

High performance. Delivered.

The journal of
high-performance business

On the Edge

Virtual worlds, real business?

By Kishore S. Swaminathan, Chief Scientist, Accenture

Even as we rush headlong into the world of Web 2.0, there's a veritable groundswell of blogosphere wisdom that holds that virtual worlds will form the basis of Web 3.0.

The media buzz around new virtual worlds such as Second Life would almost have you believe that—as the video game generation grows up and graphics technologies advance—the web as we know it today will be a thing of the past and virtual worlds will be *the* way of doing business online. Even the industry analyst Gartner has opined that, by 2011, 80 percent Fortune 500 companies will have some kind of virtual world presence.

Emerging reality? Misguided optimism? Marketing hype? Before you bet the farm, let's take a closer look at virtual worlds to understand their strengths, weaknesses and business potential.

Unlike websites, virtual worlds are graphically rich 3-D environments that mimic the physical world. Users represent themselves as *avatars* (Sanskrit for “incarnation”) and navigate by

moving themselves around. As they move through these worlds, they discover new places, interesting objects and bump into other people (or their avatars) with whom they can interact.

Within this common framework, however, there are two very distinct classes of virtual worlds: “scripted” video games that have story lines, rules and goals to attain; and “non-scripted” worlds, where users (and businesses) can create their own subworlds and experiences.

Contextual commerce

In 2002, the online game EverQuest became, in terms of per capita GDP, the 77th-richest nation in the world, a notch below Russia and far ahead of China and India. How? Players started selling virtual goods—magic keys that open doors to more advanced features of the game and specialty weapons to slay monsters and ogres—as well as their avatars for real money in “player auctions” on sites such as eBay.

A new cottage industry soon emerged that today employs more than 100,000 people—mostly young adults—around the world. They

If you are a business of any size, you wouldn't embed your commerce inside a proprietary world controlled by someone else.

work 12- to 18-hour shifts battling Ironjaw Basilisks and Ice Thistle Yetis to collect drops of Greater Arcane Protection Potion and blocks of Ancient Sinew Wrapped Lamina that other players are willing to buy for real money to shortcut tedious parts of the game, gain magical powers and have more exciting gaming experiences. Some professional gamers also offer “power leveling” services—for real money—to help other players with difficult adventures that would otherwise mean hours of battle and endless wandering.

We're talking serious money here. The economy for virtual goods and services for video games is estimated to be upwards of \$800 million!

If fighting Ice Thistle Yetis and collecting Ancient Sinew Wrapped Lamina don't fit gracefully in your business plan, online games do provide other, more sober business options that might. With a loyal user base of more than 25 million, they are increasingly becoming a medium for contextual advertising to highly targeted audiences.

Responding to this opportunity, many blue-chip companies (including The Coca-Cola Company and Procter & Gamble) are buying advertising and product placement in video games, ad agencies specializing in game advertising are springing up, and Nielsen Media Research has come up with a rating index—GamePlay Metrics—to cater to game advertisers. Yankee Group estimates that game advertising will grow to be a \$732 million industry by 2010.

Online games even provide opportunities for contextual commerce. In a creative tie-up between Sony Online Entertainment and Pizza Hut, a player of EverQuest II could order pizza and choose his toppings (no gender bias intended: It's usually a he) from inside the game without

wasting precious game time fumbling for the phone.

But the current excitement around virtual worlds comes from “unscripted” worlds like Second Life, There, Moove Online, Activeworlds and others. These are worlds with no ostensible goal or purpose, worlds that exist simply as places to explore and experience—and, of course, to conduct commerce.

Consider this. As of May 2007, Second Life claimed 6.5 million members. More than 60 real-world companies, three US presidential candidates and a Unitarian church have set up shop in Second Life. Nike and MTV have a significant presence in There.com, which boasts a more modest half million users. Both Second Life and There have their own currencies—Linden dollars (L\$) and Therebucks, respectively—that float against the US dollar. Second Life not only boasts a money supply of about \$10 million; it even has a stock exchange, with more than 50 listed virtual stocks.

What exactly do the denizens of these worlds do? Broadly speaking, they exist, explore, experience, express and exchange.

They exist as virtual incarnates—avatars again—in a graphically rich, topologically laid out landscape, which they explore by moving themselves around to discover new places—buildings, stores, clubs and gardens, along with some less wholesome venues (which are among the most popular in Second Life). They express themselves by creating interesting virtual objects, by dressing up their avatars with virtual decorations or by chatting with others. They experience—or more accurately, create experiences for themselves—by joining special-interest groups and guilds, buying virtual homes, getting married to other avatars, adopting virtual children and going camping with the

family. And they exchange virtual goods for virtual currency.

Inane? Intriguing? Bizarre, perhaps? Whatever your personal feelings may be, these worlds continue to generate buzz, attracting businesses and individuals alike. If you spend a few hours in Second Life or There and chat with the regulars, you'll at once be puzzled and amazed to see that these make-believe worlds are all very real to their residents, who take their virtual world experience seriously indeed.

Dubious economics

All these worlds promote themselves as marketplaces with significant business potential. Companies ranging from IBM to Toyota Motor Corp. to Kraft Foods have opened their own subworlds in Second Life to interact with their customers and to promote their brands and products.

Yet a closer look at the economics of Second Life is very instructive. Of the nearly 300,000 avatars who engaged in a virtual economic transaction within Second Life in May 2007, 44 percent spent less than \$2 each and 72 percent spent less than \$20 each.¹ More than 85 percent of the more than 12 million transactions were for less than 80 cents.

