Virtual Economies, Virtual Goods and Service Delivery in Virtual Worlds

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Virtual Goods: *Good for Business?*

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Whilst 2008 saw the emergence of the virtual worlds sector, 2009 has to be called the year of the virtual good. With online destinations such as social networks seeing a creation of brand-new revenue steams and virtual worlds 'giving the users want they want', the virtual goods sector is one of the fastest growing areas of the Internet.

In its most popular form, virtual goods relate to accessories for avatars–clothing, hair and other person-related apparel. These are purchased by users to customize their appearance and are popular across all types of virtual worlds, from kids and tweens right through grown-up worlds and also apply across all genres. There is an incumbent demand for users to want to change and control how they are seen in virtual worlds.

But virtual goods don't just include avatar appearance customization. Online communities are learning how to monetize all aspects of the user experience, including the ability, for example, to buy a bespoke user name or access specific areas inside a virtual world. On the SocNet side, virtual goods are being used to great effect with social/mini-games, providing 'tools' to complete a game faster/level-up.

Interestingly, average revenues per paying user (ARPPU) increases in line with age, highlighting the value in older demographics. Typically ARPPUs from SocNets peak at around $5 per month, rising slightly to around $6 for virtual worlds. In terms of the overall market in total revenue terms, we estimate it to currently be worth $3 billion globally, rising to $14 billion in 2012.

Virtual Goods Revenues (USD)
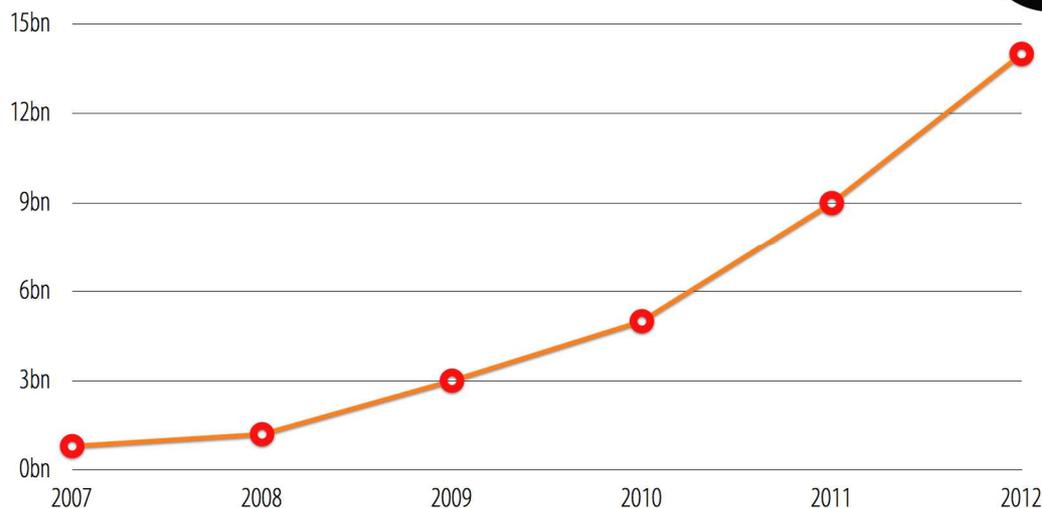
Source: KZero. Includes VG's from VW's, socnets and cross-world

This growth rate is potentially underestimating the future market value when you factor in the impact of augmented reality revenues and other sources of virtual goods platforms such as the AppStore.

Drilling down to a company level, late-teen virtual world IMVU recently announced monthly sales of $2m, the majority coming from virtual currency sales for virtual goods. And other virtual worlds will also be earning this level of income shortly. Recent estimates of Facebook earning from virtual goods highlights another facet of the model–gifting. In this context, virtual gifting simply means the sending of an item or service to another. Facebook is estimated to be earning circa $40 million per year from virtual goods, representing 10% of total revenues and gifting plays a major here.

And that's great. People are sending real world money to purchase virtual currencies, goods, and services, and the trend shows no sign of slowing down. But interestingly, all of the market is focusing on the consumer side–virtual goods for socializing and playing. What about the B2B side? Is a new model for business related virtual goods (B2V) about to appear?

There's certainly a strong argument to suggest B2V is a market with potential. We've already seen corporate adoption of new internet channels, such as blogging, micro-blogging and video (viral) activities. Also, many global corporations have already experimented with virtual worlds, most inside Second Life.

Unfortunately, the vast majority of these 'early adopter' companies used the wrong strategies with their first attempts. They were thinking symbolically (how shall we show our brand, products) rather than metaphorically (how can we convey our brand). They also overlooked, in most cases, what they did in the real world in relation to leveraging that product/service into a virtual context.

Looking at forecasted revenues for the VW B2B space specifically, the graph shown below presents growth through to 2013.

