Virtual Goods: Insanity or Just a Smart Business Model?

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ABSTRACT

The debate covered in this paper gravitates around the intangible nature of virtual goods – many people consider them worthless, and predict them a fate similar to that of Second Life, which currently has only 18m users and struggles to re-create excitement in its potential among investors, brands, and consumers. The concept of virtual consumption is first discussed from a socio-philosophical perspective, placing it in the context of the postmodern society, and then motivations for virtual consumption are presented. The paper proposes conclusions and recommendations which may help companies think about the virtual goods model in a strategic way and fully exploit its potential.

Keywords: Brand, Business Model, Digital Economy, Marketers, Virtual Goods

INTRODUCTION

Following the recent rapid development of digital experiences – game consoles, smartphones, social networks and social games - and the revival of massive multiplayer online (role-playing) games (MMO(RP)Gs) and virtual realities, 2009 has seen an explosion of virtual goods sales – not only digital information like applications or MP3 files, but a multitude of items, ranging from $1 flower bouquets on Facebook to $330000 space stations on Entropia Universe MMORPG. The worldwide market is currently estimated at more than £3bn, although some sources believe this figure was surpassed in Asia alone, and companies have been keen to exploit this trend that promises to become the future of online revenue models, not just for brands and marketers, but also for platform developers. The impact of virtual goods sales – or micro-transactions - is considered to equate that of the World Wide Web (WWW), with significant effects on real world economies, people and societies.

Virtual goods, however, bring value not only to consumers, but also to marketers who can leverage this model in creative ways, in order to integrate the product/service into added-value virtual-real experiences, drive engagement without backfiring like other online tools and ultimately make consumers love brands once again.

There are many potential pitfalls with this model, as it is still developing in the current form, although existent even since the 1970s. The most important question is related to sustainability – experts are wary that consumers

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will eventually realize there is no material value to these goods, and therefore stop purchasing them or start choosing the free alternatives to earn them. Moreover, it seems that, like with any new technology, brands are yet to understand how to effectively leverage the potential of virtual goods and virtual economies, instead of simply transferring offline strategies to virtual environments.

“Whilst 2008 saw the emergence of the virtual worlds (VW) sector, 2009 has to be called the year of the virtual good (VG)” (Mitham, 2010, p. 4). This new revenue model has created renewed excitement among consumers, researchers and especially businesses, who are now experimenting with one of the fastest-growing online areas (Mitham, 2010) and potentially the future of Internet (Martin, 2008).

VG have been defined as:

“Non-physical objects purchased for use in online communities or online games. They have no intrinsic value and, by definition, are intangible (...) may be classified as services instead of goods.” (Wikipedia, 2010)

Although VG are 2009 hype, the model’s inception is linked with the 1970s-1980s, as shown in the timeline in Figure 1.

Today, VG can be purchased with real money/virtual currency, or gained through actions (CPA) like downloading connected applications or advertising software, on MMO(RP) Gs, VW, social networks, social games or smartphone apps (Wikipedia, 2010; Salomon & Soudoplatoff, 2010).

The controversy around VG which will be debated in this paper originates in the definition itself – because they are just codes, VG are considered to have no intrinsic value (Dutta, 2009); consequently, the VG model – paying real money for nothing (Pichhi, 2010; Sivan, 2009) - has often been criticized as “virtual insanity” (Wells, 2009); conversely, 1bnplus users of virtual environments, social networks and smart-phones (Salomon & Soudoplatoff, 2010; “A world of connections,” 2010) will paint a different picture. However, apart from some early-adopter companies experimenting with benefits, researchers and brands have been slow in understanding these fast-moving virtual economies, their impact on consumers’ lives and on business revenues (Smith, 2010; Salomon & Soudoplatoff, 2010).

**VIRTUAL CONSUMPTION**

It is first important to understand the context of the VG trend, and the facilitators and motivators
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