

Second Life: a Case Study of Business Models in new Social Media

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Agenda

- **Introduction**
- Virtual Worlds and Second life
- Business in Second Life
 - benefit, challenges, threats and opportunities
 - classification
- Conclusions

Introduction

- One of the most important phenomenon in the last years in Internet and Information Technology was the huge growth of WEB 2.0 and social networks.
- Often people feel the desire to have a “second life” and have the possibility to be “someone else”. Some online systems tries to meet this desire and introduced the concept of “avatars” which can be the truthful representation of a person and are used in special environments, called “virtual worlds”
- Virtual worlds can also be used for commercial purposes. Many companies are launching, or have already launched, their business on the web through this kind of on-line communities. And many new business were born just in virtual worlds.

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Virtual World

- A Virtual world computer based simulated environment characterized by
 - synchronization (real-time communication)
 - persistence (the virtual world goes on also when the user quits)
 - shared (composed by a massive number of users)
 - interactive (users interact with other users and with the environment)
 - immersive (a person has the perception to be included in the virtual world through his avatar).
- The first virtual world had gaming purposes and it was MUD, released in 1978. It was probably the first working idea of on-line community.

Virtual World

- Now many games are available on line to be played in a virtual world
- Massively multiplayer on-line games support hundreds or thousands players simultaneously.
- Anyway not just gaming virtual worlds
 - online communities
 - virtual reality
 - medical
 - education
 - business fields
 -

Second Life

- Second Life (SL) is probably the most well-known virtual world that allows even companies to join and has a particular economic structure.
- SL was launched in 2003 by Linden Labs and since that time had a great development.
- Monthly there are more than one million of users logged-in
 - 1,076,264 in the period 27th January-26th February 2010

Second Life functions

- SL is a 3-dimensional virtual world that allows users to interact and meet other users, explore lands and participate in several kinds of activities.
- The principal aspects are
 - Real-time 3D Streaming: all content—objects, textures, audio, video and motion—is streamed in real-time at DSL/Cable modem (or higher) bandwidths,
 - Endlessly expandable landscape: the world can grow infinitely in any direction, just by adding new landscapes
 - Contiguous, persistent world: every user can go anywhere in SL's expansive, persistent landscape.
 - Infinite Avatar Customization: a user can create his own look from scratch with high-resolution character meshes. Using over 150 unique sliders, change everything from foot size to eye color to the cut of the shirt.

Second Life functions

- The innovativeness of this environment is
 - the possibility to own land
 - the possibility to create and have the property of the objects.
 - SL graphic is based on simple geometric shapes, that joined with the Linden Scripting Language allow residents to create their own objects.

Second Life technology

- The technology used by Linden Labs to run SL is a client-server application, with a thin client working on user computer.
- All the software in use is standardized and open source, and is based on Debian Linux and the MySQL database.
- Actually SL runs on about 2,000 Intel and Advanced Micro Devices servers in two co-location facilities in San Francisco and Dallas.
- Each full region consisting in a 256x256 meters piece of land runs on a single instantiation of server software, called a simulator or "sim".

Second Life technology

- Each sim runs on a separate processor on a server. As a single processor has to manage everything happening in a full region, the system usually can't sustain more than 50/60 avatars contemporaneously in the same land.
- When an avatar walks or flies or swims or drives from one sim to an adjacent sim, it is actually moving from one processor or server to another.
- Thanks to Havok™, (leader in real-time collision detection and physical simulation) all objects in the world are collideable and can be dynamic and moving.

Second Life base economy

- To create a real economy inside the virtual world, SL has its own currency, the Linden Dollars, that can be used to buy, sell, rent or trade land, goods or services.
- A SL user can purchase Linden Dollars using US Dollars or other currencies on the LindeX exchange provided by Linden Lab, with a market of fluctuating currencies. The opposite operation can be made when an avatar accumulates a certain quantity of Linden Dollars and wants to Exchange the virtual money in real money.
- The ratio of USD to L\$ fluctuates daily as Residents set the buy and sell price of L\$ offered on the exchange, with average rates between L\$260/USD and L\$320/USD

Second Life base economy

- Costs for Linden Labs are the employees (330 in October 2009), maintenance of servers and operating costs
- There is a small fee for “business” (premium account)
- Everything can be bought in SL, from clothes to buildings, from animations to cars.
- There is also a job market for avatars who want to work and earn a wage.
- The peculiarity of virtual worlds is that users buy for their avatars also stuff useless for the physical person, useful only for the avatars. A lot of businesses started offering just services for avatar.
- A user can buy landscapes and build on them

Second Life base economy

- Some impressive economical data, all obtained by the Second Life site:
 - user-to-user transactions in 2009 totaled 567 US\$ million in 2009, with a growth of 65% over 2008;
 - the total value of the virtual currency in circulation is 6.95 billion L\$ (26.5 million US \$)
 - 481 million hours were spent in 2009 in Second Life, +21% comparing with 2008;
 - resident-owned land reached 1.85 billion square meters in December 2009, that is 23,900 regions owned by residents.

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Business Models - benefits

- Following the diagram of Messinger et al. (2009), there are several benefits and challenges in making brands for a business in Second Life.
 - promotes engagement and customer feedback;
 - conducts market research and focus groups;
 - creates and deepens Public Relations;
 - enforce further existing customer relationships and creates new ones;
 - contextualize peer-to-peer and group interactions;
 - promotes user driven innovation;
- Low cost of the operation
 - a premium account costs only US\$ 6 per month with an annual subscription.
- The cost of acquisition and the maintenance fee of a land are not so high to discourage users to start-up a company.

