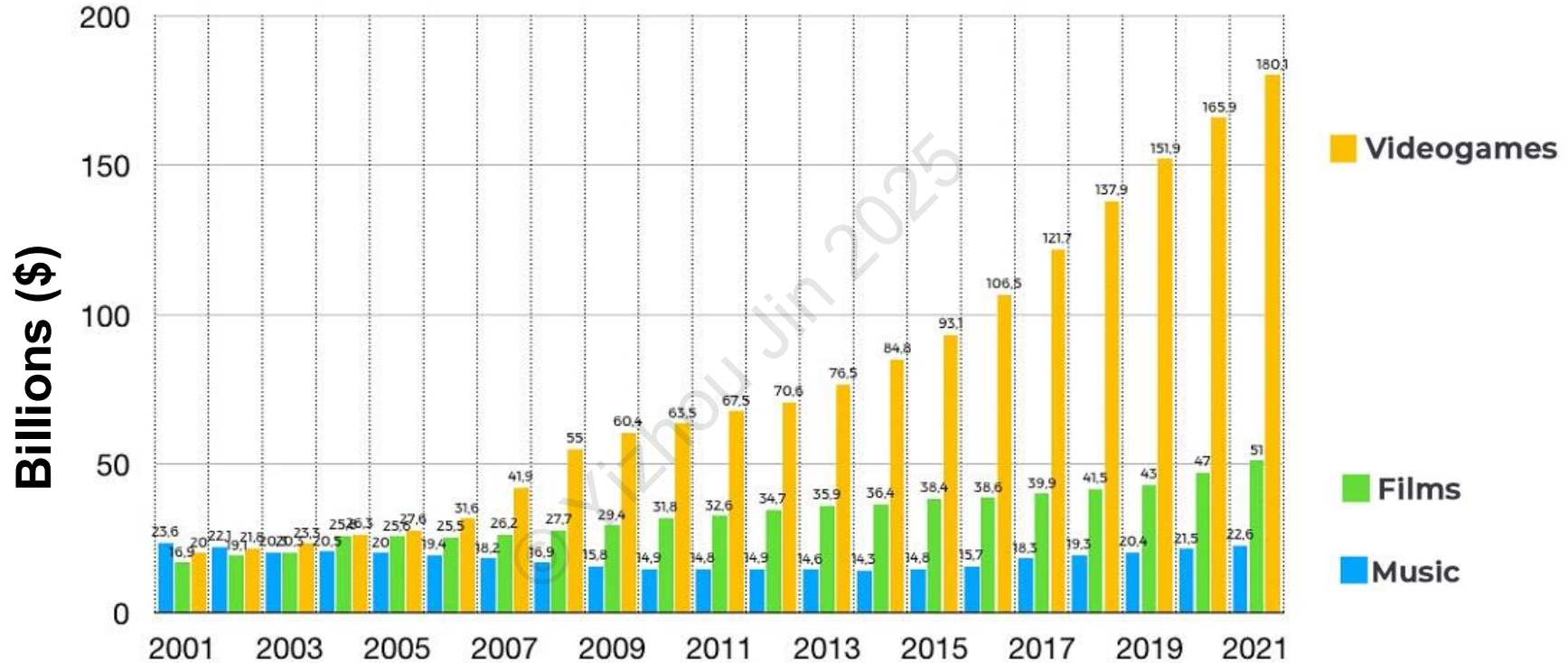


# Gaming Industry

Is the video gaming industry profitable? Why (not)?

© Yizhou Jin 2025

# Gaming Industry (Global)



## Sources

<http://www.ifpi.org/downloads/CMR2017.pdf>  
<https://whatsthebigdata.com/2017/06/07/tipping-point-music-streaming-becomes-primary-form-of-recorded-music-sales/>  
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<https://sarstechnica.com/gaming/2008/06/gaming-expected-to-be-a-68-billion-business-by-2012/>  
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En.Digital

