Can Japanese monetization methods save US social games?
— An article describing a master thesis

While US market leader Zynga is struggling with layoffs and fleeing users, Japanese social games are raking profits in the US like never before. The social gaming industry has been thriving since its birth in the latter half of the ‘00s. In the West, Facebook games are the most popular, and are enjoyed by players of all ages and both genders. Over 40% of US internet users report having played a social game in the past three months, giving a total of over 100 million players in the US alone. There are big bucks to be earned here, and many traditional game companies are turning to the freemium business model used by social games.

US developer Zynga has an almost monopolistic position on the US social gaming market, with ten of the fifteen most popular Facebook games being Zynga titles. Nevertheless, the company had a rough year in 2012. In May 2012, the company bought game developer OMGPOP and took over their immensely popular flagship title Draw Something. But within just a month of Zynga’s acquisition nearly half of the game’s users disappeared and it appeared the game’s popularity was merely a trend. As soon as the fad was over users fled the field, and Zynga’s stock price has gone downhill since. Zynga defends the acquisition, but are likely not too happy with the sudden drop in users. In the fall of 2012, Zynga made the news again when they shut down their Boston office, laying off over 100 employees as the company scrambled to cut costs.

A vital key to reaching out to new players for social games on Facebook has always been viral acquisition. The game posts messages on the player’s Facebook wall about achievements that have been accomplished in the game, and encourage players to invite their friends to come play with them. Up until recently, a properly done viral loop could help the game acquire new users at virtually no cost at all. However, with all these games sending messages back and forth, Facebook users soon became overwhelmed with unwanted spam from their friends. Facebook ultimately decided to take a stand against this and began restricting the ways games could send messages and acquire users. This was undoubtedly a huge blow to social game developers on Facebook, and user acquisition costs skyrocketed. Zynga and other developers were dependent on revenue from Facebook and as their profitability plummeted, rumors began spreading of a coming crash in the social gaming industry in the US.

Social gaming is big business in Japan as well. The two leading companies, GREE and DeNA, are both running social gaming platforms with over 250 million registered players and several hundred game titles each. Similar to the situation in the US, viral acquisition has reached its peak in Japan, and companies are turning to other means of customer
acquisition. Both GREE and DeNA frequently run prime time TV commercials featuring famous artists and TV celebrities to reach out to new potential customers. However, as hundreds of developers are continuously pushing out titles, the Japanese market is becoming saturated and customer acquisition costs are soaring. To keep expanding their business, some Japanese developers have now set their eyes on the Western market. 2012 saw a storm of Japanese titles translated into English released on the US market, and more are expected to come. Undoubtedly, many of these games fell flat, but a few titles managed to make an impression on the Western market. In particular, the web browser based RPG Rage of Bahamut, developed by Tokyo based developer Cygames, saw an enormous response. Despite less favorable reviews by critics, the game quickly took the top position on the list of top grossing apps on both the iPhone App Store and the Google Play Store.

Although the golden days of social gaming with free advertising through viral acquisition appear to be coming to an end both in the US and in Japan, there is one vital difference between the two markets: monetization. Most social games use the freemium business model which lets the player enjoy the game for free unless they want to chip in a few bucks to advance faster. Typically only a small percentage of players are actually paying, and the better a game can provide players with incentives to pay, the more profitable it will be. A common measurement of how well a game monetizes is the average revenue per daily active user (ARPDAU), a measurement of how much an active user pays for the game per day on average. Zynga reported ARPDAU of around $0.05 for Q3 2012, which is a typical number for the US market. Rage of Bahamut, on the other hand, is reported having an ARPDAU higher than $1.00, or about twenty times as high as Zynga. The game’s performance is not unique either; both platform providers GREE and DeNA report having several titles with ARPDAU around $1.00, well above the US market average.

How can these Japanese social games monetize so well compared to Western games? The fact that Japanese social games in Japan monetize better than US games has been known for a long time, but the generally accepted explanation has been that it is mainly due to market differences. A popular theory is that Japan has a long tradition of gaming, and that many Japanese commute by train where they kill time by constantly playing games on their mobile phones, leading to Japanese being more willing to pay for the games. There may very well be some truth to these explanations, but they do not explain how Japanese social games can monetize so well on the US market as well.

The study attempts to find out if and how Japanese social games monetize better than Western ones, and seeks the answer in elements of the game design. By testing twelve of the most popular games, six from each market, several unique characteristics in the Japanese games were identified.

Perhaps the most distinctive feature is a virtual gambling system called gacha, which was found in all of the tested Japanese games. The system functions like a virtual slot machine, where players chip in a small amount of money and are rewarded a
random item, with varying desirability. While Western social games let paying users buy powerful items directly, many Japanese games make players try their luck with the *gacha* system, in hopes of winning the item they want.

Several Japanese games also have special campaigns with exclusive cooperative and competitive game content available to players for a limited time only. The campaigns offer new gameplay with special rewards that can only be attained through participation in the campaign. They provide the player with a set of goals which must be achieved within the time frame of the campaign in order to secure the rewards, and the goals have several levels of difficulty in order to appeal to players of all different levels. These content heavy campaigns stood in stark contrast with the mere sales campaigns of some of the Western games.

The Japanese games also had a special trick for increasing player retention, with a system of login bonus campaigns. When the player starts up the game at the beginning of a new day, they are presented with a calendar showing the rewards the player will receive if they keep coming back to the game daily during the timeframe of the campaign. The more often a player comes back to the game during the campaign, the better the reward. Rewards start with items that can quite easily be obtained by playing the game and often end with the best reward the game has to offer: a *gacha* ticket. A *gacha* ticket is a ticket that lets the player spin the previously mentioned *gacha* gambling system for free.

The study does not give a definitive answer to how much the above mentioned characteristic Japanese game elements contribute to a game’s monetization, but these characteristics give an idea of how players can be encouraged to pay more by clever use of gambling mechanics and rewards. Perhaps drawing wisdom from the game mechanics used in Japanese social games is the key to saving the US social gaming industry.

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