

kidScreen

September 2010 • Volume 15, Issue 6

CONSUMER PRODUCTS

Domo@GNKH-TYC

by gary rusak

REAL REVENUE IN VIRTUAL GOODS



386 Park Avenue South, 10th Floor □ New York, NY 10016

Telephone: (212) 685-4300 □ Fax: (212) 685-9024

www.DKNews.com

IP owners are looking to online worlds as a new outlet for branded products

IP owners eyeing the market with increasingly widening pupils. Add to that the tantalizing prospect of minimal production costs, unlimited shelf space and no shipping or storage costs, and virtual goods come as close as possible to becoming a dream licensing category.

Licensor interest in this burgeoning category might just deepen further when they learn that at present just 1% of the sales in this market come from branded virtual goods. "Brands usually represent something like 90% of sales in the real world, so we see them growing their share of virtual goods sales dramatically," says Dan Jansen, CEO and founder of Virtual Greats.

The L.A.-based firm specializes in marrying IP owners with the virtual worlds most suited to their properties. Currently, Virtual Greats clients on the IP side include Big Tent Entertainment and its Domo property, rapper Snoop Dogg and the National Basketball Association. On the platform side, kid-focused sites WeeWorld and the educational WhyWorld count themselves as clients.

"We figure out where to be and where not to be," says Jansen, describing his company as an expert navigator of a space that can be filled with polarities. And as Big Tent Entertainment CMO Rich Maryanek puts it, most virtual worlds don't have shops or a lot of retail experience. "They know how to sell their own

Current estimates have the global virtual goods market generating roughly US\$3.1 billion annually, and some analysts, like Minneapolis, Minnesota-based Piper Jaffray, forecast a conservative 25% growth in the market over the next three years. By 2013, virtual goods could be making real dollars to the tune of US\$6 billion a year, so it shouldn't come as a shock to see

goods," he says. "But they don't necessarily understand the buzz that licensed IP can create."

Not surprisingly, a vast number of virtual world hubs also don't have proper IP protection regulations, micro-transaction mechanisms or the business acumen to make traditional licensing agreements a reality. However, this is starting to change. With the emergence of consultants like Virtual Greats that work to place the right IP with the right virtual world and help set up the business conditions to make it all worthwhile, the presence of licensed goods in virtual worlds is poised to expand.

To get a read on the current landscape, it's worth backing up a second to look at just what's considered a virtual good. Essentially, it is a digital asset that can be purchased in a virtual world using a number of transaction options, including a credit card, a pre-paid cash card, or any number of internet payment options.



Demand for licensed Domo virtual goods (left) at WeeWorld spawned an on-site shop (top) and now make up 30% of branded sales on the site

(At last count, the bigger virtual worlds could handle roughly a dozen different forms of payment.) The goods then fall into a number of categories. Some can enhance functionality in the world, like the rain that keeps plants from withering in Facebook-based Farmville, or a swimming pool that keeps avatars entertained in Habbo Hotel. Some goods revolve around customization, like a hair cut, hat or pair of shoes that can be purchased to give an avatar its own fashion flare. Prices for individual goods can range from a few cents all the way up to US\$25 apiece. (This doesn't even take into account the used virtual goods market on eBay, where rare items from popular adult sites like World of Warcraft can reach into the hundreds of dollars.) And it's worth noting that much like in the real world, branded virtual goods can sell for upwards of five times the price fetched by their generic counterparts.

A good blueprint for those looking to get into the space would be the WeeWorld/Big Tent partnership brokered by Virtual Greats. About a year ago, Big Tent started looking at putting Domo-branded goods, including virtual t-shirts, slippers and hats, into the digital space.

"We wanted to be in the teen and young adult area, so WeeWorld seemed like a natural," says Maryyanek of the popular virtual world that claims to attract about two million unique visitors a month.

WeeWorld evaluated the opportunity and decided to take it on, agreeing to produce the virtual Domo goods that could be purchased to outfit users' avatars—a.k.a. WeeMees. A revenue-sharing agreement was developed that has since become the site's standard for setting up deals for licensed goods.