So, are these worlds a passing fancy or do they represent deep, as-yet-untapped business value? In an attempt to answer this question, let's look at the four different types of economic opportunities that exist within these worlds.

Real estate. Not unlike the settling of the American West, virtual worlds are in the process of being "settled." Some media reports have touted this as a massive opportunity to buy virgin

(virtual) real estate, hold it and then sell it for huge profits. At about four cents per square meter, Second Life real estate is a bargain indeed.

So why isn't Donald Trump buying? Probably because virtual real estate is missing three critical ingredients that make physical world real estate appreciate.

First, there is unlimited supply; the operators of the virtual world can create any amount of land they want. Second, distance and proximity (beyond the size of your screen) are not useful concepts in virtual worlds, since you can "fly" or "teleport" to any location in an instant. As a result, a parcel of land 100 meters away from a mall does not accrue any additional value over a parcel of land in an undeveloped area.

Finally, virtual real estate does not need physical infrastructure—water, sewage, electricity, highways—so there's no value added to your land as a virtual community develops around it. There may be a role for real estate speculation. But it's definitely not in holding large tracts of virgin land but in owning strategically placed, screen-sized parcels between high-traffic areas that users are likely to wander into.

Role playing. To a large extent, virtual worlds are geared toward role playing, and so are their economies. A wide range of virtual products and services—clothing, shoes, cosmetics, jewelry, handbags, bridal wear, hairstyling, wedding chapels, tattoo parlors and so forth—cater to their customers' role playing needs.

Given that most virtual items cost less than \$2 in all these worlds and given that 87 percent of the 12 million

¹ According to Second Life: "Several online resources allow residents to convert Linden Dollars into US Dollars and vice-versa. Rates fluctuate based on supply and demand, but over the last few years they have remained fairly stable at approximately 250 Linden Dollars (L\$) to the US Dollar." All dollar amounts here are based on this approximate conversion.

transactions reported by Second Life in May 2007 were for less than 80 cents, the role playing economy of virtual worlds is likely to be of marginal interest to most companies. However, if you believe that role playing behaviors indicate people's latent, deep-seated wants and aspirations, then your company could potentially use these worlds as a staging ground for new product designs to get early customer feedback.

Products and services. Clearly, one could conduct e-commerce in virtual worlds. Perhaps Amazon.com could be laid out like a real bookstore and eBay like a real flea market.

As novel as virtual worlds may be, will they scale up or add significant value over today's websites? If you have spent any time in these worlds, you'll probably agree that navigation by walking an avatar around is tedious and adds little of value unless the physical world analogy is compelling (such as chasing a monster).

Further, would you embed the lifeblood of your business inside someone else's proprietary technology (every virtual world is based on its own technology) or do business with avatars in a proprietary currency not subject to government regulation or monetary policy? Large-scale commerce inside virtual worlds is not a business bet many companies are likely to make so long as they have to depend on the virtual world for customers, technology and currency.

Experiential economy. Much of the hype surrounding virtual worlds is based on the rationale that, as the video game generation grows up and graphics technologies advance, graphically rich, total-immersion environments will provide better user experiences. And if there is any serious business value locked up in virtual worlds, it's probably in the experiences they could create.

Imagine the following scenario. The buzz and novelty continue to attract visitors who begin to establish social bonds inside their preferred virtual world. Even if role playing is of limited mainstream appeal and the role playing economy is of limited value, these virtual worlds could evolve into a social space for many mainstream users, providing them with more graphically oriented chat rooms, online interest groups, social networking, online events such as concerts and parties, and just a place to have a good time.

With a sizable user base, stickiness and a graphically rich physical metaphor, virtual worlds could become an appealing space to create interesting experiences tied to physical reality—something that today's website metaphor is not good at.

As an example, consider a virtual replica of Chicago. A prospective tourist could become familiar with the landscape and experience what the city has to offer. Creating the experience—a virtual walk-through of Chicago—opens up advertising possibilities (from virtual billboards to virtual visits to jazz clubs on Rush Street) as well as advance ticket sales to real-world events (such as a boat tour on the Chicago River or a Cubs baseball game). Or consider a virtual replica of the yet-to-be-constructed 2012 Olympic Village in London serving a similar purpose. Virtual tours of homes for sale or virtual training to operate complex machinery are other potential business opportunities.

Trapped

The power of the web is built around open standards that have evolved over 20-odd years. If you are a business of any size, you wouldn't embed your commerce inside a proprietary world controlled by someone else and do any respectable business with avatars. When business conditions change, you would want to move your business somewhere else and take your

customers with you—something you cannot do if you are trapped inside a closed world with proprietary technology.

And, to the extent there are no universal graphics standards or languages for virtual worlds, you wouldn't want to build your own e-commerce site as a virtual world either. So on purely technical grounds, companies should be careful not to embed mission-critical functions or the lifeblood of their commerce in virtual worlds with no migration possibilities.

Kishore S. Swaminathan is based in Chicago.

k.s.swaminathan@accenture.com

Outlook is published by Accenture.
© 2007 Accenture.
All rights reserved.

The views and opinions in this article should not be viewed as professional advice with respect to your business.

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.

The use herein of trademarks that may be owned by others is not an assertion of ownership of such trademarks by Accenture nor intended to imply an association between Accenture and the lawful owners of such trademarks.

For more information about Accenture, please visit www.accenture.com