Virtual Worlds Market Research

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Introduction

Part I is a general view of the Virtual Worlds (VW) market, both from a commercial and technical view.
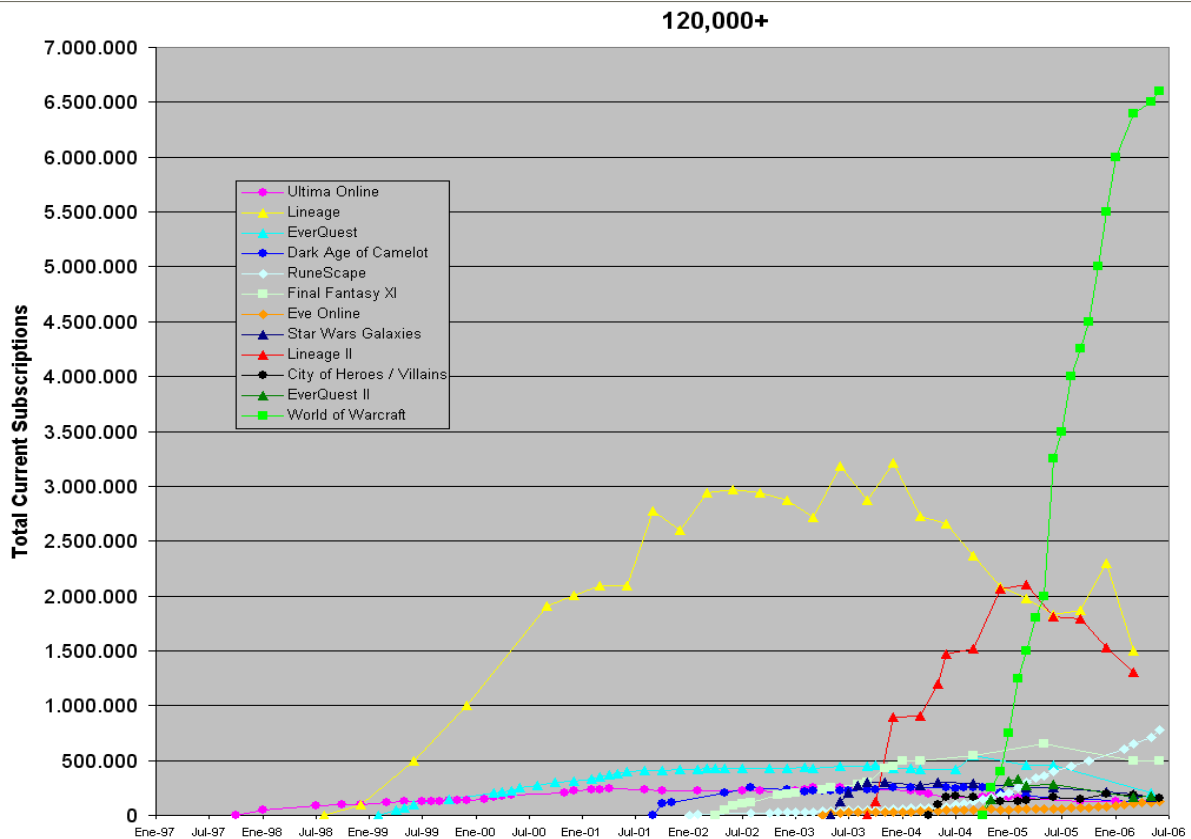
Part II is a description of the different business models, either existent or emerging, in the VW industry.

and finally, Part III is a collection of possible business opportunities for a small developer team located in Colombia.

Part I: Virtual Worlds today

Virtual Worlds are frequently confused with MMOGs: Massive Multiplayer Online Games. But that is natural, because MMOGs can be seen as a specialized subset of the VWs, but with the higher participation. Illustration 1 (in page 2) shows the growing of the MMOG subscriptions [MMOG01].

Table 1 (page 2) is a comparison of a generic MMOG vs a ideal Virtual World[1].