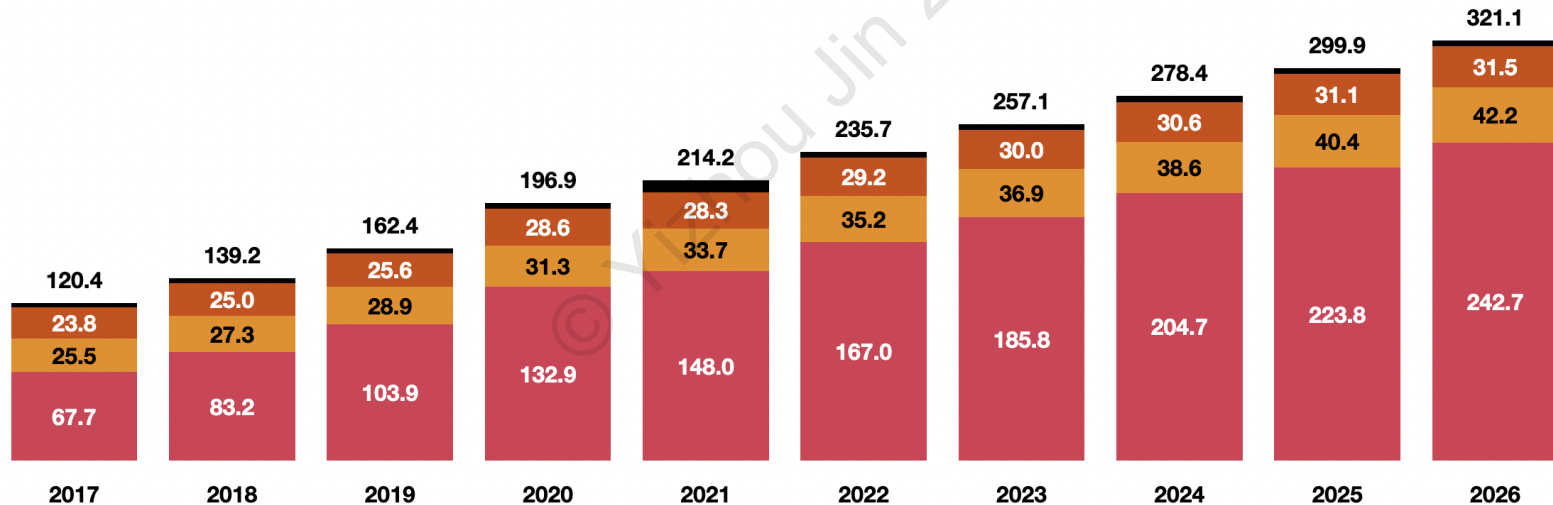
# Gaming Industry (Global)

## Gaming time

Social and casual gaming is fuelling a boom in the sector.

Total global video games revenue, by segment (US\$bn)

■ Social/casual gaming ■ PC games ■ Console games ■ Integrated video games advertising



Note: 2021 is the latest available data. 2022–2026 values are forecasts.

Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

# Gaming Industry

Buyer power and opportunity and power of complements are strong.

- *Buyer power is strong*
  - Low switching cost → low retention
  - Especially true for casual games
- *Opportunity and power of complements are both strong*
  - Social networks
  - Gaming consoles

© Yizhou Jin 2025

# Competitive Advantage

What is Zynga's most important competitive advantage and weakness? Were they sustainable/easy to remedy?

How are Facebook and Zynga related? How should Zynga manage the relationship?

© Yizhou Jin 2025

## Growth Strategy for Innovators



### Three Key Threats to Growth

- **Imitation (can others enter?):**

*Have you built barriers to entry?*

- **Substitution (what about other techs?):**

*Have you mitigated threats from substitute products that exist now and will exist in the future?*

