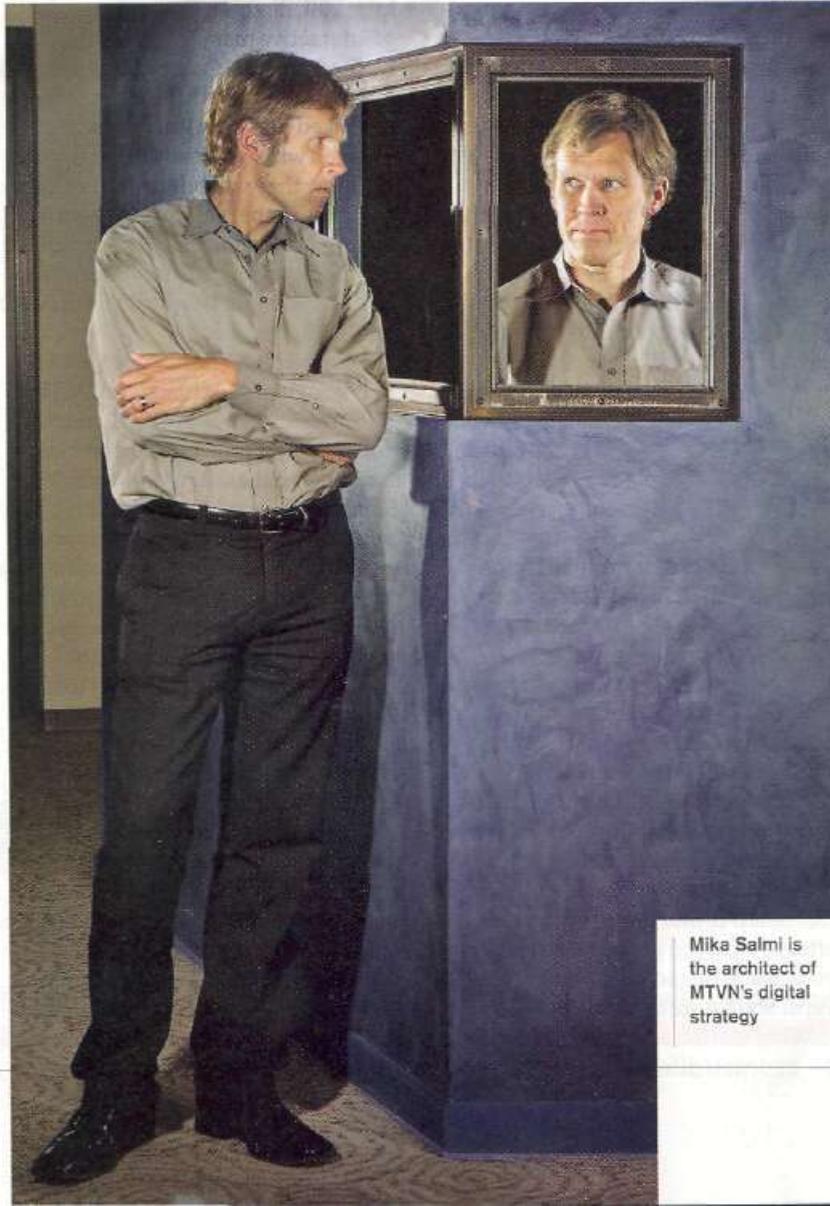


ENTERTAINMENT

The Game's the Thing At MTV Networks



Mika Salmi is the architect of MTVN's digital strategy

Its enormous investment in online video games is a bet on their juicy ad prospects

By Tom Lowry

When Rupert Murdoch snatched MySpace.com out from under Viacom in 2005, a pall of self-doubt and recrimination descended on the folks at MTV Networks, owner of VH1, Spike, and Comedy Central, among others properties. They wondered: Was the Viacom division that had once dominated youth culture blowing it on the Web, where young eyeballs were congregating?

Today, any regrets over MySpace are a fading memory. MTVN is pushing hard into online games in pursuit of their rich advertising potential and can't have failed to notice that traffic growth is slowing at social networks.

No Old Media company has placed a more far-reaching bet on gaming. MTVN operates more than 5,000 mobile, console, and online games and virtual worlds—many of them based on TV shows such as MTV's *The Real World* and Nickelodeon's *SpongeBob SquarePants*. MTVN has even cut a deal to develop new titles with Hollywood

