

## The Explosion of Social Media and Virtual Goods in Payments

2010 was a significant year in the development of paid Social Media and Virtual Goods. FirstPartner believes that Payment Service Providers should ensure they have a strategy to address this fast developing sector as it continues to grow into 2011.

With growth driven to a large extent by the explosion in social gaming, paid social media will have seen significant revenue growth through 2010. Leading games developer Zynga (the company behind FarmVille, Mafia Wars and other top Facebook games) was expected to double revenues over the course of the last year to something of the order of \$500M. Significantly Zynga, along with other notable developers such as EA's BigFish games, also committed to adopting Facebook Credits for payment.

Meanwhile Facebook opened Facebook Credits to a much wider community of developers and significantly increased consumer opportunities to purchase Facebook Credits through deals with Playspan and major US and UK retailers including Walmart, Tesco and Game. Social media focussed mobile payments company Boku was subject to speculation around possible bids from Google or Apple. While our view is that the rumoured \$250M price tag overvalues a company offering an imperfect payment service that has been commonplace outside the US for years, we still expect players such as Google to join Facebook by positioning themselves to take advantage of the growth in paid Social Media content and services.

Elsewhere in virtual goods, the growth in mobile Apps continued apace with Android challenging Apple as platform of choice and the resurgence of the tablet platform on the back of the iPad launch extending the opportunity. eReaders also broke into the mass market with Amazon Kindle sales reaching 8 million in the UK and US in December.

While the value of paid virtual goods is tiny compared to that of traditional e-commerce, the sector will continue to grow strongly and the capabilities that Facebook is developing position it to play aggressively in the wider payments space. With their control of key distribution and consumption channels, Amazon, Google and Apple are also set to strengthen their position in Payments services.

We believe therefore that Payment Service Providers should track developments carefully and recommend taking the following steps:

1. Decide whether this growing sector, along with the related area of paid digital content, is one to target.
2. Recognise that the process and experience of making a payment in a social media or gaming environment is different from a standard e-commerce transaction and ensure that payment propositions effectively address it
3. Assess the threat to core e-commerce business from Facebook and other major internet players

FirstPartner's upcoming Evolution of Payments Map will provide an essential overview of key players and trends. If you would like to find out more about our work in payments and how we can help you develop your response please contact us.