



Gamification in 2012

Market Update
Consumer and Enterprise Market Trends

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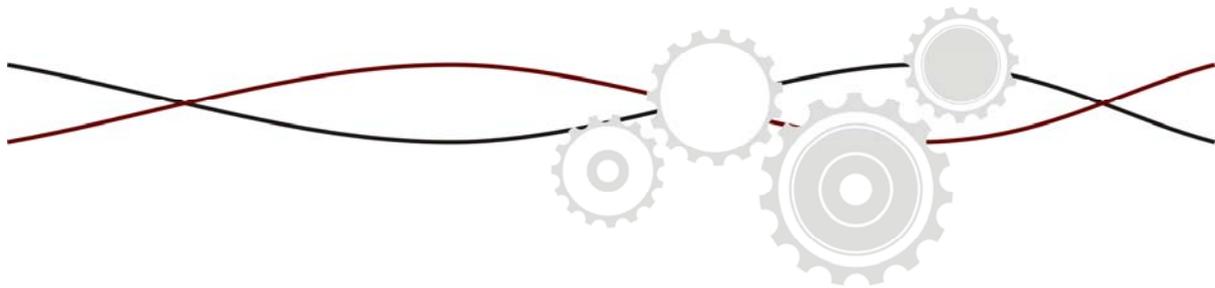


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Gamification 2.0

If you were to track down the history of gamification, you may get the initial impression that this industry is just a few years old, and has really just begun unfolding in 2010. Look closer and it is obvious that the idea of using game mechanics and design is not new and has, in fact, always been with us. However, the enabling tools are changing and they create new opportunities, even if the founding idea and the basic concept has remained the same: Gamification applies game design and mechanics to activities beyond traditional games.

In the past, we used different names for what we understand as gamification today. In the services and consumer goods space, loyalty programs such as frequent flier programs are commonly attributed as some of the first marketing examples. To entice kids, fast food companies created kids packs to increase consumer engagement with their brand.

Fast forward to today; we live in a world where social networks connect us to work, friends, family and people with similar interests. From LinkedIn, Facebook, Twitter, Foursquare, and Pinterest there is an unprecedented level of communication, entertainment and interaction with people that offers new opportunities to take engagement even further.

"It is in our human nature to interact and be entertained with playful applications, particularly when there are engaging game design elements employed."

Games Have Mass Appeal

What makes gamification so attractive is the fact that we generally enjoy actively participating and engaging with others through entertainment. It is in our human nature to interact and be entertained with playful applications, particularly when there are engaging game design elements employed.

M2 Research estimates that the total market for video games, video game rentals, subscriptions, digital downloads, casual games, social games, mobile games and downloadable content will top \$50 billion (not including hardware sales) in 2012. Some of the most successful video games exceed movie sales. For example, *Call of Duty: Modern Warfare 3*, which launched in November, 2011, was the most successful product launch in history, grossing more than \$1 billion in its first 16 days of sales.

In comparison, the most successful movie of 2011, *Harry Potter and the Deathly Hallows Part 2*, grossed \$381 million.

And while *Call of Duty* breaks sales records across entertainment genres, it is still not a title that resonates with all consumers. The booming success of more casual, social, and mobile gaming touches a wide range of age and gender preferences. Games such as *Bejeweled*, *Farmville*, and *Angry Birds* come from a crop of companies - PopCap, Zynga, and Rovio - and have helped open the floodgates to the number of people playing games. In particular, social games appeal to a much broader demographic than traditional games. These games are played by men, women and children of all ages. Children between the ages of 8 – 15 say they now visit Facebook more than any other site on the Internet.¹

The Social Element

This explosion of games appeals to a wider mass market audience and has greatly expanded the notion of who and how people play games. Social games today heavily rely on the large social networks of Facebook in the US, as well as GREE and DeNA in Japan. These social networks provide the perfect environment for social collaboration and user delivery.

Google's DoubleClick division estimates Facebook's user base at 970 million users (January 2012). This is not quite half of the entire Internet population, which stands at just over 2 billion users worldwide, according to Internet World Stats. DoubleClick estimates that Facebook receives 33 billion visits from its user base per month, which translates to just over one visit per day per user, on average. Per visit, those users click on 31 pages and stay for more than 23 minutes, generating a stunning 1.4 million user-years per month.

Social games are reaching a significant portion of Facebook users. The top five social app/gaming companies on Facebook now reach a combined 430 million monthly active users, according to App Data. The enormous reach of social platforms and their dramatic mass-market impact makes them

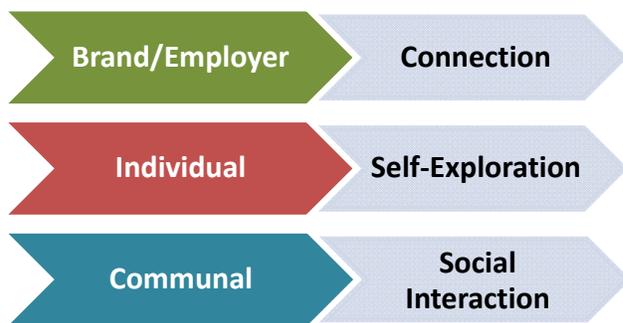
¹ M2 Research Kids and Games Research, 2012

increasingly important vehicles for communication and interaction capabilities to deliver on gamification goals.

