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PLAYED

AUGUST 2010: THE FREEMIUM EDITION



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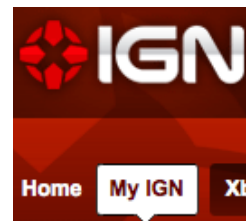
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PLAYED is Denuo's monthly look at the major headlines and evolving trends in gaming's ever-changing landscape. With insight from our gaming industry experts, PLAYED will keep you in the know when it comes to the expansive and entertaining world of gaming.



THE CHANGING PRICE OF PLAY

Gaming has always carried a fairly firm price of admission. \$50 to \$60 would get you a game, while consoles always started around \$200 to \$300 at launch. There have been outliers in this model, with cartridges rationalizing the higher cost due to extra memory or disc-based titles and their comparably economical price points during the PS one era, but for the most part, the cost of gaming has been rocksteady. This new generation, however, has altered the landscape. New gamers, new platforms, and new behaviors in gaming have irrevocably shifted the investment from a premium rate to a “freemium” model, relying on repeat customers proclaiming their involvement in a title through repeatedly opening their wallets a little at a time. Adding in the low-cost, high-reach market Apple and Sony cultivate with their handhelds, as well as digital distribution allowing for more fluctuation in publishers’ offerings, the price of play has gone from a solid foundation to a fluid, shifting landscape that caters to gamers of any ilk.

The newest trend in gaming, currently working in social gaming and PC MMO titles, is the “freemium” revenue model. Mind you, giving something away for free and charging for add-ons is nothing new, as King Gillette proved over 100 years ago with his razor blades. Seeing it activated and thriving in the gaming space is remarkable, though. The high cost of game development and a core-oriented market meant publishers needed to see a fast return on investment, similar to a film’s opening weekend. As Flash and Facebook gaming and the rise of digital goods came into play, however, publishers realized that getting their games into as many hands as possible, via game portals or social networks, would afford them the opportunity to hook a gamer early and charge incrementally for content like digital add-ons or a deeper game experience. By casting a wider net, publishers only needed to rely on a select few, invested players to support their title and, hopefully, earn a tidy profit on top of it. Games like *FarmVille*, *Battlefield Heroes*, and *Pet Society* are successful examples of this model in action, but the “freemium” model doesn’t come without risk. If a game doesn’t have gameplay that drives folks to not only keep playing, but also spend money to enhance their experience, “freemium” games can die on the vine quickly. In Korea, MMOs thrive on this model, but a wide variety of efforts from publishers like NCSOFT have come and gone, unable to find an audience. Despite these hurdles, free-to-play revenue models have made their way into established franchises. *Everquest 2*, a wildly popular MMO, has shifted from a subscription-based standard to “freemium” play, hoping to tap into new gamers and new revenue streams via paid content and extra modes for those looking to go deeper into the fantasy world.

Meanwhile, in between the \$60 dollar price point and the free-to-play world, a new economy has been established via smaller, downloadable games that eschew blockbuster narratives and graphics for simpler, bite-sized experiences that cost a fraction of console titles. Services like Xbox Live and PlayStation Network have offered downloadable titles since their inception, featuring accessible games like *Risk*, older titles like *Mortal Kombat* or *Robotron*, as well as riskier ventures like *Braid* or *Fat Princess*. These types of games have found an equally lucrative niche within the handheld gaming market, showing up on Apple’s iPhone App Store or on PSP’s Mini platform. Despite a lower cost and often simple gameplay mechanics, these games still offer more than enough to satisfy gamers, especially newer players looking for fun above all else. This bite-sized model has created successful new developers like *ngMoco* and *Gameloft*, while also pushing established publishers like EA and Ubisoft to create teams devoted entirely to developing titles of this kind. Quietly, these smaller-scaled games are making money, offering a cheaper product built with the platforms and audiences in mind. With the industry seeing new players everyday, large publishers are seeing these games as growth opportunities, putting their best and brightest IP in front of players who may not even own consoles or have interest in a disc-based game.