Thematic: The principal feature of a MMOG is that it is thematic-centered. There is a well-defined gameplay, rules, and characters. the world is consistent. If you log in into "World Of Warcraft", you can be sure that you never will find an Snoopy-dressed user. In the other hand, in thematic-free VW platforms like Second Life, you can bet you will find him!

platform management:

In MMOGs, both hardware and software in the server side are managed by the platform owners. This is a feature shared by some VWs platforms, like Second Life, but have some problems that will be exposed in the technical view section of this paper.

In general, VW servers must be easily configured by third-party companies.

Content generation:

In MMOGs, content generation is seriously limited or even banned by the proprietary This is because the world consistence must be preserved, and maybe because virtual objects must be "earned" following the game rules, instead of generated. This is specially important in the case of virtual economies that have some kind of real cash trading.

In VWs, user content generation is one of the key features, and the one that had helped to Second Life to reach a higher level of popularity.

Client Viewer:

Until now, none of the existent platforms has some kind of universal 3D viewer for virtual worlds. Many attempts had been done in that address, like the VRML format, and all kind of

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1 I talk of an "ideal virtual world" because none of the current virtual worlds platforms satisfied the 100% of the requirements.

120,000+

feature	MMOG	Ideal Virtual World platform
thematic	highly specialized.	generic – specific content generated by third party.
platform management	centralized, owned by one proprietary.	distributed, maybe licensed to third party.
content generation	generated by the proprietary, maybe with minor edition/modding in-house tools.	third party. Maybe other companies under some license model or ideally, generated by the users.
Client Viewer	closed, proprietary software owned and maintained by the MMOG proprietary no standards.	ideally, a common 3D browser, capable of working with many standards. In the reality, many proprietary viewers that will trend to accept "PlugIns" to talk with others platforms.
Business Model	subscription based, maybe virtual goods trading.	virtual goods trading, e-commerce, e-learning, B2B, B2C, advergaming, advertising, revenue share, and so on!
Interconnectivity	Not available. Users an resources from one MMOG have no way to be shared into other.	Key feature. Ideally, you must be able to cross different worlds in the same way that you navigate throw different web sites.

Table 1: MMOG vs VW feature comparison

Illustration 1: An Analysis of MMOG Subscription Growth

PlugIns for the actual Internet browsers. The common case is to have a viewer that you have to download and install for each platform that you want to log in.

Interconnectivity:
Until now, none of the existent platforms had implemented some kind of common protocol for interconnectivity VM platforms offer transparent navigation between worlds, but in the same platform.

Market view

"Internet Continues to Gain Market Share – Internet advertising accounted for nearly 5 percent of total U.S. advertising revenues in 2005, up from less than 4 percent reported in 2004. Internet advertising exceeded advertising for business magazines by more than 50 percent in 2005, and nearly matches total consumer magazine advertising. Adjusted for inflation, Internet advertising revenue significantly outpaced both cable and broadcast television in comparable early growth periods." [PRICE01]

As says the PWC quotation, Internet have become a very strategic channel not only for marketing activities but also for a lot of new business models. It has to do with the evolution of Web 2.0, which adds the concept of user generated content (wikis, podcasts, blogs..) and with the marketing guys talking about "social networking" and "viral marketing", some people have begun to talk about "web 3.D" as the next big step, with real-time social interaction, and not the asynchronous experience offered by the Web 2.0 tools (see Illustration 2).
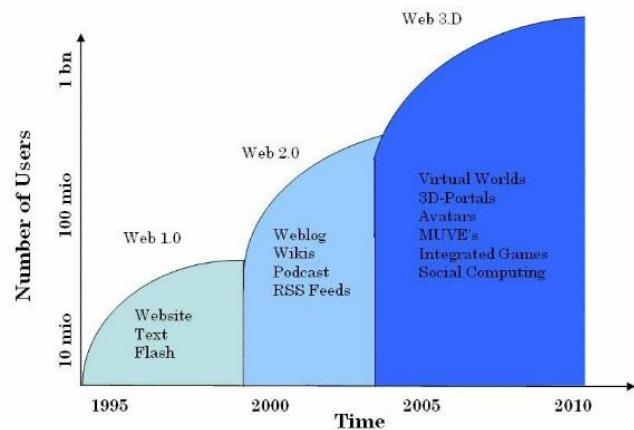

Illustration 2: evolution to web 3.D

More details about specific business models in Part II.

