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Virtual Economies, Virtual Goods
and Service Delivery in Virtual Worlds

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Teens and Virtual Goods:

The Fun, Useful and Affordable Luxuries that are Driving the Virtual Economy

By Maura Welch, WeeWorld

Keywords: virtual worlds; teen; virtual goods.

Teens and Virtual Goods:

The Fun, Useful and Affordable Luxuries that are Driving the Virtual Economy

By Maura Welch, WeeWorld

U.S. and global economies may be in a historic downturn, but the current generation of teen digital natives is fast establishing a rising virtual economy. ⁱIn-Stat predicts the total revenue in virtual worlds—driven primarily by the sale of virtual goods—will exceed \$3 billion by 2012. According to KZero ⁱⁱ, the largest single age group of virtual worlds users is 14—with the 10-15 age group on track for the largest future growth. So what is driving this new virtual economy, and specifically, how and why are teens fueling the growth?

Fun with Identity Formation

Virtual worlds are quickly becoming a popular way for teens—especially younger teens 13-16 years of age—to spend time connecting with existing friends while searching for new contacts. According to KZero, in the third quarter of last year alone, 92 million new, unique users joined virtual worlds. However, as virtual worlds grow, teens are looking for more opportunities beyond just building their personal networks. Enter virtual goods—items users can earn or purchase to express themselves creatively or to gain status among their peers in a community.

Those who have not spent time in online communities and worlds find it difficult to understand the motivation for purchasing virtual goods. But buying them or completing tasks to earn them is fun and challenging, in the exact same way shopping or playing games in the real world is fun and challenging. For example, some virtual goods provide an immediate advantage in games or contests, some help express your personal styles and interests, and some can be sent as gifts to friends. Sometimes people buy virtual goods because they're impatient or competitive and don't want to wait the number of days it would take to earn them for free. But fundamentally, virtual goods are entertainment—they make it fun to interact with friends and express personal styles.

Virtual goods are not just about fun. Developmentally, teens are at a stage in their lives that is all about testing and evolving their emerging identities. So within the context of a virtual world, the props that help them with that important process are virtual goods. By choosing items that express their emerging affiliations (styles, causes, occupations, friends, dating, interests, passions), they can then test out these new combinations on an audience of their choosing—either with existing friends or with new people. Virtual world role-playing gives teens a fun and non-threatening way to experiment and test out new things.

While teens purchase virtual goods all year long, just like in the real world, holidays give users even more reasons to spend. Recently, mobile payment provider Zong reported ⁱⁱⁱ that consumer spending on virtual goods rose 27% on Black Friday. Other holidays including Halloween and Valentine's Day can also drive spending on decorative virtual items and virtual gifts.

Allowances and Spending

There are both developmental and recreational reasons why teens are flocking in record numbers to the Internet, and in particular virtual worlds, over other forms of home entertainment—and they're bringing their dollars with them. According to eMarketer^{iv}, teen spending will reach \$208.7 billion in 2011, up from \$189.7 billion in 2006. In addition, a recent study by Cavallino LLC^v found that there is no end in sight for the teen spending boom, despite the recession.

This is corroborated by a recent teen survey of more than 4,000 WeeWorld users which found that despite the declining economic forecasts, more than half of teens claim to have the same or higher allowance than before, while only 11% noted that they are getting less allowance now than in the past. So while many households may be feeling the pinch, only a small number of teens have needed to alter their spending habits online.

Affordable Luxuries

Despite stable allowances, the Cavallino report does suggest that teens (and their parents) will curb spending on luxury items—and that's where virtual goods come in. When compared to real world goods, virtual goods are a bargain.

Ranging in price from a few cents to a few dollars, these little virtual items are adding up to big numbers. According to Forrester and others^{vi}, \$1.5 billion a year is currently spent on virtual goods worldwide, and this number is expected to grow as consumers tighten their budgets on more expensive items in the real world.

Pam Danzinger, author of the book *Why People Buy Things They Don't Need*, says that "luxury has nothing to do with money; it has to do with meaning" (<http://www.msnbc.msn.com/id/6872012>). Consequently, "luxury" is defined by what the buyer thinks is luxurious and it has more to do with where the buyer's passions lie than with how much they have to spend.

It's easy to connect the dots—teens are all about evolving their emerging identities, and one way they do that is to spend time with each other on virtual worlds. In that environment, virtual goods are the props that add style, uniqueness, luxury, and fun. Teens have so many motivations to spend—they are not just helping to create these emerging virtual economies; they are also protecting them from the recession.