That said, with these new models of revenue for publishers, where does this leave the \$60, premium, disc-based game? One avenue is digital distribution, with platforms like Steam offering sales and discounts on titles usually priced at a set level within brick-and-mortar stores. Their recent “Summer of Steam” sale saw recent titles, such as *Metro 2033* and *Just Cause 2*, discounted up to 70% off retail, while publishers packaged entire franchises of games, like *X-Com* from 2K or Rockstar’s entire catalog, selling them well below what gamers would pay individually for the same titles anywhere else. Publishers are also offering bonus content to those who purchase games on launch day or brand new, as Microsoft is doing with the upcoming *Halo: Reach*, or what EA has been doing with almost all of their console titles, even including the Xbox/PS3 version of *NBA JAM* free for those who purchase a brand new copy of the upcoming *NBA Elite*. THQ has also experimented in this realm, giving online playability to *UFC Undisputed 2010* players who buy the game new, while also selling it separately to used game buyers and renters. Among all this, Capcom is maximizing its release of *Dead Rising 2* by selling a stand-alone zombie adventure one month before the retail game’s release, working both as a demo for the full game as well as extending the narrative of the boxed title. At \$5 for the download, it’s a low-cost, bite-sized experience on the console to pique the interest of gamers, while also generating revenue for the company on what usually would be a simple demo. EA is enacting a similar plan for *Dead Space 2*, selling a transmedia experience before the retail release via a downloadable, interactive comic book stocked with mini-games that sets up the latest adventures in the *Dead Space* universe.

As publishers experiment with these new plays for a gamer’s hard-earned dollars, the opportunities for growth within the gaming space increase exponentially. Smaller teams and lower development costs are fostering the indie gaming community, with games like *Angry Birds* raking in cash via approachable, handheld gaming models. Similarly, the development of big-budget titles are benefiting from added media being offered as a premium or bonus, relieving some of the pressure of getting attention on a crowded retail shelf. As extra content and premium, transmedia experiences become more engrained in gaming culture, marketers and partners can enter at a lower cost to bring gamers content they would have otherwise paid for, or fund the development of smaller-scale titles that work with both the gamer and the brand in a wholly new experience.



capcom's DEAD RISING 2: CASE ZERO

WHY BUY A SOCIAL PUBLISHER?

If you're a social gaming developer, odds are you've been privy to a few fancy dinners and a buyout offer or two. Creating for a lucrative and innovative aspect of the gaming industry will do that, but with **Disney buying Playdom** for almost \$100MM more than what they're selling Miramax, such wheeling and dealing is a telling sign of the gaming times. Big media is getting behind gaming and trying to get a front row appointment with a burgeoning audience by buying the most expensive tickets in town: social gaming publishers and developers. But to what purpose do companies like Disney and EA, who bought **Playfish** last November, see these developers fulfilling? Social gaming is still in its infancy and for the amount of money spent toward acquiring these companies, a return on investment seems far off. Still though, such moves impact more than a single company's bottom line. Established gaming publishers, already well-versed in social media via services like Xbox Live and their own tight-knit communities, are reacting by closing the circle on gaming and social, while Zynga, the belle of the ball when it comes to social publishers thanks to their success with *Farmville* and *Mafia Wars*, remains staunchly independent. These dynamic differences within a single definitive trend are leaving some to wonder exactly where social gaming is going as attention mounts in its direction.

For EA and Disney, a social gaming entrance was inevitable. Both companies have vocal, passionate fans who interact with each other daily via Facebook, Xbox Live, and Twitter. As owners of some of the most valuable IP in the world, both companies are investing into a whole new space to broaden their respective properties' reach without the steep learning curve that comes with uncharted digital territory. Both Playdom and Playfish bring success and expertise in the social gaming space, as proven by Playdom's earlier deal to bring **ESPN-branded content** to social gaming. This expertise and experience allows EA and Disney to unleash their IP through these publishers, exposing them to new, active gamers on social networks, while also wading into the home base of their most vocal fans and advocates with extended experiences tied to their favorite characters, franchises, and brands. While the investment may not be directly tied to each social gaming execution, turning a profit through the usual means (digital goods, pay-to-play, etc.), it both promotes established IP to new audiences, while also allowing for a broader, deeper portfolio that touches all aspects of gaming. Disney's resurgence in the gaming industry with *Epic Mickey* and *Split/Second* is amplified by exploring the latest trend in gaming, while EA continues to back up its claim as the industry's most diverse publisher.

