

Virtual Item Monetization: A Powerful Revenue Opportunity for Online Game Publishers and Virtual World Operators

October 8, 2008

The desire of MMO players and virtual world inhabitants to personalize, extend, and enhance their gameplay experience has driven the emergence of a global, player-to-player market for virtual goods that now generates billions of dollars in transactions each year¹. For many years, the lack of a publisher-sanctioned, structured marketplace has left these players and residents vulnerable to the perils of black and gray markets. Publishers and virtual world operators have had no way to monitor, regulate, or profit from this activity – while having to deal with the customer frustration and support costs resulting from unfulfilled or fraudulent trades.

As the leading publisher-supported marketplace for virtual goods, Live Gamer transforms virtual trading to a powerful new revenue channel and an opportunity to increase player loyalty. A scalable, turnkey solution makes it simple for players and publishers alike to reap the benefits of a secure, sanctioned virtual economy – so game developers and publishers can keep their focus on creating, shipping and running great games.

Virtual Items Transform the Online Gaming Experience

Social interaction has always been central to the online game experience. In the earliest years of home networking, players of role-playing games took their characters online with text-based Multi-User Dungeons (MUDs) in which they and their friends could explore, chat, fight, solve puzzles, and win quests. Immersive 2D and 3D environments soon followed. Within a decade, milestone MMO role playing games such as *Meridian 59*, *Lineage*, *Ultima Online*, and *EverQuest* were transforming players' experience with greater emphasis on stunning visuals, new achievement hierarchies, storytelling components, and community/social experiences.

As game designers and publishers began to experiment with bigger, more detailed theme-park-like worlds, players gained the ability to customize their characters and differentiate them from other players or teams with individual looks, items, weapons, and environments. For the first time, virtual items came to be seen as more than just utilitarian props for game play, becoming objects of desire and envy and creating a new need for large inventories of virtual items. These include:

- **Vanity items:** Clothing, accessories, and other items that allow players to customize an avatar.
- **Functional items:** Weapons, currency, spells, and other items used to aid and progress in the game experience.
- **Social items:** Items which are gifted to other users.

Incorporated into a player's or resident's inventory, these items form his or her online "personality." Whether oriented around earned power, acquisition of items through specialized play sessions, cool costuming, virtual wealth, or just plain old consumerism, such personalities are central to the individual's self-expression within the virtual world/MMO experience.

The Rise of a Multi-Billion Dollar Real-Money Economy

The rising importance of virtual items in the online gaming experience led to the emergence of virtual marketplaces where players could easily obtain items, trade their inventory with other players or residents, customize their characters, or earn online currency – all in an economy based on real currency.

Nearly a decade ago, a cottage industry was born when players began buying and selling MMO characters on sites such as eBay for thousands of dollars. Over time, the willingness of players to pay real money for items and characters fuelled the tremendous organic growth of a thriving virtual market – and attracted the attention of more opportunistic traders. "Gold farmers" began to enter the game solely to acquire items or level-up characters for resale, distorting the game experience for other players. Con artists took advantage of the anonymity of the Internet to commit outright fraud.

¹ Julian Dibble, New York Times Magazine, 6/17/07 (<http://www.juliandibbell.com/texts/goldfarmers.html>)

Today, virtual trading has grown into a huge industry – one fraught with all the problems of an unsanctioned black market:

- ☐ Players and residents lack protection from predatory, unethical, and fraudulent Gold Farmers and organizations
- ☐ Poor quality of service erodes participants' gaming experience and undermines the publisher's brand
- ☐ Publishers have no way to regulate or profit from player-to-player trading activity
- ☐ Non-integrated markets, unfulfilled and fraudulent trades, missing or inaccurate metadata, and numerous other problems increase publishers' infrastructure and support costs and undermine customer satisfaction.

In spite of all these perils, secondary market trading now accounts for the vast majority of virtual trade, and the virtual economy as a whole continues to grow rapidly.

- ☐ 22% of MMO players have purchased in-game currency²
- ☐ An estimated 4.4 million consumers currently buy gold farming services³
- ☐ The current market for trade of virtual items for real money is an estimated \$1.8 billion worldwide.⁴

If the virtual economy has reached these levels through ad hoc, largely illicit mechanisms imagine what a fully sanctioned, secure, and structured player-to-player marketplace could make possible – for players and publishers alike.

