage players to attempt real forms of online gambling by making it comparatively easier to win. Similarly, it is important to ensure that robust age and identity checking systems are in place to verify that players are who they say they are - before they play.

The conversion funnel



Monetising free players – keep it simple

So what compels people to stick with a game and spend money on it? One key here is to make the process of becoming a paying customer as frictionless as possible.

Consumer frustrations are fuelled by additional fees, pop-ups and redirections to another site and having to recall passwords or not offering the user's preferred method of signing in.

Making it as easy as possible to pay for games is essential. One model is free-to-play games, which are monetised via in-app purchases of power-ups, virtual currency and unlocking levels.

Virtual currency, says Chahine, is increasingly growing in acceptability. Amazon's move into its own virtual currency, Amazon Coins, announced in February 2013, should boost the idea that a virtual currency that can't be cashed in for real-world money is an acceptable way to pay for goods.

Amazon announced Amazon Coins as a way to buy in-app items on its Kindle Fire tablet, which is based on a heavily customised version of Android. US-based Kindle Fire owners were given 500 coins on launch day (May 14), worth \$5; customers can benefit from bulk discounts. For Amazon, as for other app stores – Google Play and the Apple App Store – the benefits are clear: they take a 30% cut of all revenues.

The ease of making in-app purchases is a controversial authority that has been bestowed on users via the app stores – so much so that it has become something of a controversy as children unwittingly run up huge bills on their parents' devices: a survey by Microsoft puts the monthly spend at more than £30 million a month in the UK.

However, merchants grumble about the 30% commission that goes to the app marketplaces: in 2011 the Financial Times removed its iOS app from Apple's App Store, unwilling to hand over a percentage of its revenues and user metrics to Apple, and instead built a browser-based app.

Social reinforcement

Friends using games helps to encourage others to come on board as players.

According to research carried out for Kontagent, mobile customer analytics group, and EIG, the European iGaming Congress and Expo³, “most slot games on Facebook are individual experiences, with little social activity beyond inviting friends to play or sharing scores”.

Regular Facebook users are familiar with invitations that arrive every day to join friends in social games, and it's the interaction with friends that drives growth. Social recommendations are widely understood to be more powerful drivers than traditional marketing methods. Nicole Opas, Executive Producer of Zynga, told iGaming Business: “An example is how Nike+ inspires people to interact with the brand and its friends by challenging and rewarding runners after they accomplish milestones.”

She adds: “We know what people like to play, how they like to play with their friends. For generations, people have been playing these games with family and friends, and we've been able to make them super-accessible and social in a new way.”

Regular Facebook users will also be aware of the status updates published by users themselves or via automatic updates posted by the games – of how they're progressing. We've all seen a shout-out for help with items needed to progress in a game: it's that social interaction that drives take-up and monetisation.

Morgan Stanley notes that social gaming can be exploited with a well-designed game, through innovations such as gifting items within a game, which “allows people to maintain old relationships and forge new ones. People may feel obliged to reciprocate if others send them gifts.”

Players are also naturally competitive, points out Morgan Stanley, which in turn drives people to spend money. “People want to accumulate more chips or awards than friends or other players. Leader boards and rankings are important.”

³ Social Gaming & Gambling Convergence: Threat, Opportunity or Just Hype?

Challenges

As platforms evolve, so do the challenges. One challenge for merchants is security: users must feel that their personal and financial details are safe.

A confident user is one who will spend money, and merchants need to build that relationship of trust. Being part of mainstream app marketplaces is one route to building that confidence. Google's Play store, the iOS App Store and the Windows Marketplace confer a feeling of confidence, particularly in an arena where malware that can steal user details is a problem. And malware on mobile platforms is exploding, particularly on the Android platform. According to Mikko Hypponen, chief research officer of F-Secure, the internet security company, Android produces "tens of thousands" of samples of malware every day.

In essence, users must feel that their card details and devices are secure; functionality that should be provided by official app stores. Google has been criticised for not screening apps before they reach the Google Play marketplace, but will act quickly to remove rogue apps when they're discovered. Google has recently implemented its Bouncer scanning service that analyses submissions to catch malicious apps and ban their developers before they gain traction among users.

Merchants also need to keep up with the latest technology on payment processing, which in turn makes it easy for users to pay. One challenge on the horizon is greater regulation, which could have an impact on payments. Phillip McGriskin, Chief Product Officer, WorldPay comments: "As we see changes to regulation across the industry globally, payment processing will become a greater challenge for merchants. This is where they need a global provider that has experience and expertise specific to these converging complex sectors to navigate the changes and maximise transaction acceptance."

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Conclusion

The opportunities are clear: social gaming has scope to grow significantly over the coming years. Merchants will need to understand what it is that drives people to play games, and, by encouraging the social aspect of the platforms, understanding the regional preferences and making the experience as painless as possible by getting to know their users, will be able to carve out a slice of this valuable and growing market for themselves.

The next chapter of the whitepaper series will be focused on Bridging the Gap: Processing Transactions where we will explore the social gaming market in terms of acquisitions, Compliant Working models, Merchant Data, Analytics and MI requirements, transaction acceptance rates of Social 7994 vs. Gambling 7995 and how to optimise transaction acceptance globally.

To find out more about how WorldPay can help you optimise your payment strategies in this converging sector, please contact us:

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