Zynga remains the outlier in all this wheeling and dealing, despite being the biggest dog in the fight. With *FarmVille*, *Mafia Wars*, and their latest hit, *FrontierVille*, Zynga has a library of healthy, profitable games that make it a slam-dunk investment for any company. However, the publisher has partnered with networks like Yahoo and Facebook to further develop their own properties, eschewing established IP and buyout dollars for carving an ownable path into mainstream gaming. Even industry giant Google believes in Zynga's success, investing \$100MM in the company, sparking rumors of an upcoming partnership to kick off a Google-based gaming network. Regardless, the investment is just another aspect of Zynga's influence outside the gaming space.

Regardless, for a social gaming company to have the moxie to go it alone, like Zynga, or become big-ticket investments for IP-centric companies, like Playfish or Playdom, both moves cement the genre as a major facet of gaming's future. With over a third of gaming's newest players coming from social gaming, the genre's potential has yet to be reached, but if these latest actions by the space's best and brightest are any indication, gaming's social upstarts are set to become perennial players and remain in the hearts and minds of consumers everywhere.



WHAT WE'RE PLAYING

AUGUST 2010

MADDEN NFL 11

A tradition long observed, we're gearing up for the season with improved running & playcalling.



LIMBO

Visually arresting, with innovative puzzle and platform elements, making it this year's indie darling.



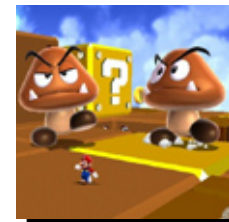
STARCRRAFT 2

We'd write more about this, but we're too busy fighting each other online, holding off Zerg rushes.



SUPER MARIO GALAXY 2

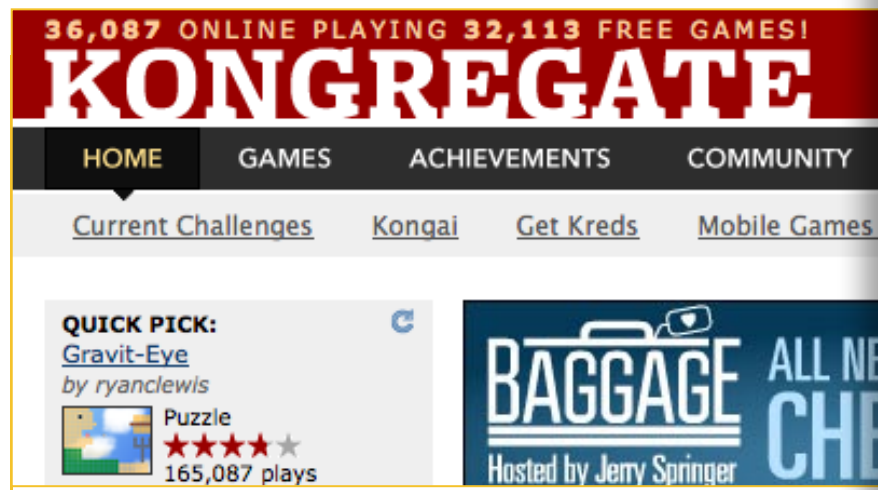
A contender for game of the generation, Mario returns with innovative gameplay goodness never seen before.



GAMESTOP'S RETAIL EVOLUTION

As the analog and digital worlds become increasingly synonymous, brick-and-mortar stores are having to adapt in order to survive. Amazon.com pushed big-box retailers Target and Walmart to expand their web presence, while digital distribution of movies and music helped drive chains like Blockbuster and Tower Records into extinction. The gaming industry is far from immune to this evolution, and with the increase in accessibility of gaming, thanks to platforms like the Nintendo Wii and Facebook, plus digital downloads and the explosion of online gameplay, one has to wonder how GameStop, one of gaming's largest brick & mortar retailers, will play its next move.

