

Fluid game development keeps Zynga one step ahead

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In a quiet outpost near Marina del Rey, Zynga Inc. has been building an empire.

Its troops, a few dozen [game developers](#) and designers with a penchant for bringing their dogs to work, have been stealthily working on the San Francisco company's next big title, "Empires & Allies."

With the nearly 4-year-old firm poised to file an initial public offering of its shares within days - Zynga this week launched the game, an online version of a toy soldier set, arguably its most ambitious.

While players of "Empires & Allies" figure out how to command and conquer their virtual game boards, Zynga has already captured the flag when it comes to online social games, a rapidly growing and viciously competitive segment of the games industry.

Every month, 1 out of 10 people worldwide on the Internet fires up one of Zynga's 55 games, which include "FarmVille," "Zynga Poker" and "Mafia Wars." About 250 million people play its games each month, a number equivalent to about four-fifths of the U.S. population, making Zynga the biggest social games developer on Facebook.

"Traditional game companies measure their audience in the millions," said John Taylor, managing director and games analyst at Arcadia Investments Corp. "Social game companies like Zynga measure theirs in the tens and hundreds of millions. It's a completely different animal."

Zynga's recent rounds of financing have valued the company at about \$10 billion, and speculation on Wall Street is that the IPO will push that figure even higher.

What makes the company such a hot commodity can be, in part, distilled into a handful of game mechanics embedded in "Empires & Allies," which represents Zynga's latest techniques for amassing legions of players.

Mark Skaggs, Zynga's senior vice president of product, summed up one of the company's design mantras during a talk at the Game Developer Conference in February in San Francisco. "Fast, light and right," Skaggs told a room packed with hundreds of designers eager to learn the formula for Zynga's addictive games.

That means its games are designed in weeks or, at most, a few months with crews of a couple of dozen developers. By comparison, traditional video games require hundreds of people working two or more years.

Unlike more conventional games, however, much of the action happens after a Zynga game is released as its developers work round-the-clock to add content, test new features and constantly adjust the game based on how players are interacting with it.

In that sense, "Empires & Allies" is no different. Its developers have worked for just a handful of months on the title, which lets players expand their island nations through conquests and by recruiting allies. Individuals can only get so far playing by themselves. To really get ahead, they need friends to lend a hand, either by helping repel invaders, agreeing to become a staff member of various enterprises or trading metals required to make weapons and buildings.

"Empires & Allies," like its siblings, is designed to appeal to a

mainstream audience with its happy, toy-like aesthetic, crisp, vibrant colors and approachable characters designed by Matt J. Britton, the game's art director and former general manager of Jim Henson's Creature Shop.

Unlike many other Zynga games, however, "Empires & Allies" features battles in which troops can perish forever. It is a modest gamble for Zynga, whose games have been broadly appealing in large part because its players rarely lose.

"With this game, we wanted there to be consequences," said Amer Ajami, "Empires & Allies" executive producer. "We wanted people to care enough so that the losses would sting a little, but not so much that they would quit the game."

"Empires & Allies" is also an indication of how Zynga plans to further grow its business, by taking genres from the traditional video game world and introducing them to the mainstream.

" 'Empires' expands us into the strategy and combat genre," said Chris Corry, general manager of Zynga's studio in Los Angeles. "For us, the challenge becomes how we thread that needle of making games that are accessible to everyone but complex enough to be interesting to traditional gamers."

This balancing act of creating just the right dose of challenge is expected to continue long after the game goes live. Among Zynga's key strengths is its ability to track the performance of each feature and design element through what's known as A/B testing. Simply put, Zynga compares players in two camps, one with a feature and one without, to see how well the feature does. If the feature has a high "click compulsion," or high rate of players clicking on it, Zynga incorporates it into the game for everyone.

"We can mine our users and see in real time what they like to do," said Greg Black, "Empires & Allies" lead designer. "The sky's the limit when it comes to morphing our games to be whatever our players want."

There's another factor working in Zynga's favor - brute force.

With players churning through social games every two months, on average, developers must release a constant stream of new features, and ultimately new games, to keep their fickle audience in the fold.

"FarmVille," for example, was once Zynga's top game, with close to 84 million players a month at its peak. These days, the 2-year-old title averages just under 45 million players a month, according to AppData.com, a site that tracks Facebook applications.

To stay on top of the charts, Zynga in December released "CityVille," which boasted 101 million monthly players at its peak earlier this year. But even "CityVille" has waned to 90 million monthly players, making it even more important for Zynga that "Empires & Allies" becomes its next big hit.

In the past, Zynga has proved adept at leveraging an online phenomenon known as the network effect, which allows companies with large audiences to more easily and cheaply market their latest offerings. Essentially, the company rolls its customers from one game to the next, said Justin Smith, founder of Inside Network, a Palo Alto research firm.

This advantage has allowed Zynga to grow much larger than its rivals. Indeed, its audience of 243 million players on Facebook is more than seven times that of the second-largest social game publisher, Electronic Arts Inc., with 31.8 million players, according to Smith.

Zynga's ability to gather tidal waves of players, and move them from one game to another, has attracted the attention of high rollers in the venture

capital and entertainment world.

Among Zynga's investors are Silver Lake Partners, Kleiner Perkins Caufield & Byers, SoftBank Group and Reid Hoffman, the founder of LinkedIn Corp., an online social network for professionals whose IPO in May was among the hottest of the year. Zynga's board of directors includes Jeffrey Katzenberg, chief executive of DreamWorks Animation SKG; Bing Gordon, the former chief creative officer of Electronic Arts; and Owen Van Natta, Facebook's former chief operating officer.

Presumably, investors are also attracted to Zynga's financial data, which are not publicly available.

In general, social games generate the bulk of their revenue through selling game cards that let players advance faster or obtain virtual goods in the games. They also reap a smaller amount of money from ads, sponsorships and promotions in which players apply for credit cards, subscribe to magazines or buy products in exchange for credits they can use in the games.

The vast majority of social game players don't spend a dime to play, but enough of them do to make a small initial investment in game development pay off. Even those who don't spend money act as an audience for corporate sponsors such as American Express Co. and as recruiting tools for more players, including a few who will fork over actual cash.

Brian Reynolds, Zynga's chief game designer, in February 2010 gave a rare clue to the financial math involved in social games during a talk at an Academy of Interactive Arts & Sciences convention in Las Vegas. Reynolds said social games focus on the number of "daily active users." In Zynga's case, that number is around 49 million, according to AppData.com.

Between 3 percent and 5 percent of those players end up spending money on the game or signing up for a promotion. Reynolds threw out a hypothetical average of a daily player's worth - a penny a day, or \$3.65 a year. At that rate, Zynga's 49 million daily [players](#) would generate roughly \$180 million a year. If through clever game design and marketing Zynga pushes that player to spend just a little more - say, two cents a day - its revenue would double.

Whatever cash [Zynga](#) is generating, it's likely to boil down to whether Zynga's games are any fun.

"Ultimately, it's a game," Reynolds said at a talk in February at the [Game Developer Conference](#). "It's an entertainment experience. The number crunchers shouldn't beat the fun out of it."

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