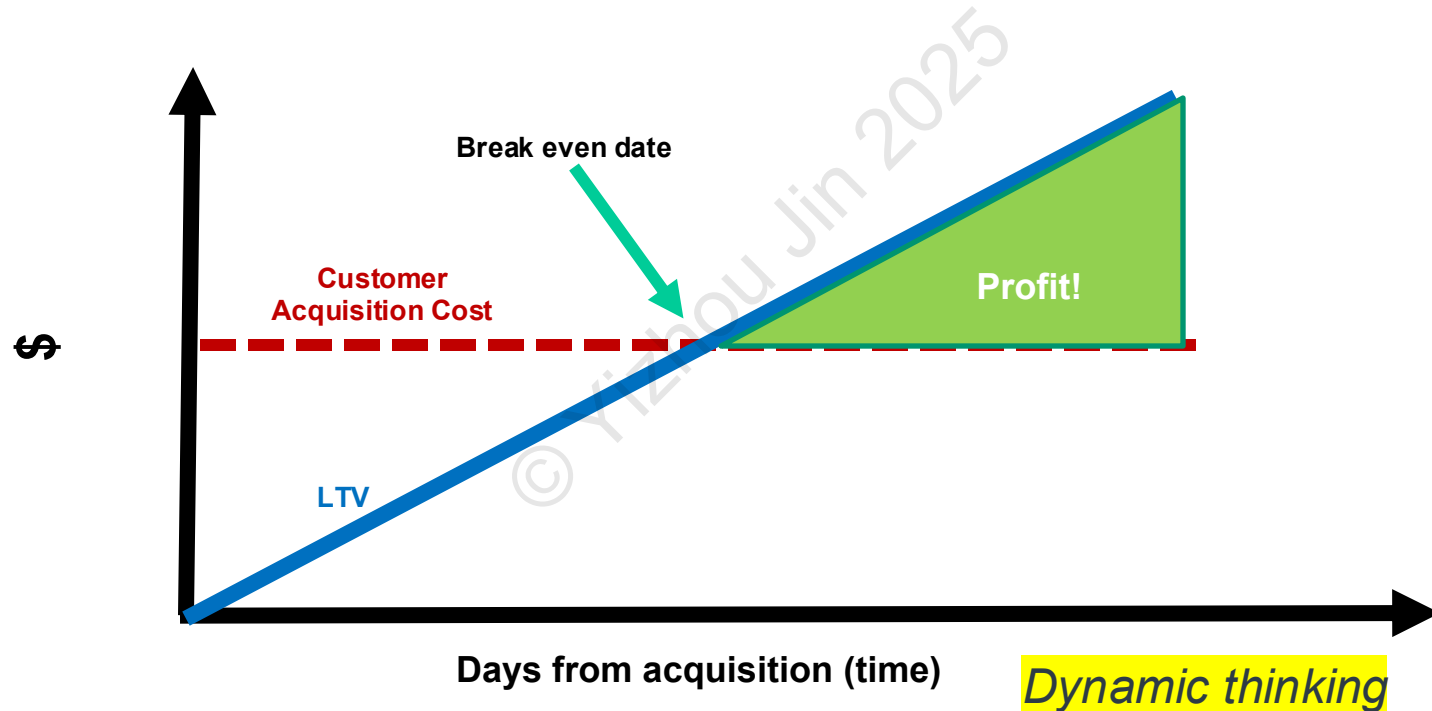
- **Hold-Up (can large players in your supply chain “squeeze” you?):**

*Have you limited the bargaining power of customers and suppliers so that you can effectively engage in win-win (relationship-specific) investments.*

