Virtual Goods - New Trends in Consumer Consumption

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Abstract

Websites are becoming increasingly dynamic with environments or experiences that have allowed people to interact in real time, with quick dissemination of knowledge and information to huge number of users. On one side, people are connecting virtually to express their interest and on the other, there are millions of people spending time and money on virtual goods such as clothes for their characters in online hangouts, weapons for their fighters in massively-multiplayer online games (MMO), and presents for their friends. This new pattern of digitalized consumption or “Virtual Consumption” seems to be every bit promising. In this paper we will look at how this digitalisation of consumption has potentially grown on the global economy and the resulting twists in consumer consumption that marketers need to understand.

INTRODUCTION

What is the maximum amount of money will you be willing to pay for a virtual item from the virtual world? A 27 year old graduate, from Sydney, Australia David Storey, paid $26,500 for a virtual island this year on February and got himself into the Guinness World Records.

Recent technological growth has continuously reduced the gap between people such that their spectrums of conversations have become increasingly wider at a phenomenal pace. We seem to live in a world where we are more connected than ever before. The platforms or channels we have chosen to communicate have continued to change with time, but communication has never ceased to happen. People have started connecting with others virtually through expressions of interests. This has in turn increased the social dependencies of individuals. Transfer of information on Real-Time has affected both individual behaviour and culture more broadly. It is said that interpersonal communication influences the attitudes people hold and decisions they make (Asch 1956; Katz and Lazarsfeld 1955; Sherif 1937). Research also throws light on how social transfer or transmission of information affects an individual’s decision-making (Godes and Mayzlin 2009; Leskovec, Adamic, and Huberman 2007).
So what are Virtual Goods? Virtual goods are non-physical objects with rights that are purchased and exchanged on the Internet which are represented as pictures, animations or three-dimensional objects inside online platforms, communities and games that can be controlled by rules. According to Joshua A.T. Fairfield, an expert in the law and regulation of e-commerce and videogames, “virtual properties are designed to share three legally relevant characteristics with real world property: Rivalrousness, Persistence, and Interconnectivity. Rivalrousness lets the owner exclude other people from using owned objects, persistence protects the investment by ensuring that it lasts and interconnectivity let’s others experience or interact with the objects.” There are three main categories of virtual goods: Decorative Virtual Goods, Functional Virtual Goods and Virtual Gifting.

![Fig. 1: Examples of Virtual Goods found online](image)

A. Decorative Virtual Goods expresses an individual’s personality, helps him gain status, which is used to impress others. B. Functional Virtual Goods are for the gamers, they provide new functions, convenience or gameplay options to improve the user experience. The items are functional in the sense that they help the owner to advance in the game. C. Virtual Gifts are given away daily on social networking sites and people are paying to send a virtual flower to show their affection on special days.

Millions of people are spending time and money on Virtual goods i.e., clothing for their character in online hangouts, weapons for their fighting in Massively Multiplayer Online (MMO) Games and presents for their friends online in social networking. This new kind of consumption is known as Virtual consumption. In online spaces, virtual goods function as markers of status, elements of identity and means towards ends in the same way as consumer material goods do in physical spaces. People are spending real money to buy virtual goods which have now been attributed to internet addiction and also linked to the buyers economic and socio- demographic backgrounds. Europe has played a key role in the evolution of these virtual goods outside Asia. Habbo Hotel, a game created by Finish, was one of the first
proof points that virtual goods could work on mass scale. Today the game gets about 15 million visitors a month and has generated $60 million in revenue in 2009 only from the sale of virtual goods. A study carried out by LiveGamer and DFC Intelligence on virtual goods adoption by gamers revealed that 60% of all gamers have purchased virtual goods, among them 88% had purchased digital content before.

In practice, the virtual goods sales or microtransactions, involves selling some form of virtual items, “avatars” or currencies to the users of an online service. The items can range from weapons and armour in online games to clothes in virtual worlds in social networking sites. The items are used as part of gameplay or to fulfil similar social and aesthetic functions as physical commodities are used for elsewhere in consumer culture (Lehdonvirta, Wilska & Johnsson 2009).