Deeper Integration Game Mechanics

Consumer games and digital entertainment continues to attract attention given the interest the public has with games. Compelling game mechanics and design are at the core of an engaging user experience. Gamification, therefore must work to enhance the user experience in order to better engage, retain, motivate and promote overall participation.

Gamification takes advantage of game mechanics to deliver engaging applications, and make non-game applications more entertaining and appealing.



Levels of Engagement

There are several layers where game mechanics have measurable impact. The first level of engagement is the direct connection with the brand or employer, where users interact with a product, service or process. Individual engagement allows for self-exploration and expression within the environment. Finally, communal engagement enables deep interactions with others in the community and supports dialog and community building beyond the initial parameters set by the brand or employer.

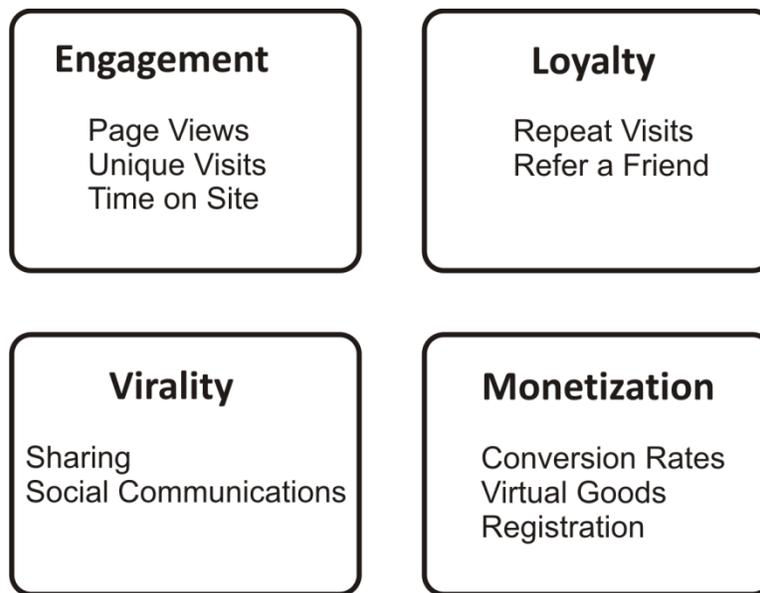


Understanding and applying these mechanics gives companies a powerful tool to transport information, change consumer behavior, influence decision processes, direct product and brand perception, and motivate and educate employees. Game mechanics deployed within gamified applications offer a huge opportunity to engage an audience with a specific topic.

Metrics

In addition to applying proper mechanics and design elements, it is equally important for companies to understand the analytics and metrics of a gamified implementation. Defining goals early in the design process is critical to the overall success of the application.

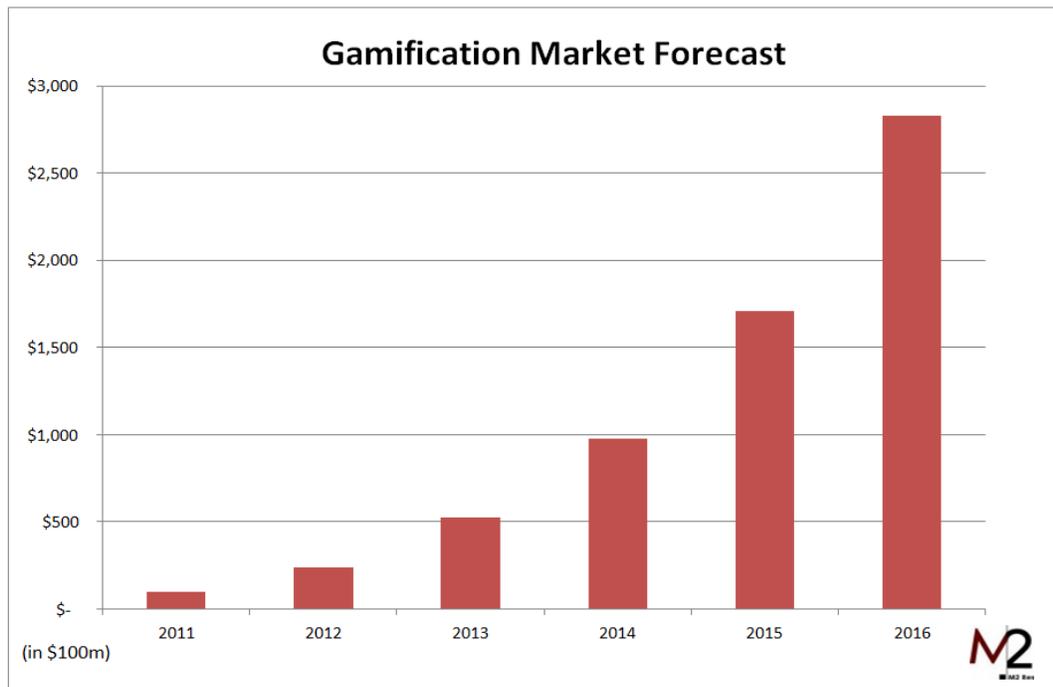
There are wide ranges of metrics that can be used to measure active user behaviors but the majority fall into four categories:



