How Casual Game Startups Can Survive Recession

Wagner James Au, Sunday, December 14, 2008 at 9:00 AM PT

This year we watched a tremendous amount of money go into casual web game startups, many or most of which heavily depend on advertising as a revenue stream. As we're all too painfully aware, however, when the economy turns sour, advertising budgets are among the first things to get slashed. So how will these companies survive through the coming quarters, until the economy stabilizes? I emailed the heads of five casual game startups, to get a sense of their strategy. After compiling their thoughts, three themes emerged:

Have Confidence In Casual Gaming's Inherent Appeal To Advertisers

David Scott, co-founder of Casual Collective (profiled on GigaOM here), said November was actually a strong month for them, advertising-wise. "From our point of view it would seem that the in-game advertising has been kicked up a notch," Scott wrote me. He speculated that advertisers were getting more ROI for full video/interactive ads embedded in Flash games than in traditional media.

Jameson Hsu, "Chief Mochi" of gaming ad network Mochi Media, seemed to concur: "The optimism around games being recession-proof not only applies to retail, but also holds true for advertisers marketing to gamers," Hsu said via email. "Gaming audiences have diversified beyond the 18-24-year-old male and it's making for an attractive sector to market to."

Jim Greer, CEO of user-created game platform Kongregate, expressed confidence that core advertisers, like game publishers and movie studios, would stick with them. "[K]nock on wood," he said, "it doesn't look like the ad slowdown is going to hit us as hard as I feared."

Diversify Revenue Streams Beyond Advertising

When Steve Hoffman, CEO of RocketOn Inc., originally told me about his casual web-powered MMO last August, advertising was a major part of their revenue.

That focus has since changed somewhat for Hoffman, who was also a CEO in the dot-com bust era, and likens the current climate to the film "Groundhog Day." "With ad revenue shrinking to a trickle, even before our thirsty startup has had a chance to get a mouthful, we're relying on virtual goods sales to keep us from starving," Hoffman said in our most recent exchange. "Fortunately, we're a virtual world, and we can grow our own goods, so if all goes well, our children will be fed." Casual Collective is using its virtual goods as a revenue source (users can buy "Casual Credits" for system upgrades) as well, and Kongregate recently added support for microtransactions and virtual items to its game platform.

As a social game startup with a heavy presence on free social networks like Facebook and MySpace, advertising has been a major revenue source for Zynga, but that, too, is changing. "[O]ver the past 6 months," founder and CEO Mark Pincus said via email, "we have de-emphasized the ad component of our business model so we are relatively less affected than others." They've incorporated user pay elements into games like their cross-platform version of

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Texas Hold 'Em, for example. He said his company is still cash-flow positive, and is "cautiously optimistic about the near future."

Have Faith In the Value Proposition of Casual Web Gaming — and Your Startup

The Casual Collective's Scott thinks the recession could actually *benefit* the Flash casual gaming industry. Instead of spending $20-$50 on PC and console games, he argued, many consumers will gravitate to free web games — especially because they don't need to upgrade their computer to play them.

Jim Greer echoes that theme while also emphasizing that the user-created nature of Kongregate's games help the Jeff Bezos-funded startup stay small and by extension, its costs low. "[W]e don't need a huge staff — we're currently at 21 employees. That means that even if our revenue dropped to $0, we have 18 months worth of cash in the bank." But he's confident that their passionate user base of gamers, who reportedly play on the site a total of 10 million hours monthly, will keep them solvent. "If that kind of engagement can't support a company of 21 people," he concluded, "something is very wrong with the world."

One can only hope. We'll check back in the spring, to see if these startups have survived.