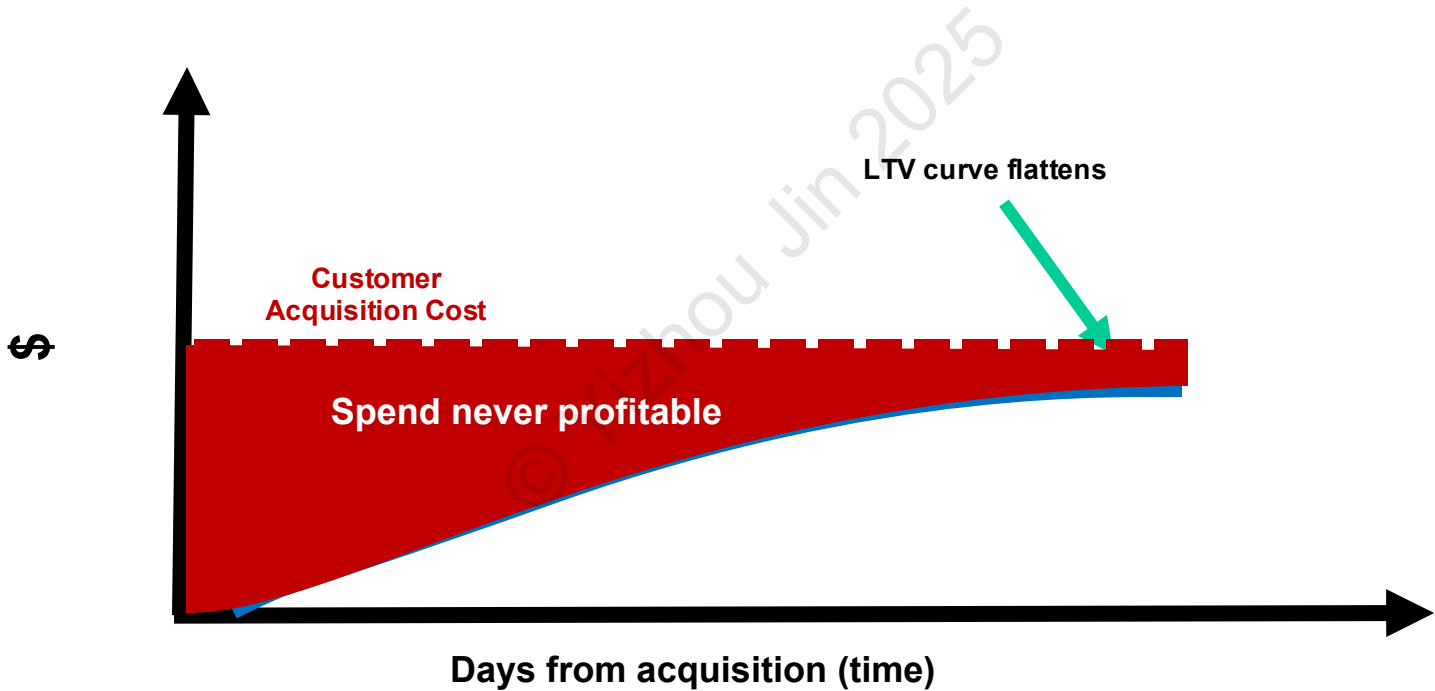
Zynga leveraged Facebook, social virality, and a low-cost VP to build strong network effects quickly and cheaply.

# Competitive Advantage in Games

WTP → Customer Life Time Value (LTV); Cost → Cost Per Install (CPI)



# High CPI or low LTV



# Zynga's Three R's - #1 Reach

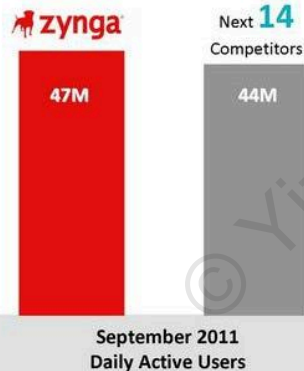
Low CPI → Social Virality

## Undisputed Leader in Play

9 of the Top 10 Social Games

Rank	Developer	Social Game
1	zynga	FarmVille
2	zynga	CityVille
3	EA	The Sims Social
4	zynga	Café World
5	zynga	Words With Friends
6	zynga	FrontierVille
7	zynga	Empires & Allies
8	zynga	Texas Hold'em Poker
9	zynga	FishVille
10	zynga	Treasure Isle

Zynga DAUs > 14 Competitors



Note: 9 of the 10 biggest social games based on peak DAUs since game launch from AppData (Facebook data), except for Words With Friends DAUs as recorded by our internal stats system. Words With Friends DAUs includes DAUs from iPhone, Android, and Facebook channels. Zynga vs. competitor comparison based on Facebook channel only



## Best Brands in Social Games

#1 Game on Facebook since January 2009  
4 out of 5 Top Games on Facebook



Source: Ranking from AppData. MAUs from Zynga Stats - Q3 2011 average and includes mobile



Source: Zynga IPO deck, 2011.