Industry Overview

The adoption of applying game mechanics in more non-traditional industries has grown exponentially in the past 18 months. This is due in part to the growth of social and mobile games, as well as the increasing consumer adoption of social media.

Market Size and Projections



(in millions)	2011	2012	2013	2014	2015	2016
Total	\$100	\$242	\$522	\$980	\$1,707	\$2,830

Source: M2 Research

M2 Research estimates that the market spend on gamification solutions, applying game mechanics and behavioral analytics in non-traditional applications will reach \$242 million by the end of 2012, which is more than double from 2011. Revenue estimates are comprised of a number of components that includes: 1) platform vendor revenue, 2) agency and production revenue and 3) internal development.

Market growth is consistent with the growth seen by companies as they ramp up their internal efforts to meet demand. The number of consumer brand and media companies implementing game elements has grown rapidly in 2011 and all signs point to further growth in 2012. Additionally, there are many implementations within enterprise, healthcare and educational markets that are starting to come online, further accelerating the market.

M2 Research's overall projections for the industry thus remain consistent with our earlier assumptions. We expect double-digit growth for the coming years, with our overall market estimates reaching \$2.8 billion by 2016.

Market Segments

As with many emerging platform technologies, gamification has quickly gone from a horizontal market to decisively more vertical orientations. There are a number of vertical markets centered on key industries. The primary vertical markets include: Entertainment, Retail, Media & Publishing, Enterprise, Education and Healthcare/Wellness. Each of these markets supports both consumer and employee-level engagement initiatives.



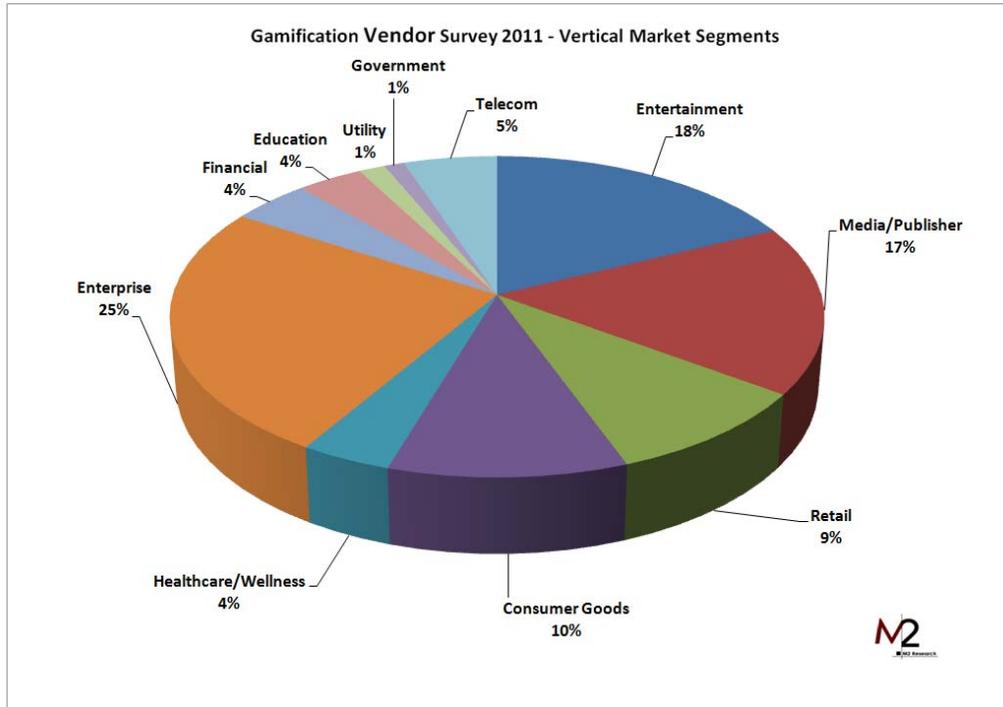
There is now a solid core of platform vendors and service providers servicing this market, that includes Badgeville, Bunchball, BigDoor, iActionable, Gigya, Seriosity and PugPharm to name a few. In addition to these vendors, there are a number of agencies developing their own expertise in the space. These agencies sometimes partner with the platform vendors or look to implement their own gamification toolsets. Finally, there is a growing number of companies that go through the build-it-yourself model in an effort to create a competitive offering around their own product and brand. Whatever the case, a real industry is starting to take shape with its own trends, technology components and processes.