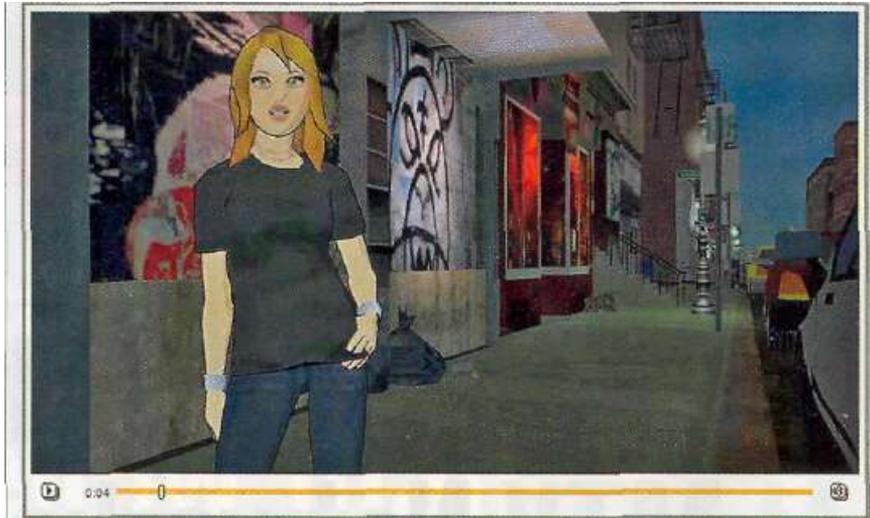
iiiber-producer Jerry Bruckheimer of *CSI* and *Armageddon* fame. And this isn't just about kids. The network is keen to hook the growing ranks of so-called casual gamers, including women old enough to have a couple of teenagers in the house.

The appeal of games is simple enough. They are addictive—like "digital crack," says Jeffrey Yapp, an MTVN executive charged with developing new digital ventures. How addictive? Total time spent gaming online hit 11.4 billion minutes in December, up 27% over the previous year, according to Web-traffic tracker comScore. Only e-mail and shopping keep people online longer nowadays. "Of the traffic to our more than 300 Web sites," says Mika Salmi, MTVN's top digital executive, "we know nearly half [of the visitors] have played a game."

AVATAR AUDIENCES

MTVN started to ratchet up its game strategy three years ago with a series of acquisitions. The company has plowed \$800 million into properties that appeal to a range of ages, from Neopets, a virtual world where kids create their own cartoon critters, to Harmonix Music Systems, which created the all-ages Rock Band, MTVN's rival to the ultra-popular Guitar Hero. The network plans to spend an additional \$500 million over the next couple of years buying new titles or building them from scratch.

One big push: adding gaming to virtual worlds—of which MTVN now has 11. One (currently in alpha II testing and open to the public) is Virtual Lower East Side, where music fans' avatars wander New York's hip Ludlow Street and sample tunes. To add a competitive vibe, MTVN has invited indie bands to perform virtually in clubs for crowds of avatars, who choose their favorite acts. The winners—the actual human beings, that is—will play on the old-fashioned television channel MTV2. "We can blur the line between fantasy and reality in a way that has never been done before," says Salmi.



MTVN doesn't break out its gaming ad revenues but says it has signed up dozens of advertisers. Staples Inc. recently sponsored a game on Shock-Wave.com, an MTVN site that attracts millions of women users. The game features the Easy Button from its TV spots that, when pressed, magically makes chores disappear. Women visitors were asked to submit photos showing why they needed an Easy Button. They voted on the top five—including a messy garage—and the winning photos were converted into digital jigsaw puzzles, which happen to be a favorite among women gamers.

MTVN has been putting product placements in its TV shows for years. Now it's doing the same thing online. Consider Virtual Laguna Beach, a world based on the hit MTV show about wealthy teenagers. Here visitors can compete in paintball and other contests. Winners earn points that can be used to buy garments, virtual or real, from Pepsi Style, the soda maker's line of youth apparel. Oh, yes, and when PepsiCo introduces new graphics on its cans in the real world, MTVN updates them on its virtual soda machines. If your avatar recycles a can after 10 sips, you get a free garment for your avatar or a 10% discount at the real Pepsi Style store online.

What started as a "test" for Pepsi

two years ago is a growing part of its ad strategy, says John Vail, director of interactive marketing for Pepsi-Cola North America. "We can count on that audience being baked-in," says Vail, "If they are engaged with us in the virtual world, we know they will be engaged with our products in the real world." Pepsi has a similar recycling incentive program for its MP3 song giveaway, launched during the Super Bowl with spokesman Justin Timberlake.

Advertising is the main act, and that's not likely to change, but MTVN also hopes to sell tons of virtual and nonvirtual stuff in its online worlds. It recently cut a deal with Nexon of South Korea, a leader in digital money transactions, to help create this business. Last fall, Neopets began offering a gift card (for sale in the real world) that kids can use to buy any of 20 toys and accessories for their virtual pets.

Does MTVN have the goods to make a go of gaming? It faces the classic problem of the Digital Age: how to best monetize its Web properties—read: stick ads everywhere—without alienating its audience. Plus, MTVN will have to find ways of nurturing the creative spark at the game companies it has bought. As David Cole, an analyst with video game consultancy DEC Intelligence, says: "The weight of a media giant may force a young industry to dance to an old tune." **IBWI**