Selling virtual goods has become a major new revenue model for consumer-oriented online services, social networking sites, massively-multiplayer online games (MMOs) in particular. The global volume of real-money trade of virtual goods was estimated at 2.1 billion USD per year in 2006 (Lehtiniemi & Lehdonvirta 2007). According to a study that evaluates attitudes and behaviours’ of media and entertainment consumers on virtual goods expenditure conducted by Research and Consultancy firm, Frank N. Magid Associates and Playspan, 13% of the Americans had bought virtual goods in the past 12 months, the ratio of virtual goods purchased increased from $87 in 2009 to $ 99 in 2010. This dramatic rise of the virtual goods arguably merits increased attention from the disciplines of marketing and technology management.

REVIEW OF LITERATURE

The latin word “consumere” is a combination of the prefix “con-“, meaning “altogether”, and “sumere”, “to take up”. Until the eighteenth century, the word meant waste, using up, as in consumed by fire, or consumption as a wasting disease (Porter 1993). According to Slater (1997), consumption was regarded as a loss, a departure of value from the society. Consumption, the using up of goods, was therefore a losing strategy. Towards the end of the eighteenth century, hand-in-hand with the progress of industrialization and the onset of rapid economic growth, classical political economists such as Bernard Mandeville and Adam Smith brought about a radical refashioning of the concept of consumption. Consumption was redefined as demand “the driving force behind economic expansion”.

In modern mainstream microeconomics, theoretical ideas regarding consumption have evolved into a coherent, canonical theory known as consumer theory. The consumer seeks to select the consumption bundle that is “most preferred in the light of his personal tastes” (Jehle & Reny 2001, p. 5). Traditional authorities in marketing emphasise that marketing is about identifying and meeting human and social needs (Kotler and Keller 2006; Drucker 1993).

But can real-money trade of virtual goods be considered as consumption at the first place? Going back to the literal meaning of “consumption” where something is used up, or destroyed, which in economic terms indicate that, objects have life cycles: first they are produced, then exchanged with money, and finally consumed, until they disappear or fade and lose their value (Wilk 2004, pp. 15-17). In the present virtual consumption phenomenon, nothing is consumed in the sense of something tangible being destroyed, expended, used up, worn down or eaten. Castells 2000; Tapscott & Williams 2006; Anderson 2006; Montlake 2007.
However, on the contrary, with regard to traditional consumption, materialistic and possession explanations have not always been appropriate. Objects do not necessarily lose their value when used (e.g. antique, jewellery or collectibles), and they can be used several times. The value of goods may be based on non-existing properties (e.g. stock markets). Many objects also have different “social lives”, which means that their use may change over time (Wilk 2004; Appadurai 1986; Douglas and Isherwood 1978). As practical quantitative measures of consumption, scholars observe the allocation of time and money. From this perspective, there will be no difficulty in considering real-money trade of virtual goods as a form of consumption.

CONSUMPTION

What kind of benefits do virtual consumers experience from virtual goods? According to the assumptions of rational choice theory, people who spend money on virtual goods must experience some sort of benefit from those goods that exceeds the perceived benefit obtainable by spending the money elsewhere. This study identified several ways in which individuals can experience benefits from virtual goods: virtual goods can have functional properties that help the individuals realise their goals; virtual goods can deliver emotional and aesthetic sensations; and virtual goods can contribute to self-identity and enhance social status.”

Empirical studies show that socio-economically disadvantaged people tend to consume Internet services and other new technologies less than socio-economically advantaged people (Hsieh et al. 2008; Räsänen 2008; Räsänen 2006). Numerous theories have tried to point out attributes of why do people buy? But we will concentrate roughly on 2 major factors: Consumption as satisfaction of need and Consumption as Social Status.

Consumption as Satisfaction of Need

In accordance with the microeconomic theory of consumption, marketing frequently assumes that preferences are “latent wants” that become realised in the act of consumption (Campbell 2004, p. 37). According to Philip Kotler, “needs are basic human requirements. People need food, air, water, clothing, and shelter to survive. People also have strong needs for recreation, education, and entertainment.” (Kotler 2003, p. 11) Following Maslow, these needs are moreover thought to adhere to a hierarchy of importance that determines the order in which they must be satisfied, with physiological needs coming first and psychological or cultural needs after (Kotler 2003, p. 196). Wants are culturally specific. Sociologists have criticised the idea that all consumer behaviour emanates from a set of inborn needs (e.g., Baudrillard 1988; Campbell 1998; Slater 1997, pp. 133-136; Belk 2004).