GameStop, based in Grapevine, Texas, operates over 6,500 retail stores throughout the United States and 15 other countries. The company has long been the defacto go-to for hardcore gamers and proudly caters to this demographic. Last year alone, GameStop opened 400 new stores and earned over \$9B in revenue; but as the gaming industry's attention shifted away from store shelves and onto downloadable content and digital distribution, the company found itself facing an analog dilemma. However, GameStop may have an interesting solution in mind with last month's acquisition of indie-game Flash game and social hub, Kongregate: an online destination where indie game developers can showcase their Flash-game efforts to an audience hungry for approachable content focused on fun. At first glance, it seemed more like an episode of the *Odd Couple* than a natural partnership, but Kongregate and GameStop both insist that this acquisition is the mutually-beneficial variety. Chris Petrovic, GameStop's digital ventures GM, feels the two are actually "kindred spirits" as both of their strengths continue to be aggregators of great content with the continued goal to becoming the "leading destination across internet-connected devices."



In the past, GameStop has been open and honest about their future and how it relates to their digital strategy, and while they estimate about 500 million visitors to their retail stores and upwards of 15 million uniques to their site, they recognized that a true digital partnership and content strategy was needed for continued success. GameStop hopes to have Kongregate play a lead role in introducing gamers to new, digitally-based content - a fitting task considering the 30,000 titles currently available on the site. For Kongregate, it's an opportunity to leverage GameStop's massive reach and familiarize players to their network of critically-acclaimed titles, further bridging the gap between the occasional gamer and the hardcore console user. Partnering with GameStop also provides Kongregate games an opportunity to showcase alongside franchises like Call of Duty and Halo, benefitting not only GameStop's bottom line, but also indie developers looking for more exposure. Jim Greer, founder of Kongregate, compares the acquisition to Netflix, where unknown indie movies share the same space with Hollywood blockbusters, oftentimes outperforming them in the digital storefront.

In the realm of endlessly-evolving retail, consumers have more control than ever before. Catering to the gaming consumer, a particularly savvy and resourceful breed is a whole new level of challenge. GameStop's shift toward digitally delivered titles not only gives them a new avenue of retail and exposure, but also lifts Kongregate and their lauded game lineup to the same level as console hits while satiating a gamers' need for instant, entertaining content. In a future where gaming blurs across demographics, enthusiast levels, and content delivery, GameStop and Kongregate are well positioned to lead the way toward a brighter future for both indie developers and games retail.

WHAT SURFING WE'RE AUGUST 2010

SOLIPSKIER

Remember *Line Rider*? This is its real-time, maniacal brother. Also on the iPhone!



JANE MCGONIGAL @ TED

A critical look at how gameplay, in its many forms, can help make the world a better place.



ACHIEVEMENT UNLOCKED 2

The object of the game is to achieve until nothing more can be achieved. Again.



REMEMBER REACH

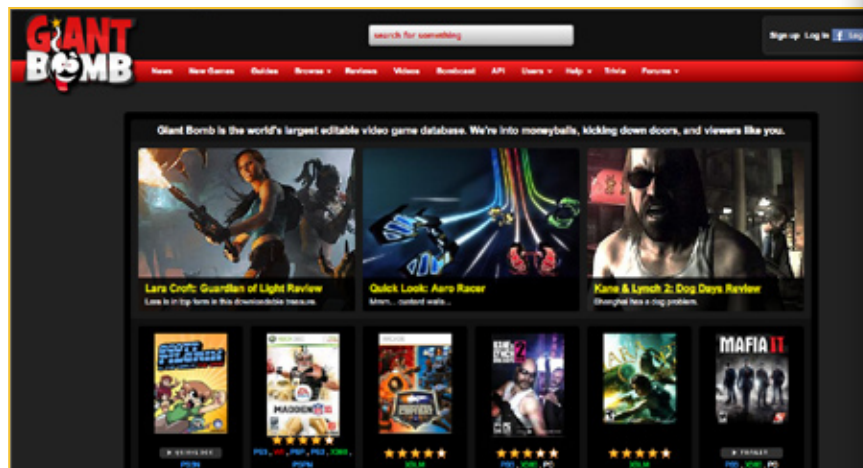
Using Facebook, a robot arm, and plenty of little lights, gamers can leave their mark on *Halo: Reach*.