Virtual World Revenues: Consumer and B2B (USD)
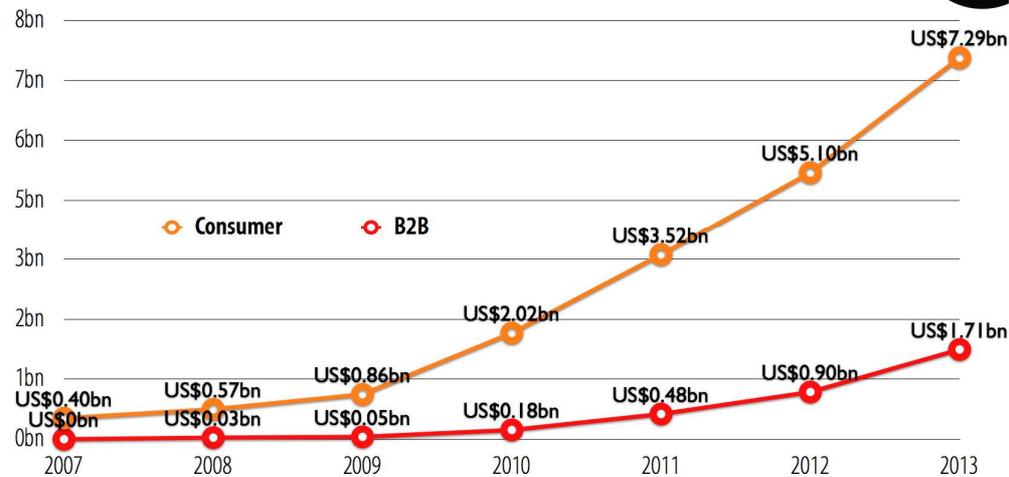
Source: KZero. Includes premium subscriptions, marketing and micro-transactions

Although B2B revenues are considerably lower than those for consumer, this forecast clearly indicates that these revenues are not insignificant. Virtual world revenues for 2010 are tipped to reach $180 million, rising to almost $1 billion in 2012.

If the same model observed on the consumer side is mirrored by B2B, then virtual goods for business will definitely mean business.

Moving onto strategy, it shouldn't just be a case of 'pushing' a corporate brand into a virtual space and relying on avatars to want to interact–there has to be a compelling reason for the engagement and genuine value deliver via the virtual good or service.

There's also been a major push in the area of cost-saving across the global economy and several large tech/IT companies advocating virtual worlds as excellent platforms for business. This is another indication of future adoption. So, there are signs that businesses will use virtual worlds more moving forwards.

Corporate avatars in virtual spaces and greater adoption of SocNets for business could mean a new market appearing. And there's a few different ways virtual goods could be distributed. Also here, it's worth remembering that gifting and giving plays as important role as a direct purchase.

Virtual goods could be given from companies to employees. These could relate to tools or items that can be used by the employee in a virtual world and would probably carry a degree of branding. The company to potential customer relationship is probably the most obvious application of B2V–companies giving, gifting or selling virtual goods related to their real world operations and brand to avatars and SocNet presences of potential clients.

Or, on a more intimate basis, an employee to potential customer relationship would mean a sales person (for example) being the instigator of the transaction. On a similar basis, company to company would mean one company giving all representatives of another company a virtual good or service. Looking at these relationships from a different perspective, B2V could be used as part of a job application or 'skills promotion' process by potential employees to company mechanics.

What types of B2V's are possible?

Here's a list brainstormed list:

Firstly, apparel. Just as avatar customization is popular for consumer virtual goods, 'business' avatars need to look good too. Real-world clothing and accessory brands that have business-related ranges are prime candidates here. Examples could be a range of corporate branded avatar clothing or accessories, designed to inform other avatars of the company presence.

A recent Gartner report hinted at this idea: 'Avatars are creeping into business environments and will have far reaching implications for enterprises, from policy to dress code, behavior and computing platform requirements,' according to Gartner, who predicts that by year-end 2013, 70 percent of enterprises will have behavior guidelines and dress codes established for all employees who have avatars associated with the enterprise inside a virtual environment.'

Related to avatar accessories and apparel is the actual physical appearance of the avatar itself. Avatar creation services (sold as virtual goods) seems like another reasonable application. Arguably business avatars need to look more realistic, perhaps even photo-realistic in order to drive the adoption of enterprise use in virtual worlds. This product would automatically make person-specific avatars.

Thinking more about wider business services and their application to virtual goods, companies with product or service-specific solutions need to think about how a virtual space can accurately translate these products (or brand) whilst providing value to the end user. This might be a car company providing transportation/teleportation services into a virtual world to promote a new car to business users, or an accounting firm creating a tool to manage virtual currencies.

Another examples could include a real-world hotel providing virtual meeting rooms, an architect providing virtual offices, or a company providing a prototype of a new real-world design. Training companies might also offer sponsored orientation services in virtual worlds for the newbies. IT companies could allow customers to 'construct' their orders in a virtual content, a concept tested by Dell in Second Life.

That's just a quick list of potential B2C applications. One thing is clear, the enterprise and corporate use of virtual worlds is increasing. This means more companies and more employees entering this space and interacting with other companies. Just as virtual goods act as a key stimulus in consumer worlds, there's a compelling argument to suggest virtual goods for business is a sector about to emerge.