Wants are understood as desires for such goods that fall outside these needs, also known as luxuries. Wants and whims may be morally judged as vice and excess, although in other contexts luxury can also be a status symbol. The consumption of goods that are considered necessities is socially acceptable and can even be desirable to the extent of being compulsory (Belk 2004, p. 80). According to Belk, increasing affluence and the continuous introduction of new goods into society results in classificatory shifts, where goods that were previously considered luxuries are redefined as decencies and eventually as necessities (Belk 2004, p. 71-72). Information technology is currently undergoing such a shift. For example, the mobile phone that used to be a luxury of top executives is now an everyday necessity for Finnish and Japanese teenagers (Wilska 2003; Rantavuo 2006).
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Consumption as Social Status

A classic example of a theory that presents consumption as a sign of social status is Thorsten Veblen’s The Theory of the Leisure Class (2008[1899]). Veblen notes that the lower classes, wishing to partake in some of the honour and elegance of the leisure class, try their best to imitate the most conspicuous styles. Another classical theorist, Georg Simmel, used this notion of imitation or emulation as the basis of a theory of fashion (1957[1904]). As goods come to signify high status, they become available as pieces in a game of status competition. By acquiring such goods, members of the lower class can bring themselves closer to the class above them. But members of the higher class do their best to maintain the distance by constantly adopting new trends and consumption styles.

Ethical Issues

Virtual consumption has become more common, mostly adopted first by gamers, teenagers, and gradually by some in the older age groups. What was previously the obscure hobby of a few Internet-savvy youth is now a topic of discussion among parents. The virtual consumers themselves the parents and the media have become interested in this new phenomenon that seems to have taken over their dependents.

Virtual goods are typically seen as illusory, imaginary, unreal or even nonexistent. They are contrasted with “real” goods, which are rational, useful and valuable. Something real is better than something virtual. Another view exemplified above posits that virtual consumers are so immersed in the virtual environment that they can no longer think rationally. They become addicted to the environment, the goods, or the act of virtual shopping, and spend money on virtual goods mindlessly. Virtual consumption has been comparable to a dangerous drug, individuals feel compelled to indulge in it despite the fact that it causes more harm than good. Virtual goods vendors entice immature minds, not yet able to distinguish between real and make-believe, into giving away their money for nothing. Selling virtual goods is therefore highly immoral. On a societal level, companies and marketers are brainwashing children into virtual consumers, making them see value in virtual goods and desire pointless virtual possessions. The result of this capitalist indoctrination is another generation of loyal consumers, this time in the virtual sphere.

The virtual consumers themselves have substantial experience and embodied knowledge regarding the actual practices as well as the meanings and motivations behind virtual consumption. But they lack the motivation and perhaps also the capability and analytical distance to express these in a form that could be digested by parents, regulators and mainstream media, and thus fail to contribute to a debate on virtual consumption. Whether parents see virtual consumption as “masculine” technology consumption or “feminine” adornment will greatly influence the ability of young consumers of different genders to participate in it. And whether society sees virtual consumption as something legitimate and desirable or something irrational and subversive will greatly shape its uptake. In Korea, the National Assembly has passed a law that makes certain types of real-money trading of virtual goods illegal (Yoon 2007).

In Finland, complaints from parents lead the consumer ombudsman, a public official, to call negotiations with Sulake, a company operating an online hangout popular among teenagers (Consumer Agency 2004). Consequently, Sulake now imposes a weekly limit on the amount of money its customers can spend on virtual goods.
MARKETING FOR THE NEW GENERATION

It is undoubtedly clear that the balance of power has moved forever, from the company to the customer long back. The good news is that many marketers have chosen to embrace Real-Time web and Social media as a groundbreaking way to foster this growth rather than ignoring the new consumer. To benefit from this phenomenon, organisations need to understand and harness the power of human interactions as much as possible.

Studies of media show that the proportion of time spent with electronic media continues to increase even in countries where it is already high (Räsänen 2008; Dentsu et al. 2009). Computing technologies are used to superimpose digital game mechanics and virtual objects on top of day-to-day activities, with the result that these objects start to influence the way people conduct their daily lives (Nakajima et al. 2008; Shiraishi et al. 2009).

