



A Summary Report by the Casual Games Association & DFC Intelligence

Introduction

2006 was an exciting year for casual games—a year in which they became the subject of mainstream news articles and in which large investors became interested in the space with greater fervor than ever. The buzz was not surprising, of course. We have known for some time that more people play casual games than any other type of electronic game. It's just that the rest of the world is finally discovering what we already knew.

As these ever-more-popular casual games continue to attract new fans, it seems appropriate to take a step back and review what we have accomplished in 2006 as an industry. In this summary, we have included research data from the online casual games space collected from a variety of large casual game portals representing approximately half of the casual games market.

This information was combined with DFC Intelligence's proprietary information and techniques to generate the industry numbers contained herein.

Casual Games Defined

What is a casual game? The short answer is this: A casual game focuses on FUN! The most common characteristics of casual games are:

- They are accessible and fun to play. Of course, easy to learn doesn't mean easy to master.
- They are demographically neutral. Women and men, adults, teens and children, gamers and non-gamers.
- They adapt to time and space. You can enjoy a casual game in short increments, for five minutes or for hours on end, anywhere, anyplace, on a myriad of platforms.

Types of Casual Games

Although casual games make up just a subset of the overall electronic games market, the category embraces a wide range of genres, including traditional card and board games, puzzles and word games, trivia games, game shows, simulations and arcade-type action games.

Where to Play

The most popular sources of online casual games are the online portal sites which include: Yahoo! Games, Pogo, MSN Games, Big Fish Games, Miniclip, and Shockwave. Casual games may also be purchased for PCs, consoles, and mobile devices (especially phones).

Who Plays Casual Games?

One of the factors that contributes to the success of casual games is that they appeal to players of all ages and persuasions. DFC Intelligence has estimated that worldwide over 150 million people—more than the number of households that own video game console systems—play free casual games via the Internet.

While the stereotypical core gamer might be a 10- to 24-year-old male, casual gamers come in all shapes and sizes and often spend as much time playing games as core gamers. It is particularly noteworthy that a significant portion of users are over 30 and female. What that suggests rather clearly is that casual games have succeeded in expanding the overall electronic games market, creating greater gender balance than could ever be achieved by the first-person-shooter and massively-multi-player PC and console games. Core games such as Halo and Grand Theft Auto may enjoy bigger development and promotional budgets, but casual games will continue to command the bigger audience.

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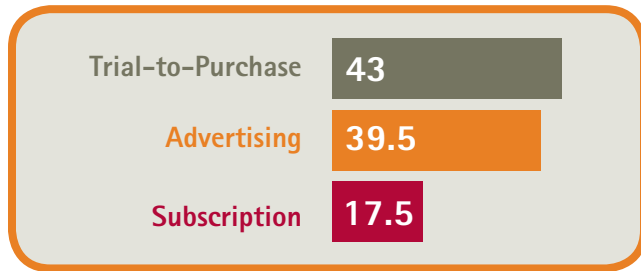
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Standard Revenue Models – Retailers

Trial-to-Purchase

The dominant business model on online casual game portal retailers allows players to download and play games for free on a limited-use basis—after which the player may purchase the full version of the game for around \$20. Whatever revenue is generated is divided between the developer/publisher and the portal. The trial-to-purchase conversion rate is usually around 1% with some titles reaching up to 5% on some sites. Approximately 60 million casual game downloads occur each month.

Percentage of Online Revenue



Advertising

Each online retail portal typically features advertising prominently within its site. Such advertising may appear via banners, interstitials, and even in-game placement. Even though many portals make a significant amount of revenue from advertising, they typically do not share that revenue with developers or publishers. However, a number of online retailers have announced plans to begin sharing advertising revenue with content providers.

Subscription

Subscription services provide a notable exception to the try-before-you-buy, advertising-driven model. For example, for \$5 per month Club Pogo offers subscribers a variety of premium games, chat rooms, and community features—all advertising-free. With over 1.2 million subscribers, Club Pogo has become one of the most successful subscription entertainment products on the Internet.