# Zynga + Facebook



Facebook (6) | facebook.com | https://www.facebook.com

facebook | Search | Misiek Piskorski | Home

Update Status | Add Photo / Video | Ask Question

RECENT STORIES

Alana V. Davis and 7 other friends changed their profile pictures.

David John Frank was tagged in Barb Ryan Spall's photo.

Wall Photos

Thanks for coming home for our 30th Reunion David and for being a dear life long friend to me!

9 minutes ago · 🌐

Genevieve Sheehan

I've always liked Blik. And the founder still tests it out at home!

Blik co-founder uses his home to test drive the

3 events and 2 invites

People To Subscribe To

Eduardo Saverin

8 friends are subscribed.

Sponsored

Facebook Live from AdWeek

Tune in to watch our executive team share how Facebook's products, research & partnerships help businesses build essential connections.

Date: October 3 at 6:30am

Location: on.fb.me/facebookstudiolive

Attendees: 3,071 people

RSVP:  Yes  Maybe  No

Marcus Liwag likes Tara Lawall's status.

Carmen Pelaez likes Eduardo Aparicio's link.

Ines Mergel and James Bruno are now friends.

Jason Owen-Smith and Taylor Brady are now friends.

Cameron Marlow likes Madras Cafe.

Angelo Flores Sasso likes Laura Garcia-Godoy's photo.

Alana V. Davis changed her profile picture.

Cindy Gailop

Emmanouela Markou

Eric Evensen

Isabel Fernandez-Mateo

Julie Bershadsky

Maria Piskorska

Marcus Liwag

Pai-Ling Yin

Sean Safford

Tomek Rozwadowski

You are unavailable to chat. Let friends see you as...

How much did Zynga save by acquiring customers through FB?

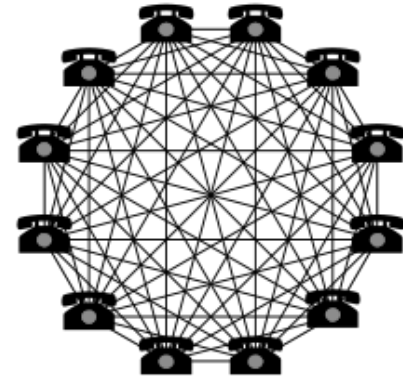
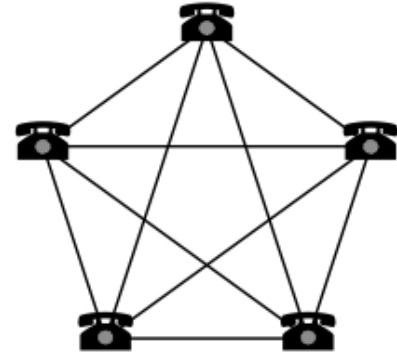
# Zynga + Facebook

- How much did Zynga save by acquiring customers through FB?
  - In 2011, revenue was about ~\$1 bn, paid FB ~\$300 mn in commissions + some mutually beneficial advertising relationships
  - MAU is about 200mn
    - About 100mn acquired in 2011
    - \$3 per customer!
    - Much lower than the typical spend (\$10 – 100)

# Zynga's Three R's - #2 Retention

Increasing retention by harnessing network effect.