WELCOME BACK TO THE SOCIAL

Videogames are more mainstream than ever, but that growth isn't just due to the popularity of the Nintendo Wii. Rather, gaming's resurgence can also be credited to the social networking boom. "Five years ago we didn't have Facebook, MySpace, or YouTube," said Joseph Olin, president of the Academy of Interactive Arts and Sciences. "Game makers are trying to reflect the world around them, and as such, they're creating online play patterns that fit the short rhythm of today's world." As more and more individuals go to social networks for their gaming needs, game enthusiast sites must evolve to keep up. Offering gamers the ability to connect with friends and share content allows these sites the ability to compete with Facebook on their own turf. If I can meet my social and gaming needs in one place, why wouldn't I spend time there?

Earlier this month, the world's largest videogame enthusiast site, IGN.com, announced the expansion of their services to include MyIGN, a social network for game fans. Similar to traditional social networks, MyIGN will allow users to friend other gamers, write blog posts, and see what their friends are posting on a Facebook-like news feed. In addition, MyIGN will also include a points system similar Microsoft's Xbox Live GamerScore. Users will earn points by participating in the online community; augmenting their score by updating status, commenting on articles, and filling out profile information. By adding a social layer, IGN hopes to keep gamers engaged on the site for a longer period of time, providing many of the benefits gamers currently look for elsewhere.



IGN wasn't the first gaming site to add social networking features. 1UP, GiantBomb and Raptr all have launched some version of a social network for gamers this year. In fact, you could even make the case that games were the original social network. Since the days of *Pac-Man* and *Donkey Kong*, gamers have found ways to connect to compare scores, talk strategy and of course, talk a little trash. As consoles and computers went online, games like *Quake* and *Starcraft* begat clans and team play, introducing a deeper social element to the culture. By adding a social layer to a traditionally news heavy site, these gaming websites are trying to steal back some of the glory, bringing gamers back home. To do this, they'll have to create a web experience that better meets gamer needs. A fact that most are all too happy to address, "We created it because gamers are not currently served by social networks," said Peer Schneider, senior VP and Publisher at IGN Entertainment. "If I post what I really feel about a game on Facebook, I'll get odd comments from non-gaming friends and family. In our setting, you can feel comfortable talking about gaming. No one else has nailed it." By creating a custom network for gamers and gamers only, these sites are inviting gamers back home, recruiting them back to what was once a favorite destination. And, besides, no one likes to see a "Nerd!!" comment under their status update.

The gaming industry is booming, no one can argue with that. However, as it grows it is also shifting and evolving to meet these new gamers' needs. Console titles still have a place in the hardcore gamers' heart, but more individuals are being introduced to games via *FarmVille* than *Halo*. For gaming websites looking to cater to these new gamers, adding a social layer is a great start, but it's only the beginning. As the industry continues to mature, these websites will need to best combine gaming enthusiast sites, digital distribution of games, and social networking into one destination. Oh, and figure out a way to eliminate those n00bs that keep calling me a "geek!!!" on my profile page.

SALES DATA

AUGUST 2010

HARDWARE SALES

July 4th, 2010 to July 31st, 2010

Xbox 360 - 443,500
 Nintendo DS - 398,400
 Nintendo Wii - 253,900
 PlayStation 3 - 214,500
 PlayStation Portable - 84,000



SOFTWARE SALES

July 4th, 2010 to July 31st, 2010

NCAA Football 11 (360) - 367,953
 NCAA Football 11 (PS3) - 298,780
 Crackdown 2 (360) - 208,820
 Super Mario Galaxy 2 (Wii) - 192,991
 Lego Harry Potter: Yrs.1-4 (NDS) - 141,690
 Red Dead Redemption (360) - 141,183
 Lego Harry Potter: Yrs.1-4 (Wii) - 133,083
 Dragon Quest IX (NDS) - 132,494
 New Super Mario Bros. (Wii) - 128,936
 Call of Duty: Modern Warfare 2 (360) - 126,075

PLAYED
 AUGUST 2010

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