Business Models - challenges

- The list of challenges comprises what a company must do to have success. It must:
 - make stores and products relevant to the lives of people in-world;
 - recognize the needs to educate newbies;
 - promote to residents in-world about new brands;
 - recognize technological constraints of the new medium.
- Thus a company have to adapt its real world strategies to SL
- The purpose of a company should be the connection with as much people as possible, in the attempt to convert browsers in visitors, customers and finally repeat customers, as suggested by the techniques of Conversion Marketing.
- To reach this result there must be used some tips, e.g. generating web traffic adding keywords to be in the top of research pages.

Business models - treats

- Following Salomon (2007) there are several treats and opportunities
 - importing a business model from real life can be risky. Residents usually prefer and react more favourably to virtual start-ups. There is a kind of resistance to real world companies, even if there are some successful cases of this migration;
 - infrastructural limits, which go from the necessity to have a broadband connection and a good and updated system to the difficulties faced by Linden servers (usually no more than 60 avatars can be sustained in the same area by a server);
 - difficulties in evaluating the assets that a company owns in SL
 - operating in different countries:
 - desynchronization (events organized at a certain time can not be followed from all over the world)
 - taxation (e.g. Joint Economic Committee of United States Congress and Australian Tax Office are studying the possibility to tax earnings from virtual worlds);
 - the risk that SL growth is a bubble that could deflate in the future.

Business models - opportunities

- Most important opportunities
 - first of all to counteract the last threat (SL bubble) there is the improvements to the virtual world that should increase the retention rate of users;
 - creating a business is usually quite cheap; the investment to produce a prototype in world is small in relation to real world development
 - the possibility to test in SL new ideas and new markets before putting them into practice;
 - a good idea in SL is self-advertised through viral communication, blogs, forums, etc.;
 - 24/7 running of a business (there are no real life limits);
 - use of avatars to meet in active environments and interaction in real time are a new and refreshing experience for participants.

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Business Classification (1)

- The first one (Lyons 2008) has tried to classify the businesses in three categories:
 - prototyping
 - event simulation
 - commerce

Prototyping

- In *prototyping* category companies use the SL environment to introduce new products and services and receive a feedback.
- An example in this category is Starwood Hotels. This hotel chain has developed in 2006 a virtual version of its new concept hotels, called Aloft. As Starwood Hotels received a good feedback by the community and thus in 2008 the company opened new hotels based on the SL Aloft. The real world hotel is not the same of the initial project developed in SL



Event simulation

- Simulating an event in a virtual world allows companies to know reactions of future users in real world in advance.
- A difficulty of this category is to reply as realistically as possible the real world situations and thus the space in SL has to be customized very well, replying the real environment.
- For example, University of California Davis Medical Center developed a simulation of an emergency plan in case of biological attack. In this way the UC Davis looked at the reactions that the staff had to the situation of a national crisis.

Commerce

- The real purpose of this kind of companies is to be profitable and have a return in real terms exchanging Linden Dollars with real currencies.
- Cisco case is a quite interesting example because their first attempt to have a presence in the virtual world was a failure.
 - They initially created a building that wasn't offering anything more than what was available on Cisco site
 - Now in the new building customers have the chance to have technical support on Cisco products and products training. Then executive briefings are held in Cisco Island. An interesting feature is the presentation of new products available for all interested users.



Business Classification (2)

- The second classification (Nissim 2007) divides the SL business models in four categories:
 - press coverage
 - consumer feedback
 - new brand channel
 - brand engagement

Press coverage

- *Press coverage* is for companies which are trying to create buzz on themselves. It is a very important way to diffuse every kind of information, in particular for companies making something new.
- Innovative companies, as those present in SL, become well-known. So create an in-world presence is an important public relations topic.

Consumer feedback

- *Consumer feedback*, is quite similar than the prototyping category of first classification.
- A company creates a product or a service and waits for the judge and the feedback of users.
- These businesses are consumer centric and expect an high level of involvement and collaboration from them.

New brand channel

- *New brand channel*, is for companies that adopt a business model similar to the real world one. They try to create value through different kinds of activities, as virtual shopping, testing products and consulting. The pay-off for this kind of companies are that they can extend a brand into new setting, test variability of virtual shopping and services, and store data about purchases, store layout and design, and customer profiles.
- An example for this category is the Nokia experience. Nokia hired employees (with blue and white clothes) to stand in Nokia Island to give information and answer questions about cell phones.



Brand engagement

- *Brand engagement* is probably the more effective one. Using a different mean of communication companies can attract people in search of an innovative experience.
- The case of Dell is very representing. In Dell Island avatars can build their own computer system. As a matter of fact Dell Island hosts a museum, a virtual conference room for executive meetings and a replica of the room where Michael Dell developed his plans for the company.



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Conclusions

- The main results obtained by companies which decided to run a business in SL are not strictly economic.
- The number of companies that reached a satisfying level of profits is very low in comparison with all the start-ups that were launched in the virtual world.
- The brand engagement function has the greatest results: several companies enhanced their image through their presence in SL. The range of activities goes from the assistance to the customers, to prototyping new products, from recreational activities to promotion of new products

Conclusions

- Thus SL can be used as a wide and strong tool to run a business on line.
- It allows existing companies to have new technological and Internet based instruments to attract new customers and enhance the relationships with the acquired ones. Then a company can test in the virtual world (with low costs and few risks) new products and events
- Nobody knows where the virtual worlds are pointing, but the advantages that this kind of environment can give to a business are clear.
- The difficult part of running a business in SL is not to attract visitors, but to give them an interesting and fun experience that convinces them to become usual visitors and engages them with the brand.

Conclusions

- Thank you for your attention
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