The Live Gamer Exchange™

Live Gamer delivers a complete solution for player-to-player trading of virtual items, allowing publishers to protect their players and reduce illicit activity while reaping the full benefits of a thriving virtual marketplace. Within this trusted, sanctioned marketplace, gamers and residents are assured of a great user experience while publishers gain incremental revenue from existing users and reduce customer support costs.

Full-Featured Solutions from the Industry Leader

As the leading publisher-supported virtual marketplace provider, Live Gamer puts technology, practices, and insight to work for our publisher partners:

Strategy

- Strategic consulting for the optimization of marketplace activity and revenue
- Game-balancing itemization strategies
- Custom user interface design

Technology

- Battle-tested Wall-Street-grade e-commerce platform ensuring security and scalability
- Robust marketplace functionality including English-style auction and fixed price listing options
- Item listings which are easy to view and navigate
- Flexible and modular presentation layer options for Web, in-game client, or abstracted API-level access for custom publisher interface creation
- Tested, secure, and easy integrations using multiple established Web services protocols
- Transaction management

Services

- Assured delivery of authenticated transactions
- Support for popular payment methods
- Experienced integration team (on-site or virtual) to assist developers
- Global customer support including email, chat and phone
- Customer service expertise in social online experience management

Fraud Management

- Best-of-breed fraud management methods

² Nick Yee, <http://www.nickvee.com/daedalus/archives/001469.php>

³ Richard Heeks: Current Analysis and Future Research Agenda on "Gold Farming": *Real World Production in Developing Countries for the Virtual Economies of Online Games*

⁴ Julian Dibble, *New York Times Magazine*, 6/17/07 (<http://www.juliandibble.com/texts/goldfarmers.html>)

- Proprietary transaction monitoring tools

Analytics

- Full marketplace statistic analysis
- Account reporting and details

The Value of Experience

Beyond the revenue opportunity and competitive differentiation for game titles driven by the Live Gamer Exchange, Live Gamer's publisher partners benefit from our unique depth of expertise running a live virtual marketplace. Our early innovation and broad industry support has built the *Live Gamer Exchange* into a robust and dynamic global marketplace where thousands of gamers are already trading 24 x 7. See the *LGX (Live Gamer Exchange)* for *EverQuest II* in action at <http://exchange.livegamer.com/eqii>.

Partner with Live Gamer today – and put our world class technology, innovative user experience, and proven performance to work for your users and your business!

About Live Gamer

Based in New York, Live Gamer is led by industry veterans from both the interactive entertainment and financial services sectors.

Interactive Entertainment

- President and Co-Founder: Andrew Schneider, formerly of Sony Pictures Digital and NBC
- Chairman and Co-Founder: Mitch Davis, Co-Founder and CEO of Brash Entertainment and founder and former CEO of Massive Entertainment
- CTO: Josh Kramer, formerly of Oberon Interactive
- VP of Legal & Corp. Affairs and General Counsel: Neal Black, former GC for Square Enix
- VP and GM, Live Gamer Asia: Joon Seog Park, formerly of Microsoft
- SVP, Corporate Marketing: Chris Donahue, formerly of Microsoft, Nvidia and Sierra Games
- VP, Product Marketing: Kurtis Buckmaster, formerly of Curse, PlayStation, and Ubisoft
- VP, Business Development: Yohei Ishii, formerly of Square Enix
- VP, Publisher Operations: Craig Telfer, formerly of Massive Incorporated

Financial Services

- Chief Architect: Todd Fearn, formerly of Goldman Sachs
- Director, Product Management: Thomas Kutter, formerly of PayPal
- Director, Program Management: Brian Youngs, formerly of Citibank
- Director, Software Development: Laura Keating, formerly of Check Free and Dunn & Bradstreet
- Principal Engineer: Arthur Purvis, formerly of The Mantel Group

Founded in 2007, Live Gamer is backed with \$24 million in venture funding from Charles River Ventures, Kodiak Venture Partners, and FirstMark Capital (Pequot Ventures). Our roster of highly respected publishing partners provides content ranging from casual gaming to hardcore MMOs, and represents more than 100 game titles. Current announced partners include:



For inquiries, visit <http://www.livegamer.com> or email businessdev@livegamer.com