Retail

In addition to online sales, casual games are also sold at retail. Brick-and-mortar retailers such as Best Buy, EB Games, and WalMart offer the most popular casual games on their shelves along with core game titles. While the shelf space for core PC games has been slipping in recent years, the shelf space for casual games in these stores has seen significant growth. MumboJumbo, for example, has been actively taking online casual games to the retail PC and Handheld market with impressive results.

Standard Revenue Models – Developers

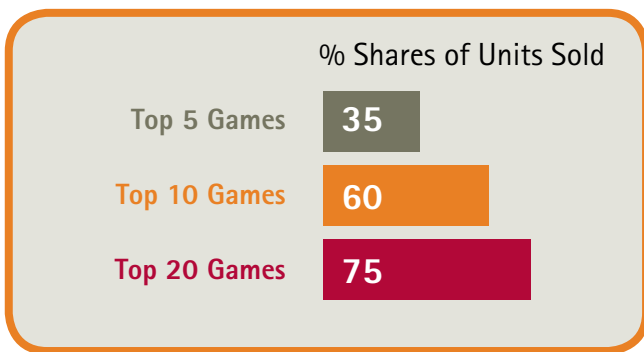
Many developers have prospered by developing games that are digitally distributed through casual game portals. For instance, PopCap's flagship franchise, Bejeweled, has sold over 10 million copies worldwide. However, only a very small percentage of games manage to generate more than \$1 million. In fact, of the hundreds of games released each year, only a handful become consistent revenue generators, with the bulk of the money being made by the top 20 games:

Although these top products can generate revenue for well over a year, outside of the top 10 games there is considerable turnover from one month to the next. As the number of new game releases continues to increase, in fact, it is reasonable to assume that the concentration of revenues may actually intensify as the market matures.

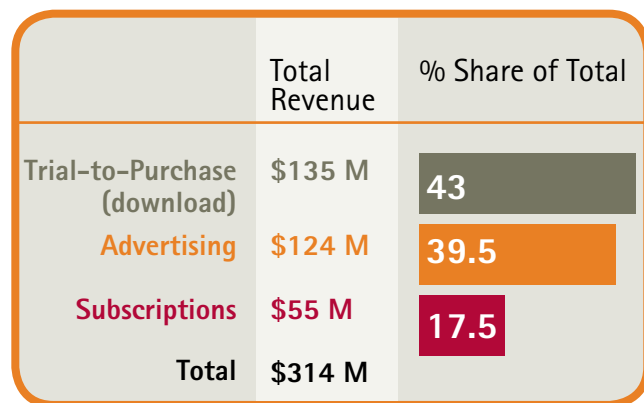
Another way in which publishers are extending the life and reach of their most popular games is by releasing new, updated versions of their games and creating hybrid versions of existing games. Thus, MumboJumbo first introduced Luxor; then came Luxor: Amun Rising; and now recently they have brought us Luxor Mahjong—with over 40 million downloads so far for games under the Luxor brand.

Online Casual Games

Trial-to-Purchase Sales Since Inception



North American Online Casual Games Revenue 2005



Size of the Market

Due to the multiplicity of casual game sites online, it is not possible to get a truly accurate count of the casual game-playing population. However, even conservative estimates indicate that at any one time there can be hundreds of thousands of people playing casual games concurrently—a staggering total which projects to tens of millions of monthly users.

What that means for game publishers and developers is a vibrant marketplace full of money-making possibilities. DFC Intelligence has estimated that worldwide revenue from online casual games in 2005 was around about \$700 million, with 45% of that (\$314 million) coming in North America alone.

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The Future of Casual Games

Casual games have been around a lot longer than electronics have (how long have people been playing solitaire?), and there is no reason to think that will change. In fact, it might be said that console systems and PCs created a renaissance of casual games while the Internet enabled them to proliferate. As newer titles now spread from the Web to other platforms, it seems inevitable that the audience for casual games will continue to expand.

This report was prepared using confidential sales information from over half of the major online casual games portals. If you would like to be involved next year, contact us at: data@casualgamesassociation.org