"Finally, treat your game experiments not as a marketing expense but as an R&D investment. Many media are already incorporating game-like elements either in the type of content they offer or the way they structure interactive experiences. Google is offering free access to its 3-D modeling software and now everyone with a computer and an Internet access can upload models of buildings and objects into its Google Earth application that already begins to look like Second Life. Some observers of the game space are cautiously saying that games offer a glimpse of what the next iteration of web is likely to become -- even more social than now because of the real-time nature of interactions, three-dimensional, and mediated through avatars. If their predictions turn out correct, then by experimenting with games today you will acquire skills necessary to respond to the inevitable changes in the future." [vedra01]

Technical View

What are the technical features that must have an ideal Virtual World?

Decentralized architecture:
A successful virtual world platform doesn't must be centralized, nor managed by the owner. Third-part companies must be able to install their own servers an host their virtual worlds, but integrated with the others worlds.

use of popular languages and protocols:

massification is critical, so the use of in-house languages and closed protocols must be avoided, because it will be a barrier for the popularity of the platform.

Easy of use for user generated content:

the key feature of SL, users must be able to generate content for their worlds. It means that they must have access to tools, or at least exporting scripts for third-party tools, either commercial or open-sourced.

Support for e-commerce.

And other basic services, like user authentication and authorization, statistics and reporting, and so on. This is very important for marketing activities.

Comparison of platforms:

This is a comparison of three different platforms for Virtual Worlds[2].

Second Life:

Created and managed by Linden Labs, SL have become into one of the most popular VW platform. Technically speaking, it is in fact ONE big world, fractioned in islands, where users generate the content of the world. Land and goods trading is a big business, stimulated by the fact that the virtual money can be changed by real money. SL had seen almost all of the business models that exist.

SL has a very closed architecture, their own built-in tools, both for 3D modeling as for scripting (and their own programming language).

Multiverse:

(www.multiverse.net) is very different to SL, in almost all ways. Any MMOG or VW developer team can download for free server, client and tools and begin to develop their own worlds. These worlds will require more skilled work that SL, because their target are skilled developers, not final public. Each world must find their own hosting solution, but all the worlds are accessed through a centralized login server, which also takes care of things like

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2 It there are a lot more out there, but these are the three I know.

credit-card transactions.

Worlds are not designed to be inter-connected, nor you can keep the look of your avatar the same in each world.

The solution uses standard protocols, files, and languages for development, and they have a revenue-share model, 10% of the gross revenue, if any.

OpenCroquet:

(www.opencroquet.org) is a open-source project, oriented toward highly distributed, interconnected, and collaborative environments, more useful for academic and business, and not useful for game development.

Another feature is the use of squeak, a derivation of the old smalltalk programming language, which is really different to modern languages like C++ and Java, and therefore is not so popular.

Part II: General Business Models

These are some of the business models that exist in virtual worlds:

subscription fees:

The primary income generator for the MMOG, where any user that want to play must pay a fee before he can log in. in the other hand, for VWs this is not the primary nor the most important option. SL has free accounts and premium accounts. The advantage of a premium account is that part of your payment is returned as virtual money, that you can spend in the world. In Multiverse, account management is centralized, but the worlds creators are free to choose the business model that better fits their needs.

virtual trading:

Already present in MMOGs, virtual goods trading (clothes, potions, armor..) is a key feature in SL, which has strong ownership rights policies. You as a creator of a object, can decide who can copy, modify and transfer to others, and define a price that must be paid in order to use that object. This is one of the most amazing features of VWs, because once you transform the virtual money in real money, the cash flow is bigger that those of some small countries.