For more than a year, M2 Research has been tracking the vendor companies, service providers, and agencies. We have also spoken to many companies implementing game mechanics for marketing, education, health and enterprise implementations. In 2011, M2 Research launched several initial surveys to gather information on the markets and the dynamics around gamification. As part of our analysis, we surveyed and interviewed key platform vendors and compiled our findings into a baseline analysis.

In our latest research, we asked vendors what percent of their revenue is derived from various market segments. These vertical markets represent either consumer or enterprise defined experiences. M2 Research estimates the market breakdown for 2012:

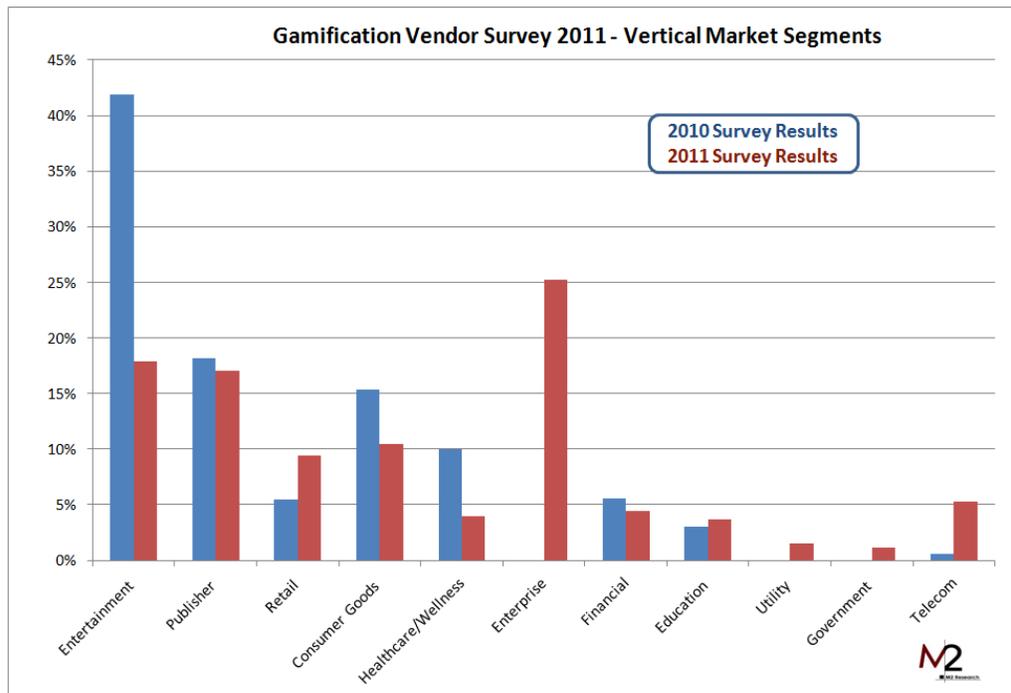
- Consumer-driven – 62% (down from 91% in January 2011)
- Enterprise-driven – 38% (up from 9% in January 2011)

Currently, enterprise represents the biggest segment of the market for new growth at 25% of the market. Entertainment and Media/Publishing represent the next largest segments at 18% and 17% respectively.



Source: M2 Research

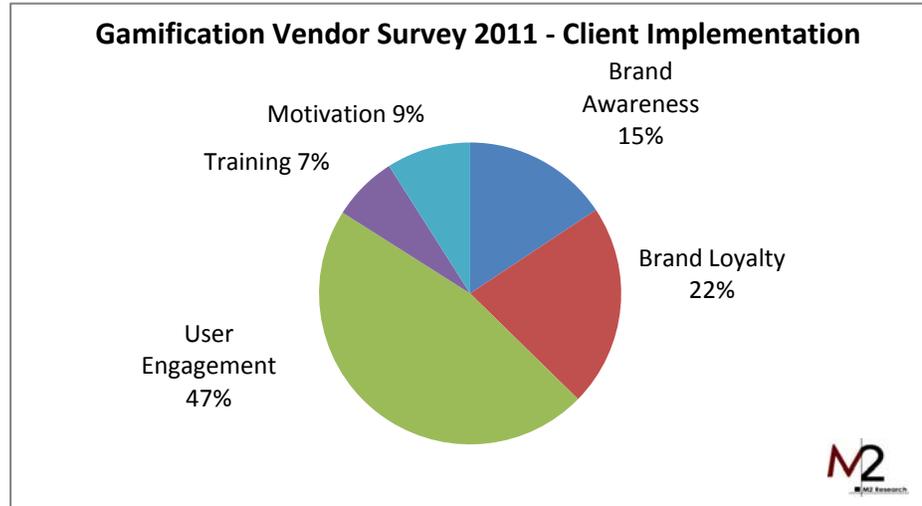
Note the shift in the market focus from 2010 to 2011. In 2010, the largest market was entertainment, representing 40%, while in 2011 enterprise represented the largest market at 25%.