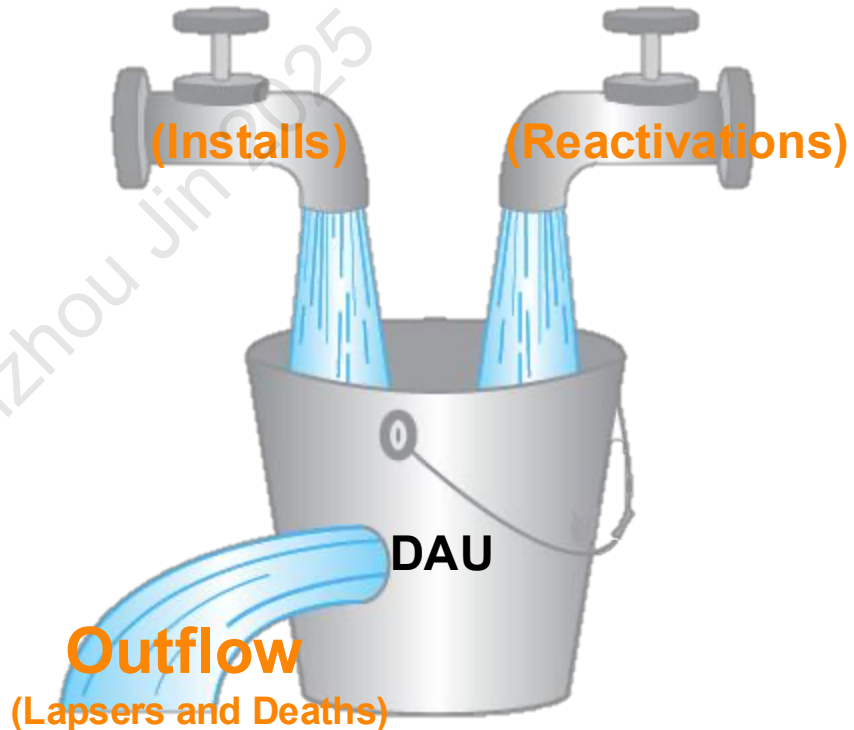
- Each incremental new user makes the platform better for every existing user
- Strong network effects make it extremely difficult for users to leave a platform
  - As a corollary, it is extremely difficult to compete against any platform with strong network effects



# Zynga's Three R's - #2 Retention

High LTV / WTP by increasing retention

- Your greatest source of leverage is generally **reducing outflows**
- A massive flux of installs is never enough to build anything of long-term value
- Zynga grew through retention, **not virality!**



Engagement is what drove our growth, not virality. We did not grow on advertising and we did not grow on virality. It is like you have a speedboat with a hole in the bottom of it and you can go faster, or you can bail water faster, or you can plug up the hole. So our focus was on narrowing and plugging the hole. Our early competitors were speedboats with a gigantic hole in the bottom. No users stayed with their games, so they were just viral machines. But retention is crucial if you are a game-as-a service because the business model depends on it.



# Pop Quiz

## Understand Retention

If 100k players installed NFL Showdown on April 20<sup>th</sup> and 45k play on April 21<sup>st</sup>...



What is the Day-1 install retention for NFL Showdown?

**45%**

If 15K of the April 20<sup>th</sup> installers play on April 27<sup>th</sup>...

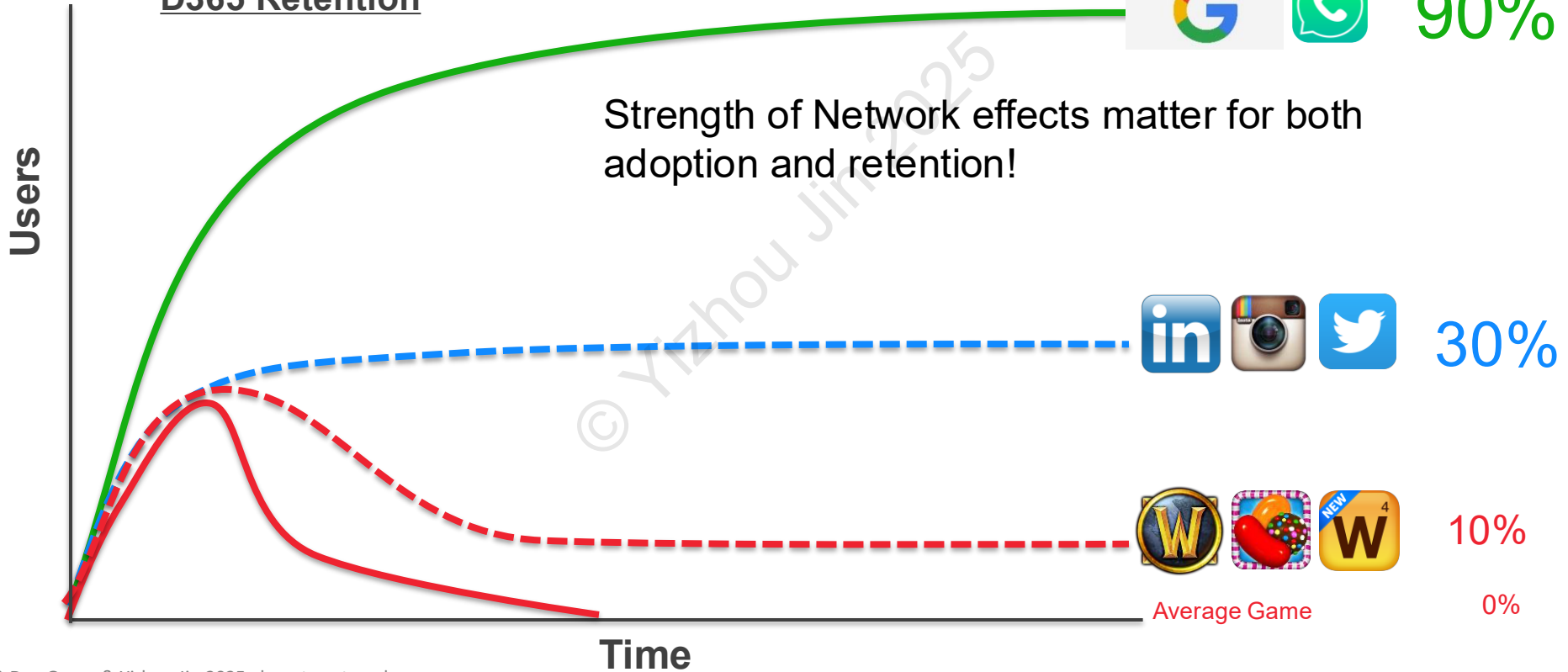
What is the Day-7 install retention for NFL Showdown?