If trading with virtual objects sounds weird to you, think about them in terms of "services" instead of "objects". a service with a graphical and multimedia representation.

virtual marketing – branding

"Almost 90 percent of respondents to a recent study say they will spend part of their budgets on marketing in video games, virtual communities. Reuters, February 7, 2007 [REUT01]"
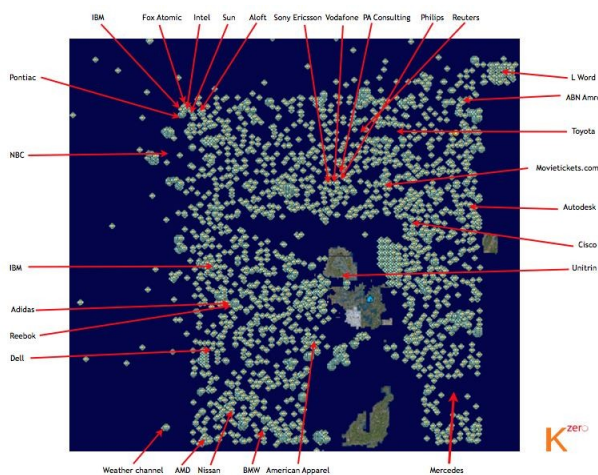

Illustration 3: Second Life Brand Map

This is another business model that have been largely used by VWs operators, specially SL. Illustration 3 shows a Brand Map of Second Life, with the position of the island that belongs to companies that are doing branding activities in SL. We can find two kinds of marketing strategies:

permanent presence: The company buys an Island, and builds their 3D equivalent to a home page.. with spaces for product and services exhibition, and mechanisms for users feedback. This is the scheme adopted by SUN and IBM, which is doing big efforts in the VWs arena. In second Life, IBM owns more than 3 islands. Yet attractive, this strategy has a danger: the Lonely Island effect. It is weird to visit the giant SUN island and discover that you are the only visitor in many miles around. It is bad for the company, too, because they must pay a relative high monthly fee by the island use.

temporal events: in the marketing slang, it is

the equivalent to "mini sites" strategy: it means to implement a temporal virtual place, when the company develops a concrete marketing campaign. Coke, by example, had launched recently a competition for SL builders, the idea is to build a virtual representation of the Coke's fresh concept. The competition was called "Virtual Thirst". Advergaming is another form of marketing that can be applied in VWs.

e-business:

Not everything is fun in the VWs land. Companies are seriously working on the development of new ways of collaborative work. Pablo Mancini, consuler from Argentina, talks in his blog about the possibility of VWs replacing Call Centers.

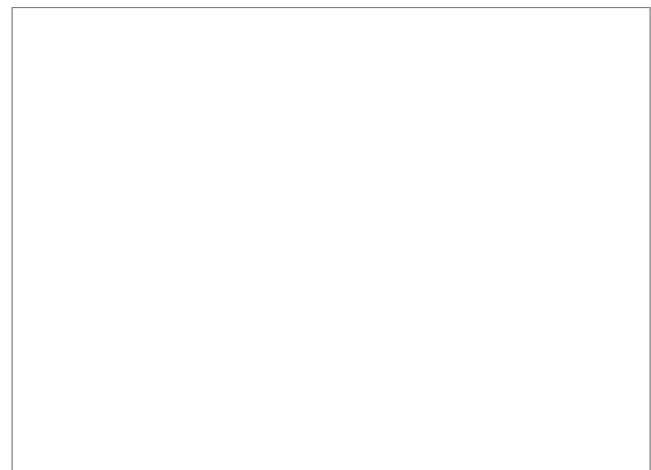One of these companies is Qwaq, who is developing a collaborative environment using OpenCroquet (see Illustration 4).

Illustration 4: Qwaq Forums, by Qwaq inc (OpenCroquet based)

e-commerce is not only limited to collaborative environment (link here)

e-learning:

e-learning: Another area who is taken quickly advantage of VWs is e-learning. There are many Universities and communities that are using actively VWs for their activities[ELEARN01].

revenue share:

This business model is the bet of Multiverse. You can download and use for free the server, client and tools that the company offers to build VWs, with the only condition that your users must log in through a centralized platform and that you will share with Multiverse 10% of your gross income. This model is very attractive for small teams of MMOGs developers, for whom the costs of professional platforms are very high.

