

Making virtual economies work

Q&A

pricing strategy

- test price points, collect data, tweak it (5%, 10%, even 20-30%), see what happens
- what other games sell, when, how then test these hypotheses
- look at black & grey markets to see what's the going rates / elasticity
- do market research
- test with sample of users, try to measure price elasticity
- sample = 100 users -> if you get a trend, then it is typically right
- "socioeconomic stats"
- see what ARPU you need, and how you get to that
- cost of development of content marketing costs
- don't forget ROI
- spray & pray doesn't work
- who gets free credits etc
- if users get used to free stuff, it is really hard to get them to pay
- don't start that way
- e.g. 40" HDTV you can do real world sweepstakes
- Susan Choe
- give it out for behaviour you want to encourage
- Susan Wu
- seeding economy
- give out soft currency, not the hard currency
- does somewhat cannibalize hard currency sales, but you can always tweak soft currency "give out" rates
- Lee Crawford
- blows up your economy if you give out free currency, people will game it
- Christian Debaun

fees

profit share with publisher

- 10% fee for secondary market
- primary more expensive
- e.g. verifying from the item DB what the seller owns
- light integration
- Christian Debaun
- profit share with publisher
- 10% fee for secondary market
- Christopher Donahue
- 10% fee
- Lee Crawford
- you could perhaps apply standard retail rules of thumbs for this
- operating margins

merchandising

essentially a retail business + entertainment

- events, social interaction drives retention!
- sales, traffic, demographics
- buy what, how, when
- identify what sells -> try to bring this up in the game at the right for the right players
- need to do number crunching
- Susan Choe
- scary stuff
- better to outsource it
- needs escrow -> leads to money holding & banking regulations
- C2C market
- now at 50-60 \$ / transaction
- also volume of transactions has grown
- acquired Sony's Station Exchange, increased their revenues a lot
- if you don't have a secondary market, somebody will build it if there's money to be made
- if you have a secondary market when you go out, there is less hesitancy from the users as they accept it from the get go
- Christopher Donahue
- black market just creates support costs, bad image for the publisher etc
- secondary market is a profit center, if it is publisher-sanctioned
- metrics & control on what's going on the economy
- data from secondary market helps in managing primary market
- Inventory control

Panelists

Susan Choe, Outspark

- CEO & Founder
- online game publisher
- "virtual fairground"
- each game = 1 ride
- main street coming soon
- linking games together
- 5 games
- 1 flash items-based game
- >3 M registered users, ~2 M monthly uniques, 75% from USA
- 16-25 year olds

Lee Crawford, Twofish

- Founder & CEO
- ERP for Virtual Worlds & online entertainment
- banking, reporting, inventory management
- horizontal white label platform

Christopher Donahue, LiveGamer

- publisher-sanctioned primary and secondary market vgoods transactions
- B2C and C2C

Christian DeBaun, PlaySpan

- VP of Operations
- publisher-sanctioned primary and secondary market vgoods transactions
- recently bought PayByCash
- revenue-share model with game publisher

Susan Wu, Ohau

- former VC at Charles River Ventures

primary vs. secondary

Susan Choe

- nothing outsourced in primary market (B2C)
- built this themselves because nothing was available when they were starting 2 years ago
- signed PlaySpan for secondary market (?)
- probably need couple of hundred thousand \$ of volume in primary market before secondary market takes off
- also look at the game: once players start setting up stores themselves, time to open up the secondary market officially

Christian DeBaun

- secondary market needs to exist to promote primary market
- makes market liquid for players
- Susan Choe supported this view
- bumps up the sales of primary market
- separating primary & secondary is artificial
- it's an interconnected economy, and you need to consider the whole
- think secondary market should take place outside of the game

Christopher Donahue

- time & cost of implementation of secondary market?
- regulatory costs (e.g. different state taxes, international laws)
- try not to be a "money holder" so you won't become regulated
- these platform providers take care of this (?)

Lee Crawford

- secondary market allows users to trade money to time and vice versa

metrics, tools

Lee Crawford

- what are the key performance indicators
- first optimize your user experience
- then you can optimize your catalog
- need real-time access to data
- get the free to play part working, understand the friction between selling items & gameplay, what can you sell etc

Susan Choe

- needs tools to spot fraud
- have a PhD just doing analytics
- marketing source
- funnels
- new users, what they buy, how they buy, engagement etc
- lifetime value
- in-game stats & web stats
- track data
- surveys
- focus groups
- qualitative data
- e.g. limits on dollar amounts per user/demographics
- had challenges with in getting this done with PayPal
- fraud becomes noticeable with increased volume and non-USA geography