Variety and Keeping Pace with Trends

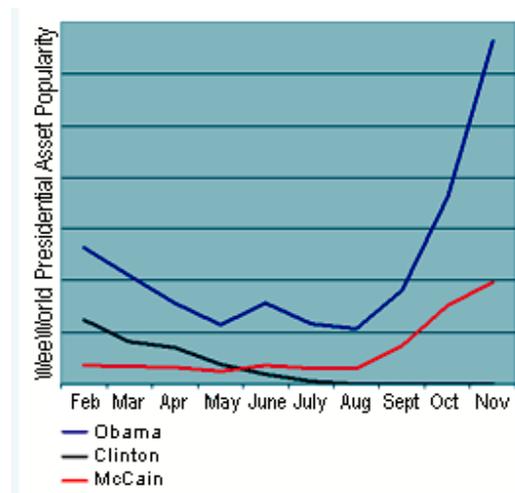
Just like in the real world, offering a variety of goods helps to drive purchases in the virtual world. From virtual sneakers to accessories, hairstyles to gadgets, teens want the virtual world to reflect what they like and who they are becoming in the real world. Virtual worlds offer their own lines of styles that might range in price from ten cents to three dollars.

Brands themselves are a key component of the way teens develop identities, express themselves, and collect visual equity they can leverage. Increasingly, brands are finding their way into established virtual worlds and offering another tier of luxury to teens eager to wear their favorite brands. According to *The Licensing Letter*^{vii}, licensed brands in the real-world can command a 33% premium at retail and it's much the same in virtual worlds. While a real-world RocaWear hoodie sweatshirt might cost \$40 or more, teens can splurge on one at WeeWorld for \$3.50, which is at least 33% higher than a generic hoodie created for sale by a virtual world. Celebrities also hold tremendous star power on virtual worlds as teens look to purchase goods that they have seen on the red carpet, in films or video, or on stage.

The catch in the virtual world is that the brands that are hot today may not be tomorrow as teen preferences and tastes change rapidly. For instance, today it might be a branded, animated skateboard and the coolest mobile phone, tomorrow maybe it's a shampoo offering special hairstyles or a coveted gift, and maybe the next day it's a TV for a virtual room that runs the newest movie. Virtual worlds need to be flexible and move fast to capitalize on trends.

However, it is not all about brands—premium items drive virtual goods purchasing. To be successful, premium goods generally need certain elements including timeliness, limited supply or collectability.

The recent presidential election is an example of timeliness driving demand. When given the opportunity to express their political views through candidate-themed virtual items, 46% of WeeWorld users endorsed now President Obama by adopting Obama-themed virtual goods. In fact, it was possible to track the candidate approval based on the adoption patterns of their virtual fans.



And directly following the scene created by Kanye West at the Grammy Awards this year, a certain virtual item became quite popular for a time...



Many virtual worlds offer weekly or monthly collectibles or limited editions. These items, only available for a short time, provide exclusivity to their owners when the coveted items are no longer available. Some items are sold as limited edition sets, which further drive the desire to purchase.

Steady Eye of the Evolving Economic Storm

In both promising and challenging economic times, virtual worlds flourish as people spend real money on virtual goods. Today the average movie ticket is approximately \$10 (minus the popcorn, candy and soda) and the average PlayStation game costs around \$65. Virtual worlds are becoming a cost-effective alternative for entertainment, and teens are constantly seeking novel ways to entertain themselves. As for the companies catering to teens' changing tastes, it's far more cost-effective to create new virtual goods than it is to manufacture new real ones.

eMarketer notes that today's teens have grown up immersed in the concept of creating avatars to participate in virtual worlds. However, most adults haven't spent any time, and may never spend time, in virtual worlds—though this varies based on geography, with Asia leading the trend. The question that will determine future growth for virtual economies becomes: When these teens become adults, will virtual goods still play a leading role?

ⁱ InStat October 2008, "[Virtual Worlds and Web 3.0: Examined, Compared, Analyzed](#)"

ⁱⁱ KZero February 2009, "Universe Chart"

ⁱⁱⁱ Virtual Goods News December 9, 2009, "Quick Stat: Virtual Goods Spending Soars On Black Friday"

^{iv} eMarketer July 11, 2007, "Teen Spending and Web Usage Up"

^v Cavallino LLC January 13, 2009, "2009 Consumer Shopping Intentions Study"

^{vi} New York Times, December 7, 2008 "Storefronts in Virtual Worlds Bringing in Real Money"

^{vii} The Licensing Letter, August 2009, "Retail Pricing of Licensed Vs. Non-licensed Merchandise"