Chapter 26

# Business Opportunities in Social Virtual Worlds

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## ABSTRACT

*Virtual worlds enable new ways to create value. Recent examples from Second Life – a virtual world run by Linden Lab – have demonstrated how firms can use this technology to get in touch with customers and provide value to them. This chapter aims at giving an overview of upcoming business opportunities in social virtual worlds. For this purpose, the platform service offered by Linden Lab is analysed first. In the second step, the value creation potential is differentiated into four areas: 1. community-related business models which are comprised of the creation and maintenance of a social system with specific processes; 2. commerce business models which refer to initiation, negotiation and processing of transactions; 3. context business models which add value by supporting navigation and orientation; and finally, 4. content business models which refer to production and preparation of digital content such as avatars, virtual locations and artefacts. The business opportunities of each area are analysed with regard to case examples from Second Life. The chapter concludes with some business implications in order to help practitioners find their way into this new business medium.*

## INTRODUCTION

Virtual worlds have been intensely discussed recently in both the public and scientific world. According to the Harvard Business Review article

"Avatar-Based Marketing" from Hemp (2006) as well as other reports (Gartner Group 2007), the number of users is expected to increase immensely within the next years and virtual worlds may well eclipse other interactive web applications as a form of entertainment. Of the current generation, one of the most well-known and often

cited social virtual worlds is Second Life. The special awareness for this virtual world comes from the fact that it has sustained an ecosystem which has attracted not only private customers but also well-known companies such as Adidas, American Apparel, Toyota, and even government institutions. The main goal of such company initiatives is to explore the potential for creating new services and building communities around established brands. Although the sustainability of such business models still has to be proven, the basic structure of a new business medium has already appeared. One of the most important characteristics of this business medium is the lack of a distinct boundary between consumer and producer. As predicted by Tofler (1980), the so-called prosumers - a neologism out of producer and consumer - appear to be an essential element of the value creation processes.

From the perspective of media richness, social virtual worlds such as Second Life provide an interaction space that raises the quality of medial communication to a new level. Through the combination of a 3D environment, user representation via avatars and voice over IP, the opportunities for interactivity are richer compared to web applications which are based on plain text. An important feature of this new interaction space is the inclusion of content creation tools. These tools are the basis for collaborative design and, consequently, have meant that there is no longer a static final product or release. Instead, an ever-changing socio-technical ecosystem arises, a synthesis of the ideas of professional developers and prosumers. This marks a major difference both to conventional mass media and upload-platforms, such as YouTube and Flickr, which are also based on user-generated content, but are limited in their ability to support interaction and have no collaboratively designed products.

The purpose of this chapter is to analyse the business opportunities in social virtual worlds. Within the ones that are established, Second Life holds a special position: no other provider allows its users the same design flexibility to create content and the freedom to define rules for the world to such an extent. The designed inworld economy has fostered value creation activities and virtual item trade that lead to transaction amounts of around 120 million US dollars in the first quarter of 2009 (Linden Lab 2009). Of course the openness and the intended minimum of control in this approach are not without problems: there are security and legal issues (e.g. copyright issues); the uncontrolled design process could not prevent large deserted areas of low excitement; and most first-time users never come back because they cannot make sense of what they face within the world. Nevertheless, through establishing a design concept fully based on user-generated content and a corresponding business model, Second Life has demonstrated the value adding opportunities of such an interaction space and is therefore highly suitable for an exploratory analysis.

In the following section, the history and main concepts of virtual worlds are explained. In connection with this, important milestones of user-generated content in computer games and virtual worlds are marked. The third section discusses selected aspects of Second Life as a platform service – which is the basis for the evolution of an ecosystem and all related business models. Subsequently, the analysis of the value adding opportunities in social virtual worlds follows in the main part of this chapter. The structure of this analysis is based upon a classification of four kinds of internet business models: 1. community-related business models are comprised of the creation and maintenance of a social system with specific processes; 2. business models of the type "commerce" refer to initiation, negotiation and processing of transactions; 3. business models of the type "context" add value by supporting navigation and orientation; and finally, 4. production and preparation of digital content refer to the class "content". The different aspects of the business models are each explained with examples from Second Life. An appreciation of the discussed value-adding

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