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Social Networks See Big Bucks in Inmates and Spirits

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On the average day, very few of us want to pay a visit to a prison, let alone become an inmate. But in the alternate reality of the social network site Vkontakte.ru, it is the place people rush to after work – and even sometimes during office hours.

"Slammer" is the name of a popular Russian social game created by Kefir studio that has attracted 5,590,160 users since its creation in mid-November. It allows users to live the life of a prison inmate and even make tattoos for a few rubles.

Games like this, which bring millions of rubles to their creators and social networks, may soon become an important profit driver on par with advertising for social networks in Russia and around the world, experts say.

About 28.5 million Russians aged 12 to 54 years in Russian cities use social networks at least once a month, while 17.9 million use them at least once a day, according to data by TNS,

a global market research group.

The number of users is constantly growing and making social networks hopeful for increased revenues.

While Facebook, the global leader, has more than 500 million daily users, Russian social networks operate on a smaller scale and are largely used in Russia and other parts of the former Soviet Union and by the Russian-speaking population abroad.

They are, however, not without promise. The reach of social networking sites in Russia swelled by 21.5 percent last year and is estimated at 83.4 percent, according to data by comScore, a global Internet market research company.

Vkontakte.ru, Russia's biggest social network, has more than 23 million daily users. Its biggest competition, Odnoklassniki.ru (Russian for "Classmates") places second, with 7.1 million unique daily users and 17.9 million users a month.

Even though the scale of social networks' operations is smaller, the ways in which they earn money are borrowed from the West.

"No special expertise has been invented here," said Andrei Silvestrov, publishing director at 101XP, a Russia-based social media game company that works with companies like Mail.ru, owner of Odnoklassniki.ru and MoiMir@Mail.ru.

The three main ways for social networks to make money include monetization through paid services, advertising and applications, he said. The main revenue driver for all of them is advertising and games.

Vkontakte.ru, for example, has a focus on contextual advertising, a form of target advertising that shows users what they will most likely be interested in based on their interests, place of birth and other data displayed on their profiles.

Social games, when users pay actual money throughout the gaming process in order to dress their pets, purchase a barn or make a tattoo on an inmate's shoulder, currently earns social networks about $10,000 a day and can assemble an audience of millions in a matter of three to four weeks, said Yelena Masolova, founder and CEO of Pixonic, a popular social games publisher.

The Russian gaming market is currently worth $90 million to $100 million a year and it may top $500 million by 2015, according to 101XP.

With a total number of users at 60 million people, social networks make about 30 percent to 50 percent of their profit from social games, said Gevork Sarkisyan, general director at Innova, a company that creates and localizes games.

There are about 30,000 social-networking games on the global market and about 100 new ones are created every day, said Masolova. But only about 5 percent of those games catch the eye of a social-networking game publisher.

Developers concede that there is no direct correlation between the success of a game and the

number of games a company creates: Some strike gold at first try and others go years trying to create a hit.

Games, however, do spring like mushrooms, drawing complaints from developers and publishers about a new version of piracy in which copycats try to piggyback on the success of a hit.

"A big part of the market today are clone games developed or published by domestic companies but almost identical to popular hits on Facebook," said Yevgeny Grigoryev, vice president for business development at 101XP.

This kind of game is 90 percent identical to the Facebook hit but difficult to challenge in court, he said.

The average social-networking game costs $30,000 to $50,000 to develop in Russia, and a similar amount is spent on advertising and servers, game publishers say.

The cost includes paying a team of developers to create a game in three to four months and then support it for a minimum of two months, said Vladimir Rozov, head of BIT Creative, a Penza-based company that created the popular game "Domovyata," which allows players to live the life of a house spirit.

The profit — made by users paying 1 to 10 rubles at a time to add extra functions to a game — is then split through a revenue-sharing system in which the social network collects 30 percent to 50 percent and the rest goes to the developer.

Game developers choose different social networks to ensure success. Masolova said her Pixonic and other professional developers like SocialQuantum and Plarium prefer Odnoklassniki.ru because it gathers the most affluent adult audiences.

Amateur developers, she said, prefer the web site's rival Vkontakte.ru, because it was the first to offer an application programming interface, an instrument for publishing applications that does not hamper viral (semi-spam) ways of building up audiences.

Developers and publishers of social games are often young and ambitious and cluster together in small groups of six to several dozen people.

Silvestrov described his own 101XP as "a young team consisting of industry professionals."

101XP introduced its first game in March 2010 and has made Russian versions of games such as "City of Wonder" by Playdom and "Social City" ("City of Wonder" was recently purchased by Disney) and "Fast & Furious" (the official game of the "Fast and Furious" movie franchise). Today, the company manages seven games on four social networks and is working to double the number of games to 14.

Games are the most popular applications in social networks, said Anna Artamonova, vice president for communication services at Mail.ru. The next best thing, she said, is freemium, a term coined in 2006 from "free" and "premium." This business model works by offering basic products or services for free and charging a premium for valued-added or related products and services.

"This approach has a number of advantages: Free services are better perceived by the audience, and that means that their popularity grows faster," Artamonova said.

Masolova, meanwhile, believes so strongly that games and electronic content will be the way for social media to earn their keep that she left a venture capital firm she founded to develop Pixonic, which today publishes games by dozens of developers on 11 social networks from South Korea to Argentina.

"Pixonic is truly a global project that should enter the top three social network publishers," said Masolova, also the founder of DarBerry, the Russian version of Groupon that she created and then sold to Groupon. She now sits on the board of Groupon Russia.

In addition to making money, developers said the bottom line is simply having fun.

"Developing a game is in a lot of ways a fun process that becomes very nerve-wrecking after the launch of a game because many tiny errors pop up," Rozov said. "But in the end, of course, it's just fun."

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