"We go into business jointly," says Maura Welch, marketing and editorial director for WeeWorld. "When we are working with a



The NBA and Snoop Dogg are also virtual goods playas

brand, we create the goods with the help of the brand's designers. But we take on that manufacturer's risk, and then make the goods available on our site. The split of revenue is upwards of 50/50."

By April of this year, Domo-branded goods were generating roughly 30% of WeeWorld's branded sales. A dedicated Domo shop soon followed on the site. Both sides, however, are quick to point out that Domo virtual goods' success was driven by the use of real-world marketing and promotional techniques—essentially Big Tent got the world out and helped push consumers to WeeWorld and the virtual products.

"We let our fan community know," says Maryyanek, adding that Facebook, YouTube and Twitter were all employed in concert to promote the Domo goods and WeeWorld itself.

WeeWorld seems to be a particularly good platform for branded virtual goods aimed at the teen audience, says Welch. Zeroing in on the 13 to 17 demo, whose members are hungry for digital representations of non-digital brands, Welch says WeeWorld users are actually reaching out and requesting the inclusion of their favorite entertainment and consumer brands at the site. "I wake up every day with an email box full of people saying 'When am I going to get this brand on your site,'" she says.

"They want their real-world brands to be available. These kids are actually asking for them."

The simpatico relationship between WeeWorld and Big Tent is not necessarily the rule in the emerging virtual goods space. Take for example Sulake, the privately held company that owns international virtual world Habbo. The site generated US\$20 million in revenue in Q1 this year, 90% of which came from micro-transactions for virtual goods. Currently, Habbo has no licensed products.

Although he gets a flood of phone calls from IP owners, Sulake EVP of business development and communications Teemu Huuhtanen says he's reluctant to deal in licensed goods until IP owners gain a better grasp of the economics of virtual worlds.

"IP holders are asking for way too much," says Huuhtanen bluntly. "They are thinking about 50/50 deals, but I think they should be getting more like 8% to 20%." And although Habbo Hotel has had successful promotional campaigns over the past 18 months where virtual goods based on American Idol and Twilight were available at the site, he says those deals worked because it was a two-way street with the licensors.

"Both of those campaigns were really good for us," Huuhtanen says. "It wasn't just about money—they brought exposure and engagement to our site and their brands, and that was the important thing."

Huuhtanen adds he is reticent to bolster Habbo's branded virtual goods offerings because he's not sure the licensed goods will outsell the generic ones by a big enough margin to mitigate the added cost.

"A lot of times, it just won't generate enough additional sales to justify the royalties," Huuhtanen says. "There is a lot of money floating around this business and everyone is trying to understand the best way to capture it. I'm sure after all the experimenting going on, the industry will figure out how to make it work for everyone."

Ravi Mehta, co-author of *Branded Virtual Goods Market Report* and VP of products for virtual world consultant Viximo, agrees a lot of work is still required to get licensors and virtual world owners on the same page.

"There is just not a standard yet," Mehta says. "The virtual world and game

developers are really reluctant to pay upfront fees, "There is not a drive to do it in a lot of cases because the margins are so good on the generic items." However, he says there are still great opportunities for IP owners—particularly purveyors of kids properties—in the space, as long as deals are done in a prudent and thoughtful manner.

"Kids are always ahead of the curve," Metha notes. "They love their IP and interacting with it." He points to Disney's purchase of social game developer Playdom for more than US\$700 million



Habbo was pleased with its Twilight tie-in, but isn't keen on the revenue expectations of most IP owners

in July as recent proof that kids are a major force in the space.

"There are really big opportunities for the brands and IP owners," he says. "The big question is finding the right places and business structure, and being patient. The whole industry is growing really quickly and it's still in the very early stages." ■

LINKS

• Big Tent Entertainment >	www.bigtent.tv
• Habbo >	www.habbohotel.com
• Virtual Greats >	www.virtualgreats.com
• Viximo >	www.viximo.com
• WeeWorld >	www.weeworld.com