**Digital Omnipresence**

The most traditional computer game players are young people and students who are able to dedicate significant time to their hobby, but gaming is also increasingly popular among the working adult population. Selling virtual goods has become a popular revenue model for games, online services and social networking sites replacing or co-existing with other models such as usage fees, advertising, premium services or sales of user data. Recently Fortune reported that the market in China for virtual goods is larger than the market for online advertising with Tencent, China’s largest IM+Avatar+SNS service, generating 1 billion USD in revenues in 2008, 90% from virtual goods.

**Are Virtual Goods Real?**

Spending real money on virtual goods could be considered insane because the goods “do not really exist”. Despite their name, virtual goods are “real” they have a physical manifestation, often a visual form, which can be experienced by many people. They also
make their presence felt through other mechanisms. Virtual goods are not figments of imagination, although they can give rise to a strong emotional or dream component in the mind of a consumer, in the same way that many brands and consumer goods seek to do.

On the other hand, those who assert that virtual goods are not “real” are probably not meaning it in the ontological sense, but rather in a more practical and colloquial sense. Virtual goods are digital and limited to digital spaces only. Even if we accept that virtual goods are technically part of the same reality as everything else, it can be argued that in practice they are not present in most situations or their impact is so insubstantial that they are more like fantasy than actual goods. Turn the computer off, and their link to reality disappears. Thus virtual goods “do not really exist” in the way the living room sofa does.

Can Virtual Goods Sales be Considered a Revenue Model

From the academic literature point of view, majority of work focuses on fascinating legal and philosophical questions that virtual worlds and real-money trade of virtual goods give rise to (e.g. Fairfield 2005; Lastowka and Hunter 2004). Nojima (2007), Lehdonvirta (2005) and Guo and Barnes (2007) focus on the individual user, examining motivations and decision processes that lead into virtual good purchases. Lehdonvirta (2005) examines different motivations that players have for purchasing virtual goods: advancement in a status hierarchy, advantage in competitive settings, keeping up with co-players, experiencing new content, customisation, and self-expression, among others.

Real-money trade of virtual goods first emerged in 1999 in the form of player-to-player trade in MMOs such as Ultima Online and EverQuest. Users would list their hard-earned game possessions on eBay and let other users bid for them (Lehdonvirta 2008). Instead of requiring users to pay a monthly subscription fee, operators allow users enter the service for free, with the expectation that some users will nevertheless spend money on virtual good microtransactions (Nojima 2007). But first as marketers we need to understand what are the factors that drive the desirability to purchase virtual goods in order to increase the sales of online goods.

1. **Item Degradation:** Some virtual items are designed to degrade with time or usage, sometimes to the extent of vanishing completely or become useless that the item ceases to function or exist. This provokes maximum utility of the item before it perishes and also might induce a likeness for the item on regular usage.

2. **Inconvenient Gameplay Elements:** Several free-to-play MMO operators sell user interface (UI) enhancements to generate revenues. This implies that some gameplay or interface elements have been intentionally designed to be somewhat inconvenient, at least from the point of view of an advanced user. The greater the inconvenience, greater the urge to win it.

3. **Inventory Mechanics:** In a typical MMO, users store their items in several types of inventories. Separate spaces are allotted for the items that are in use and for items that are in storage. Limited inventory space is often used as a gameplay element, but it can also be a means to increase sales. A common example as virtual pets come with a set of empty inventory spaces for new clothing and other accessories.

4. **Special Occasions:** Besides real-world occasions, operators also create their own special occasions. Such events force the player population to organise and make attempts to amass all the required items, even before the quests begun (WoWWiki Contributors 2009).
5. **Artificial Scarcity**: Scarcity is a common strategy in traditional marketing. It has been used as an indicator of high quality and thus to justify premium prices (Kotler and Keller 2006). A perception of scarcity can also be achieved through exclusiveness, making a product in one way or the other challenging to obtain without necessarily altering the price. Greater the scarcity, greater the inclination to buy them.

6. **Alterations to Existing Content**: The long-term attractiveness of the items sold inside MMO is by introducing regular updates and by adding new and meaningful content. At the same time, the new content devalues the existing content and items. Updates are also used to fine-tune game rules to keep the game and its internal economy in balance.