Source: M2 Research

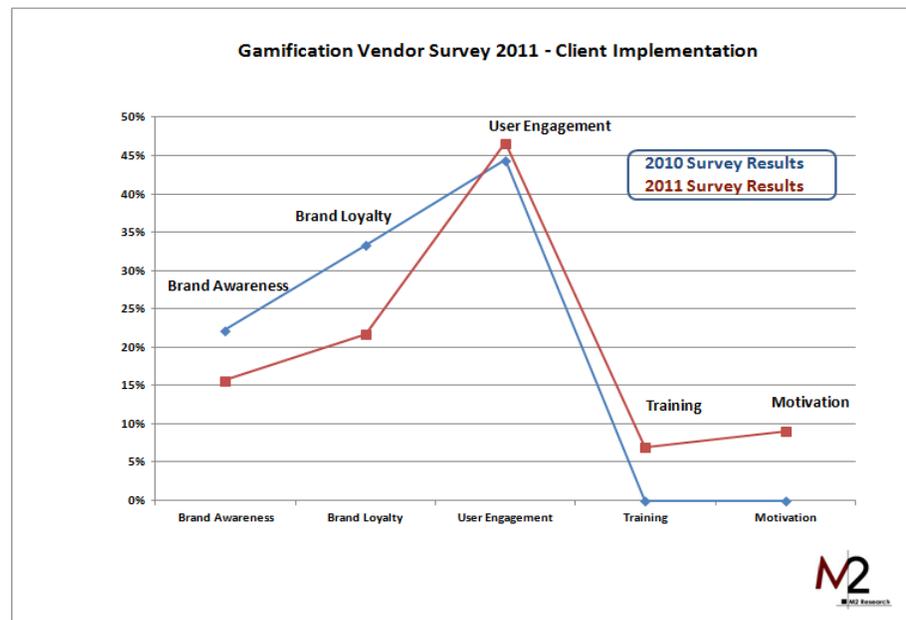
Client Implementations

In terms of client implementation, almost half of all clients, or 47%, are looking to increase user engagement. Engagement weighs-in significantly more than brand loyalty or brand awareness as motivating factors for implementation.



Source: M2 Research

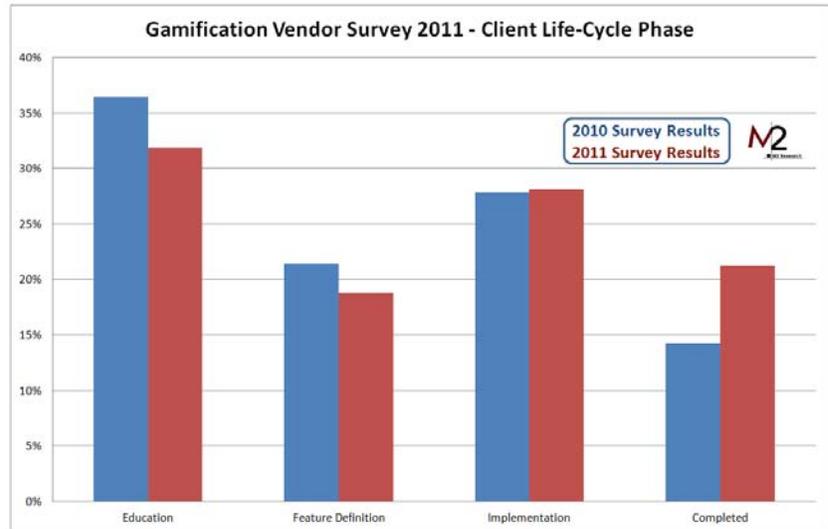
When compared to the 2010 survey, brand loyalty and awareness actually went down in importance in 2011, while user engagement increased slightly. Additionally, in 2011 we added training or motivation, which also showed a shift.



Source: M2 Research

Life Cycle

In order to gauge life-cycle implementation, we measured where in the cycle vendors are with their customers. The chart shows that as more projects move through the project lifecycle, the nature course is that the first round of gamification projects are reaching completion. Throughout 2012 we expect the second generation, or version 2.0 projects, will be completed and with that will come more data specifically focusing on metrics and ROI analysis.



Source: M2 Research

2012 Trends and Forecast: Consumer Gamification

M2 Research expects that the consumer-level honeymoon period for gamification will be largely over by the end of 2012 and leveraging game mechanics implementation will have become a significant supporting pillar for integrated marketing. When done properly, using gamification for market-branding adds another level of engagement to a company's social marketing strategies. In 2012, businesses will increasingly expect ROI accountability and measurable results to replace much of the early excitement for gamification that focused on "gamified" applications that frequently have been treated as standalone opportunities.

"The opportunity for gamification will grow on the grounds of user incentives for the consumers of applications, and marketer incentives for the creators of gamified applications."

