

Chapter 116

Virtual Commerce

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INTRODUCTION

Virtual reality, in a variety of implementations, is becoming more popular every day. Internet technology originally designed for education, information, and gaming is now three-dimensional, multifunctional, and morphing into loci for international economic activity. The virtual world population is quite immense. In Second Life alone, as of 2007, there was an estimated 3.1 million registered residents (Linden, 2007). There is also much user activity in Second Life with 1.4 million residents logged in within the last 60 days from March 25, 2009 (Second Life, 2009). In fact, the virtual world population is expected to reach 50 - 60 million by 2011 (Au, 2007). Of even greater interest is the revenue generated

from virtual world activity. The worldwide virtual world economy is valued at approximately \$1.8 billion (Dibbell, 2007).

Although virtual spaces are relatively new, there are numerous economic opportunities and implications for companies. This encyclopedic entry first provides a background on the history of virtual commerce in order to create an agreed-upon definition, incorporating v-commerce into a typology of commerce. We then discuss virtual commerce in the context of virtual reality, by illustrating how people buy and sell products and services in virtual worlds, often through the use of avatars. A discussion of legal issues associated with virtual commerce follows, with an emphasis on patents, real estate, and taxation. We offer some recommendations to these legal issues before finally discussing how companies can incorporate virtual commerce into their exist-

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ing marketing and overall business strategy. Also provided are definitions of key terms used in this encyclopedia entry.

BACKGROUND

The Internet as we know it today is vastly different from the Internet of ten years ago. The improvements in technology related to the applications and software, the computational power of the hardware, and the speeds at which users access the Internet have all changed in very noticeable ways. These factors have led to the development of online environments that greatly widen the scope of potential Internet uses. One promising direction for the Internet is the evolution from simple two-dimensional (2D) web pages to three-dimensional (3D) virtual spaces.

Virtual reality, as the term is used here, is a computer-mediated environment and represents a space that does not necessarily exist in the physical world. Schroeder (2008) states a similar definition for virtual reality, saying that this environment should allow or compel the user to interact with it. In virtual reality websites or games, it is possible for users to interact using avatars. Avatars are the representations of users in virtual worlds, often graphically displayed as 3D characters and are central to the way that users interact with people and objects in virtual spaces. A subset of virtual reality is virtual worlds. Virtual worlds are persistent virtual reality spaces (Schroeder, 2008). In other words, these virtual reality spaces exist and can change. One user can make an alteration (such as buying land and building a store) and that alteration will persist unless it is acted upon by that, or another, user. Much like physical reality, the world doesn't "go away" just because a person isn't there to experience it. Reflecting both the technical and social elements of virtual worlds, Bell (2008) defines a virtual world as "a synchronous, persistent network of people,

represented as avatars, facilitated by networked computers" (p. 2).

The virtual world Second Life is one of the largest user-created, 3D virtual world communities. In Second Life, users are called "residents." Many residents of Second Life use the virtual world to interact socially with other residents, run businesses, or learn how to do things in the real world. Beyond Second Life, other virtual worlds have also developed user bases large enough to inspire marketing efforts. For instance, Coca-Cola has developed a section of the virtual world There.com called MyCoke. This site features large promotional displays, Coke-branded virtual clothing, and activities for visitors. Based on marketing efforts from Coke and other companies, it seems clear that corporations are very interested and relatively optimistic about the idea of using virtual reality for business communications.

More importantly from a marketing perspective, these virtual worlds create opportunities for a new form of commerce – virtual or v-commerce. V-commerce is an alternative and/or supplement to traditional forms of commerce. In a world economy plagued by increasingly diminishing natural resources, virtual commerce presents itself as a viable type of commerce in which products are created with infinite virtual resources and exchanged for real world money, thereby fostering economic development of world economies.

COMMERCE IN VIRTUAL WORLDS

Although some preliminary attempts have been made highlighting the business opportunities that virtual reality can offer (e.g. Chung, 2005; Hemp, 2006; Holzwarth, Janiszewski, and Neumann, 2006), there has been little effort to compare commerce that occurs in virtual worlds and other types of marketing exchanges. Hemp (2006) has come the closest to providing such a comparison, but though his work outlines some important new

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