Chapter 9
Virtual Market Economies and the Business of Virtual Worlds

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ABSTRACT

Virtual worlds have long been a gleam in the visionary’s eye: the essential concept of a virtual world may have originated with Pliny (Biocca & Levy, 1995). Much has been written about the impact of virtual worlds, both socially and economically, on their users. This chapter offers an overview of the economies of virtual worlds and the business impact of managing them. Against logic, virtual economies are closer to true market economies than any real world economy. They are also rapidly growing in size and value. With increasing attention from real world governments and tax authorities, virtual economies are stimulating changes in the business of virtual worlds. Virtual world operators have an opportunity to, through their responses, either preserve their investments and their businesses by ensuring a secure role for the market economies they have created, or face serious threats to their business as the real world interferes with virtual fun.

INTRODUCTION

Trade is almost as old as the human species itself; the history of long-distance commerce between prehistoric peoples has been traced as far back as 150,000 years (Watson, 2005). As long as human beings want things they do not have, trade and markets will inevitably emerge in any social group (Smith, 1994). This is just as true of a social group in a virtual world as it is of a social group in the real world. For virtual world operators and businesses hoping to be virtual world operators, decisions about a virtual economy both shape and are shaped by the real world business of a virtual world operator. Even when the virtual economy is considered secondary to the virtual world – as in, for example, a Massively Multiplayer Online Game (“MMOG”), where the principal activity is game play – the issues for the virtual world operator are many. For example: how can revenue...
be generated by a virtual economy? Is real money trading (“RMT”) anathema or a goal in the design of the economy? Can users of the virtual world create and market their own original content? If so, who owns it? Who is responsible if the content is offensive or violates copyright or trademark? How can the operator make money off a market for user content? Is buying and selling virtual goods considered cheating, fun, or employment? This chapter will provide an introductory overview to the economies of virtual worlds and a look at some of their challenges for virtual world operators.

VIRTUAL MARKET ECONOMIES AND THE BUSINESS OF VIRTUAL WORLDS

Virtual worlds are an attractive business. The amount of money spent by users of virtual worlds is substantial; the amount of money spent on virtual goods, in and out of virtual worlds, especially in Asia, is even higher. Investment in virtual worlds indicates that, in fact, a number of entrepreneurs and venture capitalists, as well as established companies, are going after their own slice. In 2009, VentureBeat updated its list of game and virtual world fundings for 2008 to total an estimated $936.8 million, nearly half the amount invested in the global media and entertainment sector, as opposed to $613 million in 2007 (Takahashi, 2009).

KZero’s estimate for the total registered accounts for virtual worlds with at least 1 million accounts, excluding MMOG, is 579 million. The top ten MMOG in terms of revenue earned an estimated $3.25 billion. Adding in asynchronous games like Zynga’s YoVille, and mobile virtual worlds like Bobba and Motropolis, the numbers become near impossible to estimate.

Entrepreneurs, venture capitalists, and investors are not the only ones with a stake in the future of virtual worlds. In his book, Exodus to the Virtual World, Edward Castronova offers his predictions for the migration of people from the real world to the virtual and discusses the economic impact of this migration in the form of an increasing investment in dollars in the virtual world (Castronova, 2007). New data appears to be bearing out Dr. Castronova’s predictions. Market research firm Strategy Analytics released a report on June 1, 2009, forecasting growth in the global population of virtual world users from approximately 186 million in 2009 to nearly 640 million in 2015, almost 100 million new users a year (Report: Virtual Worlds Growth to Skyrocket, 2009). On July 30, 2009, PlaySpan, a company providing monetization and payment solutions for games and virtual worlds, and the consulting firm Frank N. Magid Associates, announced results from a study of consumer attitudes and behaviors with regard to virtual goods. 12 percent of the population surveyed in the study said that they had purchased a virtual good within the past 12 months, and within those respondents who were virtual world users, the survey revealed that 46 percent had purchased virtual goods.

The vast majority (51 percent) of virtual goods buyers could not recall the amount they spent on virtual goods in the previous year. Of those who could recall, 27 percent said they spent less than $50 while 15 percent said they spent over $100. The survey was conducted on April 20–25, 2009. The online survey used a nationally representative sample group of 1,927 people. (12% Of Consumers Have Purchased Virtual Goods, 2009)

In another study from video game market research firm VGMarket, also sponsored by Playspan, the average respondent played three online games. 34 percent of respondents reported making purchases in MMOGs. 80 percent of all respondents reported purchasing virtual goods for their own use and 20 percent purchasing virtual goods as gifts (Rosenberg, 2009).
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