



KPMG ANALYSIS

Games Providing Social Ad Platforms

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With video games expanding beyond their traditional demographic of young males, games developers are pushing so-called "casual" games that generate advertising revenue.

"Advertising and sponsorships are the core way we generate revenue," said Ranah Edelin, vice president of business development for social gaming platform provider Raptr, at the recent New York Games Conference organized by Digital Media Wire.

Sales for video games remain strong. According to Michael Plotz, senior business manager for gaming at research firm NPD Group, the video game industry sales of hardware, software and accessories reached nearly \$19 billion in 2007, compared to \$13.4 billion in 2006.

(Within that market, one of the hottest categories is music-related games such as Guitar Hero and Rock Band. The category and related accessories account for nearly \$2 billion in sales.)

The popularity of games is attracting marketers eager to insert ads into games, such as putting billboards in driving and sports games, or by other brands sponsoring game-related content that consumers can download.

"There are lots of types of games and business models out there." Edelin said. "It's an attractive demographic [that plays games] and it's [a market] that can be segmented, and that advertisers want to go after."

Ads in the Rink

Marketing messages can be coded into the game, such as branded storefronts, or they maybe dropped dynamically into slots on the game screen. For instance, someone playing a hockey game might see different ads on the rink walls every time they launch the game.

This dynamic approach is becoming more common, in part because the two- or three-year development cycle of a complex game is longer than most marketing campaigns, and brands often can't commit to a project that far in advance.

"We've made it a lot simpler as an industry now, and it's plug-and-play to get [demographic]-based advertising," said Aaron Lassila, senior director of branded entertainment for in-game advertising company Double Fusion. "Give us your creative [content], and we can have you up and running in a game within 48 hours."

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Michael Worosz, head of global business development for Microsoft's in-game advertising unit Massive, said publishers can target ads based on a game's demographic profile or, in the case of online games, using the player's IP address to deliver ads keyed to their location.

"There are a number of opportunities within a game," said Jeremy Monroe, business development director, sports and entertainment, for online game developer Sulake, which operates the Habbo virtual world.

"A lot of [ads] will add to the experience because they make it a bit more [realistic], and to a certain extent, they can help validate the [game] world, because certain brands bring a lot of weight," Monroe said.

For example, a cell phone manufacturer may sponsor a chat console that's integrated into the game screen.

Game publishers said it's important to match the brand identity of a prospective advertiser closely with the tenor of the game. For instance, some companies wouldn't want their logo to be displayed in a gory shoot-'em-up title, while others, seeking an edgier image, might be comfortable with more violent content.

"There are advertisers who fit in [mature]-rated content. It's just a matter of mirroring the appropriate brand with the appropriate content," said Double Fusion's Lassila.

Traditionally, the industry was broken down into categories including game consoles (such as Sony's Playstation, Microsoft's Xbox and Nintendo's Wii), PC game and handheld gaming devices (including cellphones). Those lines have largely been erased with games across all platforms adding social components and casual games attracting new players to the market.

'A Very Powerful Medium'

"This is a very powerful social networking medium," said John Smedley, president of Sony Online Entertainment. "Gaming is a great way to bring people together in a way you don't see with many other forms of media. Online gaming has broadened into a social experience."

Sony, for example, has added voice functions to three of its online games to allow players to communicate with teammates or to taunt rivals.

"Developers and publishers [are working] to make the games more social while people are playing," said Raptr's Edelin. "Being able to know when your friends are playing so you can join them adds to the experience, and makes the game part of your social network."

Sony is developing a virtual world for children that the company plans to launch in January. "FreeRealms" will include racing and soccer games that will allow players to compete with their friends -- in essence, playing games within a game.

"The way that you used to play a game was to put in a cartridge, turn on the power, play and then walk away," said Nick Smith, founder and producer of game-related

video site PwnorDie.com "Now with all these platforms, you put on a game, see if your friends are playing that game?and see where you are socially compared with everyone else."

The gaming market is expanding to include so-called casual games that offer a less-intensive experience than titles aimed at hardcore gamers. Casual games are designed to be played in shorter sessions, and often on mobile devices with smaller screens.

"Casual games are an opportunity to bring in new consumers who wouldn't consider themselves gamers, and introduce them to interactive entertainment," said John Welch, CEO and co-founder of game publisher PlayFirst. "There are a lot of consumers who won't want to go into a 3-D virtual world, but are happy to vote on what's going to happen next on a game show."

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