The Evolving Opportunity

A considerable benefit for consumer gamification is the fact that consumers are constantly evolving their online social behavior. Social networks and aggregators, such as Facebook, Google+ and even Twitter are accessible consumer platforms that are driving social behavior and trends, making them absolutely necessary tools for marketers.

The 2012 opportunity

- ▶ **User Incentive: Desire to gain popularity**
- ▶ **User Incentive: Desire to win**
- ▶ **User Incentive: Desire to collect prizes**
- ▶ **Marketer Incentive: Virality**
- ▶ **Marketer Incentive: Avoid scatter-shooting**
- ▶ **Marketer Incentive: Competitive marketing**

The opportunity for gamification will grow on the grounds of user incentives for the consumers of applications and marketer incentives for the creators of gamified applications. For consumers, gamification will increasingly be geared toward the desire to have

1. Bragging rights that are delivered through achievement recognitions and considered to have a certain value;
2. Our natural craving to win a game and stand out in front, as well as
3. Our belief that our achievement should be rewarded with prizes. Those prizes may or may not have physical value, but they need to be different for different achievements, and evolve as we progress within an application.

For the marketer, the obvious opportunity, and challenge, will be a chance of

1. Unprecedented virality within aggregators such as Facebook, which is approaching 1 billion users worldwide in 2012. Virality is not leveraged to its full potential yet as an expanding user base provides room to deliver on secondary goals of a gamification campaign.
2. The development of gamification platforms are offering a much more sophisticated way to avoid scatter shooting with campaigns and target user groups with specific characteristics.
3. Gamification is ready to become omnipresent as it is understood by more marketers, which will drive a phase of competitive marketing in which marketers are looking for USPs and key advantages for their campaigns to reach the attention of their audience.

Market Forecast

M2 Research estimates that at the beginning of 2011 gamification in consumer-driven applications accounted for 91% of the total market. By the end of 2012, consumer applications will account for 62% of the total market, or roughly \$151 million. M2 Research expects consumer gamification to grow exponentially over the next three years, as social networks become intrinsic to the consumer experience.

Challenges and Strategy

ROI will be the single most important challenge in consumer gamification. Marketers will react with a fixed and dynamic set of strategies to be able to justify an investment in gamification and make their case for an attractive ROI. Early adopters are most likely to reap the fruits of their efforts as more industries and players are crowding the field and changing the rules of gamification.

Key strategies of consumer gamification in 2012 include:

"Early adopters are most likely to reap the fruits of their efforts as more industries and players are crowding the field and changing the rules of gamification."

Goal definition: What are primary and secondary marketing goals? How do those goals relate to immediate and long-term ROI and how can they be measured?

Target group research: What activities are appealing to the targeted group?

Reward research: What prizes are considered attractive by the targeted group?

Trend setter vs. Trend follower: Is there value in taking the risk of evolving an existing trend?

Conclusive brand integration: How can a brand integrate with the story line without alienating the user?

Captivating game play: Can the application provide prolonged entertainment?

Design flexibility: Can the application be fine-tuned to changing user behavior?

Activators: How can the application be supported to achieve sustained engagement?

M2 Research believes that consumer gamification in 2012 will be driven by the response to much more defined ROI, the understanding of goals as well as the implementation of clear metrics that measure the success of an application.

2012 Trends and Forecast: Game Design in the Enterprise

M2 Research expects game design within the enterprise to quickly rise and become the dominant segment of gamification by the end of 2013. This trend is amplified by an accelerating environment of consumerization. If the smartphone/tablet is the predominant hardware in the future mainstream work environment, gamification is the corresponding software component. First used to describe the effects of Web 2.0 more than a decade ago, consumerization is about to enter a new phase as businesses adopt traditional game mechanics to drive competitive advantages and react to industry shifts more effectively.

In enterprise gamification, organizations replace defined business processes with desired outcomes by influencing and establishing sustainable behaviors. Outcomes are separated into internal and external desires, both of which are designed to deliver measurable results to support and, in some instances, replace key performance indicators (KPIs).

Internal Desires of Enterprise Gamification

- Drive Primary team goals (customer service, sales, etc.) via valued incentives
- Connect distributed work environments through social components
- Intensify competitive team approach
- Favor teams and interaction over individualism
- eLearning and eTraining
- Leverage, recognize and reward employee effort, creativity, contribution and success
- Measurable results

External Desires of Enterprise Gamification

- Encouragement to use personal social networks
- Partner and alliance engagement
- Community Engagement
- Enhanced market flexibility
- Retain employees/attract new hires
- Direct and impact reputation

"For 2012, we expect platform and solution developers to dive deep into examining and leveraging user psychology, evolve their UX design toward that goal, and implement R&D strategies in their overall application budget."

Market Forecast

Enterprise gamification is an indicator that gamification is growing up and is extending its reach beyond consumer marketing to the operational core of a business. As more solutions start to come on the market in 2012, many companies will begin to implement key feature sets.