Social networking has come to a point where there is something new to be seen and learnt everyday. The market potential seems to be enormous and its time marketers set out to think how to make money of it. A revenue model must aim at allowing the users interact continuously with the aid of virtual goods; this will see a steadier stream of revenue. The digital natives look for value in each transaction, they are ready to scout for best deals, and their behavioural patterns may be confusing. Therefore a more product centric outlook by marketers will see them grow in terms of revenue.

Continuous innovation in the functionality of virtual goods is required because as the virtual markets mature with time and speed of usage, even new items may become throw-aways by advanced users. Having huge number of items in the inventory may lead to the think “why am I buying all this”? And ‘what am I doing with all this”? Therefore marketers should limit the number of inventories and also emphasise on expiry dates. Pricing and repurchase factors need to be worked out intensively.

**What’s Next?**

Rightly pointed out that - Just five years ago, anyone predicting about the growth of virtual goods in 2010 would have been dismissed as a dreamer. Virtual currency and social gaming are both here to stay—and the opportunities they generate are growing faster than anyone thought possible.

![Fig. 3: Virtual goods sales are overtaking ad revenues on the iPhone](http://venturebeat.com/2010/10/14/virtual-goods-sales-are-overtaking-ad-revenues-on-the-iphone/)
For advertisers the momentum behind social gaming and virtual goods will prove irresistible. Rather than being dependent on a single consumer behaviour to deliver an impression, they can integrate advertisements throughout the interactive social gaming environment to capitalize on the huge amount of time their customers now spend there.

New business models might emerge such as Virtual malls which will sell branded virtual goods directly to consumers. Consumer-friendly, eBay-style secondary markets might score for virtual goods across multiple social games where prices are dictated by actual demand. In fact, much of this kind is already happening in the world of MMOGs.

Social media games are relatively cheap to develop, and they can be constantly manipulated and improved to communicate the right message for brands at the right time. As is already happening, virtual currency will become a much more accepted form of payment for both online and offline environments.

iPhones, HTCs, and Androids users are now increasingly connected to these platforms, leading to a gradual fusion between their real and virtual lives. As the virtual goods marketplace reduces friction among buyers and draws more participants along the entire value chain (more goods creators, more infrastructure solutions,), it will inevitably draw greater scrutiny from government regulators and also be the driver of disputes that will end up in court either seeking redress or prompting regulation. But the fact is that more and more companies will emerge promoting virtual consumption. Virtual goods make sense only if companies have reasonable commitment to the product via community or interesting game-play.

Increasing competition will force companies to strive to build differentiation selling. Consumers will seek unique products and aim to get the most value from virtual goods. Companies must be able to meet those needs. Games will need to be in multi-platform going beyond a single medium, developers will need to incorporate virtual goods across not just one, but multiple outlets to achieve maximum brand recognition and results. In order to retain consumer attention, developers will need to churn out products of higher quality than what is available right now. Along these lines, development cycles will be longer and more expensive. As games rely on inherently global platforms, they will need to increasingly rely on scalable virtual economy platforms in order to compete in the marketplace.

Zynga’s Country Manager for India, Shan Kadavil, has stated that the company believes that India is market where potential for virtual goods sales is high. He states that there are 85 million computer owners in India, about 41% of who play games. Roughly 81 million people in India have access to Internet services, or roughly 7% of the population. Internet cafes are popular in India, as is dial-up, with broadband penetration still low. India has enough of an online gaming community after PayByCash made the Ultimate Game Card available there last year. Can India Be The Next Big Market For Social Games?

CONCLUSION

Virtual goods pose an undeniable commercial value in real world. The biggest difference of this virtual consumption wave is in the nature of the goods being consumed. They are digital, every copy of a virtual good is as mentioned earlier rivalrous. Secondly, the value consumers obtain from virtual goods seems to have higher emphasis on visual, aesthetic sense. The industry is still nascent and has taken online marketing to the next level, and there is more to
unleash. Growth is happening on everyday basis worldwide. The sale of virtual goods itself does not initiate the earning process for the publisher, until the currency is redeemed. Several factors will have to go hand in hand for a successful microtransaction namely the visual appearance and sound, background, customisability, cultural reference, branding, utility, value for money, rarity, of the virtual item. The extent of the user behaviour data has led to further studies on other major models for revenue: user – based, game – based, and item based which gives room for more research. And well, Fraud management will continue to be a challenge.

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Who will be the Amazon of virtual goods? Amazon…?