**15%**

# Biggest Myth in Games / Apps

Setting the right KPI: virality matters little compared to retention

D365 Retention



# Zynga's Three R's - #3 Revenue

Effective monetization.

Bookings and Revenue  
(in millions)



Adjusted EBITDA  
(in millions)



Source: Zynga S-1 filing 2011.

I wanted to control my destiny, so I knew . . . I needed revenues now. So I funded the company myself but did every horrible thing in the book to, just to get revenues right away. I mean we gave our users Poker chips if they downloaded this zwinky toolbar which was like, I don't know, I downloaded it once and couldn't get rid of it . . . We did anything possible just to get revenues so that we could grow and be a real business.

# 3 Rs as KPI (Lecture 3)

## Setting the right goal



- Stock price (and volatility)
  - Short-run movements often have little to do with company operations.
  - Long-run stock price is a great indicator for ROIC, but only in hindsight
- Market share (and growth) is key when **scale** is important
  - e.g. markets with strong scale economy or network effects
  - e.g. Amazon as the "earth's most customer-centric company;" "land rush" of the internet;
- Start-ups/new products: achieve "product-market fit" (**PMF**) before scaling
  - PMF = proving the feasibility of a business model (VP + TC)
  - KPI for PMF: # of paying customers and/or retention of early customers

When the 3Rs I do not meet without exception

## Growth Strategy for Innovators



### Three Key Threats to Growth

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*Have you mitigated threats from substitute products that exist now and will exist in the future?*

- **Hold-Up (can large players in your supply chain “squeeze” you?):**

*Have you limited the bargaining power of customers and suppliers so that you can effectively engage in win-win (relationship-specific) investments.*

Zynga did not do so well pre-empting pressure from FB, which later greatly slowed down its investment/leadership in game development

# Why didn't Zynga build its Own Platform?

They did but faced high barriers to entry and intense rivalry.

- Facebook changes algorithm; traffic drops 30% overnight!
- Recruited top gaming CEO to pivot us to mobile games
- New strategy → hit games

Social Gaming: Zynga Loses Half of its Active Users, Stock Tumbles



By J.T. Quigley  
July 26, 2013



Facebook unfriending hits Zynga shares

Zynga, the creator of FarmVille and Mafia Wars, has severed their ties with the social networking site

CNN BUSINESS

Markets Tech Media Success Video

Zynga CEO Mark Pincus steps down

by Julianne Pepitone @julpepitone  
July 1, 2013: 4:36 PM ET

Recommend 0