M2 Research estimates that by the end of 2012, enterprise-driven gamification will represent 38% of the overall market, or \$91 million. This figure is a substantial leap from 2011 when enterprise applications were still few and far between.

Strategy and Approach

As enterprise gamification establishes itself as a critical business tool to deliver business goals, businesses and providers will evolve business analysis to apply behavior-changing game mechanics.

M2 Research foresees a number of implementations where gamification may have significant relevance within an enterprise environment:

Workforce Criteria: Enterprise gamification has to address a much broader age and education range than consumer gamification applications. Businesses have to reach across different age groups and education levels, and remain laser focused on their desired outcomes at the same time.

Behavioral Pattern Analysis: Enterprise gamification has a strong need for studying behavioral patterns within a targeted workforce. The capability to understand existing patterns, psychology, desires, and motivations as well as to understand how these characteristics can be influenced to invoke changed behavior will become an increasingly important criteria and differentiator for solution providers as enterprise gamification emerges.

Platform Choice: We are seeing greater enterprise gamification platform choices emerging in Q2, and expect platform competition and variety to accelerate in 2012. The key competitive factor here will be flexible platforms that deliver time-to-market features and customization flexibility to serve customer needs. However, given the nascent market of enterprise gamification, there will soon be a shift to address deeper metrics on features and pricing that affect individual ROI.

Controlled Environment and Defined Hierarchy: Successful enterprise gamification has a need for a clear organizational structure that clearly defines managers setting goals on potentially multiple levels and provides a strategy to monitor and control activities to prevent undesired behavior, including exaggerated greed, anxiety, lack of self-control, bullying, and inflated envy, especially among application users in a highly competitive environment.

Essential Mechanics in the Enterprise

The concept of enterprise gamification closely follows the idea of positive reinforcement, which defines reactions to a certain behavior that increases the chance of that behavior to occur again in the future. That behavior is, in the vast majority of all cases, the motivation to "win the game", either at an individual level or as a team. The desire/motivation to succeed in gamification is founded in the following key components provided by an application:

1. Competition
2. Status, scores and leaderboards
3. Metrics leading to KPI
4. Monetary rewards, non-monetary rewards and achievements
5. Progress

Traditional game mechanics offer the tools that are required to create the infrastructure and support network to sustain the motivation. Primary tools for enterprise gamification include:

1. Transparency of the application and the definition of succeeding
2. Infinite gameplay with multi-level design
3. Access to related resources and feedback
4. Social integration and access to superiors
5. Communication and sharing

As a goal-driven strategy, enterprise gamification has an opportunity to be fine-tuned over time. In an ongoing process, the factors of the gamification strategy can be modified to follow changing business objectives.

Conclusion

2012 is a milestone year for gamification and as it grows will evolve into a serious component of consumer and employee engagement. It will be critical for both platform providers as well as deploying organizations to understand that implementing gamification is not a short-term strategy. It is a long-term commitment that requires diligence in audience research, application design and activation/maintenance to ultimately benefit from the opportunities that gamification principles offer. Only long-term strategies provide an audience with the incentive to dedicate their attention to an application and will keep them engaged with the community as a whole. The nature of a community bond can vary depending on the dynamics at play, but ultimately requires three key components:

- **Engagement Mechanics**
- **Character Mechanics**
- **Social Mechanics**

"It will be critical for both platform providers as well as deploying organizations to understand that implementing gamification is not a short-term strategy."

Reaching beyond the hype of gamification will require organizations to think beyond the obvious and realize that gamification is not just a pure marketing play, and not a game. It involves various additional talents that need to be in sync. Game mechanics that resonate past the hype require:

- **Dedicated gamification budgets**
- **Audience psychology research**
- **Engagement strategies at the development level**
- **Understanding of game theory**

Planning, implementing and growing a gamified application requires an understanding of game mechanics and their effects, the capability to track user behavior and measure activities in real-time, flexibility to apply application changes, deep integration and compatibility with social networks, and a clear definition of metrics with a corresponding base line to measure the success of an application.

As attractive gamification and its opportunities for organizations are, risk factors remain and should be taken into consideration as part of a gamification strategy. In particular, we believe that there will be a reasonable learning curve with variables that are unique to brands/products/businesses and their user groups. A trial and error component should be part of every gamification strategy. Especially in product marketing, organizations will have to pay special attention to the desires of their users and create ways to integrate a brand effectively, without alienating a user.

Despite the anticipated growth rates, gamification will remain a market that will be carefully evaluated by potential customers for platform providers. The industry must continue to educate their target markets, plan for tracking metrics, and build products and services responsibly.

Company Profiles and Platforms



Badgeville

Badgeville offers a suite of products that help businesses measure and influence user behavior across customer- and employee- facing user experiences. Badgeville now has more than 150 customers from a wide range of industries and user experiences.