Part III: Specific Business Opportunities

"Millions of people with Internet access, especially younger people, live large portions of their lives in these worlds. They establish friendships, buy and sell virtual properties and assets, and form large social networks and organizations. "

"The emergence of social networks such as Skype, MySpace, and Youtube, also known as Web 2.0, enable people new ways and channels to communicate, collaborate, and cooperate. But technology development does not stop there and the most recent one is the emergence of the Virtual Worlds also know as Web 3.D. One of the most famous examples is the Virtual World Second Life. Currently there are about 7 million users and forecasts project more than 25 million users by 2008. There are a wide variety of applications such as e-education, e-business, and e-government among others. This report provides an explorative study of the user acceptance of Virtual Worlds, specifically Second Life." [FETSCHE01]

So, what are the business opportunities that could exist for a small team or even an individual located in Latin-america? I try to explore some possibilities, which appears in the illustration 5, sorted by the costs and the risks that each one implies.

Develop your own MMOG:

Even with attractive technologies like Multiverse, to develop an run an MMOG business is by all means too risky and expensive. This kind of project have schedules of two to three years, at least, and requires teams of at least 10 guys, between developers

and artist. And all that without having into account the marketing, hosting and other costs of management. Nothing to do here!

Outsourcing of MMOG development

Putting on a team for third-party development seems to be more feasible for a small-medium size company, with very good commercial relationships. Lowering manpower costs is the big advantage, but the drawback is that here is most difficult to get a experienced team. How can you get your client's trust for outsourcing his development, if you can't show a team with enough experience?

Illustration 5: some business opportunities

An intermediate solution would be not develop entire MMOG projects, but become a specialist in developing non critical tasks or modules, thus the client would free his local developers for core functionality, while non critical modules are outsourced, getting lower costs.

An evolution of this idea is when this modules becomes a product by itself. Maybe a tool which help MMOGs team, maybe AI modules or even network services.

develop and manage your own e-business or e-learning company

For doing this seriously, you will need support for financial resources for the first 18 months of operation, and a clever commercial partner which takes care of commercialization in foreign markets.

Participate in risk-shared e-business or e-learning projects

Putting aside the MMOGs worlds, there is yet a whole world of alternatives. You can look for partners interested in adding VWs features to existing products. Maybe an e-learning web-based platform that wish to have a VW interface, or a commercial platform for CRM that wish a module for customer interaction. Here, imagination is the limit. the key again is commercial contacts and be able to transmit trust on the team.

develop and VW places for third-party clients

This is the 3D version of a Web developers company. Some years ago, when the first web sites begin to appear, it also appear the first web site design companies. In those times, that companies were few and very profitable. Today, it there are ways to build a web site almost for free. That is a signal of a mature market. With 3D worlds, secondlife have many VW agencies, even in latinoamerica, doing secondlife presence for their clients. at least for the Second Life platform, I think the startup stage of VW agencies is almost finished.

Still, there is some unexplored markets that can be very profitable. Universities are a big client because all of them are trying to implement some kind of e-learning platforms.

Develop some partnership to promote and support a VW platform in the region

in June 2007, multiverse established a partnership with a spanish company called enne (www.enne.es). Enne become a representative for spain and latinamerica for multiverse platform promotion and support. Here, the business opportunities goes from direct project development, until consultancy and training.

write books, documentation and other services

Most foreign companies does not believe in outsourcing for their development needs. so, offer some services that are not directly related to development would be another possibility. One of that is the translation of documentation from english to spanish, for platforms like multiverse, that are looking for new markets in latinamerica (I guess that this particular task already have been taken by enne).

In the local-side, maybe write spanish books and trying to promote them, or prepare some material for short courses would be interesting. even, you can think in more formal courses, called "specializations" that can be offered in partnership with universities.

Conclusions

Finally, both MMOG and VWs are a fertil (but virtual) soil for innovative business projects.

Latinoamerica have that eternal feature of have limitations, risks and small industries and markets, but at the same time that is their strength: a field of unexplored resources, ready to be used in new ways.

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