Badgeville provides portable reputation, enabling businesses to track and reward user behavior across all of their digital touch points, including integrations with Bazaarvoice, Yammer, JIVE, Lithium, Salesforce and other third-party applications. Badgeville was founded in September 2010 and is based in Menlo Park, California, with offices in New York and Europe.

Major Clients: Samsung, Dell, Deloitte, eBay, Fox, Recyclebank, Active Network, CA Technologies.

Funding: \$15M



Big Door Media

Located in Seattle, Big Door was founded in June, 2009. The company has focused on consumer gamification and will launch its new tiered platform in March 2012.

The Bigdoor platform provides small websites code that is embedded in websites to achieve gamification/reward features and offers more sophisticated solutions for medium-sized websites that extend to rewarded actions and delivers customized gamified loyalty programs to large websites that are tailored to meet specific engagement goals.

Major Clients: Dell, MLB.com, Nickelodeon, Wetpaint and music artists Big K.R.I.T. and 2 Chainz

Funding: \$7.9M



Bunchball

Founded in February 2006, Bunchball is considered one of the first gamification platform vendors. The company is located in San Jose, California.

Bunchball's customizable *Nitro* platform comes with APIs to track user behavior, components such as avatar and room builders as well as an administration interface and gamification analytics. The core engine enables its clients to quickly create rules, rewards, virtual items, levels, and notifications and publish them instantly on a digital property. The platform supports, among others, actions, challenges, points, multiple levels, leaderboards, virtual goods and rooms, groups, competitions, notifications, social networks, comments and newsfeeds. Bunchball is aggressively expanding its Nitro engine for deployment on Salesforce, Jive and IBM connections with widget-like components to provide game mechanics in enterprise environments.

Major Clients: Bravo, Campusfood.com, Chiquita, Playboy, Rightguard, LiveOps, MTV, NBC, Syfy, USA Network, Telemundo, Warner Bros., Wendy's

Funding: \$17.5M



Cadaly's

Located in Sunnyvale, California Cadaly's is focused on the enterprise market and has built a product platform that supports Salesforce.com as well as Force.com. Cadaly's primarily acts as a consultancy that builds custom Salesforce.com business applications for its clients.

Major Clients: Marketo, a Fortune 500 retailer, a Fortune 1000 retailer.

Funding: Not disclosed



Gamify

Gamify is located in San Francisco, California and was founded in February, 2010. The company started out by developing an encyclopedia for gamification. They have since created a consumer focused platform that supports social actions and rewards as well as virtual rooms and avatars. The Gamify platform is currently in Beta and published as a public test. Customers are accepted on a waiting list at this time.

Funding: \$193K



Gigya

Gigya was founded in June, 2006 and is located in Mountain View, California. The company has a suite of products that encompass social interactions, game mechanics and analytics.

Heavily focused on consumer gamification, Gigya deploys gamification functionality via a collection of plug-ins that are interoperable with the company's product suite that includes identity management and analytics services. Plug-ins cater toward essential gamification features that include leaderboards, user profiles, achievements/rewards, notifications, user activity feeds and a progress bar. In addition, Gigya has APIs that enable rewards for custom actions, interoperability with a website, as well as social integration with more than 25 social networks.

Major Clients: ABC, American Express, CBS, Chrysler, Cnet, CNN, Comcast, E!, G4, HP, Los Angeles Times, Microsoft, MSN, NBA, NBC, Fox, Reuters, Rubbermaid, Sprint, Starz, Tesla Motors, Time, Time Warner Cable, TNT, Universal

Funding: \$29.5M



IActionable

Founded in May 2010, IActionable is located in Provo, Utah. IActionable is focused on enterprise gamification through increasing employee productivity with their *Engage Engine*, which was the first complete approach to offer a gamification solution specifically for Salesforce.com.

The Engage platform covers the features points, achievements, levels, leaderboards, and notifications that scale to large user numbers. IP-based APIs enable the platform to interface with other digital applications.

Funding: Not disclosed



Pug Pharm

Founded in 2011, Pug Pharm is based in Vancouver, Canada. The founders of Pug Pharm are game developers and launched their Social Network Online Game Engine (*SNO-GE*) in the same year. Geared toward consumer gamification, the back-end includes a Flash/Flex API & SDK and a JSON/Javascript API & SDK that enables developers to build custom games and gamification applications. The platform also includes a campaign manager as an administrative toolset that monitors rewards and behaviors. The SNO-GE supports game features, virtual goods, and social networking integration that follows a collect items, connect with other users and receive rewards approach.

Major Clients: NASA, History Channel

Funding: Not disclosed



Seriosity

Since its founding in 2004, Seriosity combines a consulting business with a business software platform that addresses core business processes. The company is based in Palo Alto, California. Seriosity's platform server supports functions such as account provisioning, login, trading of currency, checking balances, user statistics, transaction histories, management of profile information, allocation of allowances, recognition for specified transactions and taxes.

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