

# Virtual Goods Start Bringing Real Paydays

Claire Cain Miller and Brad Stone, *New York Times*  
November 6, 2009

Silicon Valley may have discovered the perfect business: charging real money for products that do not exist.

**These so-called virtual goods, like a \$1 illustration of a Champagne bottle on Facebook or the \$2.50 Halloween costume in the online game *Sorority Life*, are no more than a collection of pixels on a Web page.**

But it is quickly becoming commonplace for people to spend a few dollars on them to get ahead in an online game or to give a friend a gift on a social network.

Analysts estimate that virtual goods could bring in a billion dollars in the United States and around \$5 billion worldwide this year — all for things that, aside from perhaps a few hours of work by an artist and a programmer, cost nothing to produce.

“It’s a fantastic business,” said Jeremy Liew of Lightspeed Venture Partners, a venture capital firm that has invested \$10 million in several virtual goods companies. “Because it’s digital, the marginal cost for every one you sell is zero, so you have 100 percent margins.”

**The companies that create and sell virtual goods, including Zynga, Playfish and Playdom, three online gaming start-ups in the San Francisco area, say they are recording significant revenue and profits, which have been elusive for many Web companies.**

Virtual goods have been popular in Asia for years. In the United States though, only ardent video game fans spent money on them, mostly for swords and spells in virtual fantasy realms. That is rapidly changing, driven by the popularity of widely appealing games for social networks like Facebook and mobile phones like the iPhone.

“The people playing these games on social networks don’t define themselves as gamers — they are just killing time, having fun,” Mr. Liew said.

In *Restaurant City*, a game by Playfish on Facebook, 18 million active users manage their own cafe and stock it with virtual casseroles and cakes. In Zynga’s game *FarmVille*, 62 million agrarian dreamers cultivate a farm, plant squash seeds and harvest their crops with tractors.

These games and many others have casual gamers reaching for their wallets, along with a few rationalizations, as they make the peculiar purchase of pixels on a computer screen.

"It's an experience, like going to the movies. That's how I describe it," said Sara Merrill of Parsonfield, Me., who plays Pet Society on Facebook with her two young sons five times a week.

Recently, the family used a credit card to buy \$20 worth of the game's currency, then bought items like a haunted mirror and a potion that helped their pet, Demon Baby, grow bat wings. "It's still cheaper than taking the kids to Target where they will ask for a toy," she said.

For outsiders, the selling of virtual goods — items with no actual value in the real world — might seem the very definition of a swindle.

But often, strong — and somewhat rational — motives are at work. Users of social networks can buy one another gifts, like images of flowers and birthday cakes, typically for a dollar each. Facebook recently expanded its gift store to allow other companies to list their virtual wares, like greeting cards.

"It's not about the good itself, it's about the underlying human emotion or desire," said Moshe Koymfman, a principal at Spark Capital, which has invested in two virtual-goods start-ups. "The recipient knows the person took time, picked something meaningful and spent money on it."

Most of the momentum in the virtual goods market comes not from gifts but from social games, where people buy items to improve their performance in the game or just to build up a collection that will impress friends.

Unlike traditional games, social games are generally free, and the vast majority of players never spend any money. In Zynga's games, less than 3 percent of players pay for something, said Mark Pincus, the chief executive of the company.

Players can also earn virtual currency by signing up for subscription services or installing pop-up advertising software. But some social gaming companies have cut back on such offers after criticism that they were misleading and in some cases defrauding players.

Zynga says direct purchases of virtual currency and goods will account for most of its more than \$100 million in revenue this year, and that the company is profitable.

Game creators talk openly about their strategies to make people pay for virtual goods: get them addicted, then steer them to purchases that speed up the pace of the game and help them succeed. In FarmVille, for example, the tractors' gasoline tanks replenish themselves slowly over the course of a day. Instead of waiting, players can pay to buy gas — something that might be considered cheating in more traditional games.

"You put intentional friction in, and a small number of people who value their time and want to play at a faster pace can spend money," Mr. Pincus said.

**Players of the games have competitive reasons to buy, too. Wendy Pickering of Columbus, Ohio, plays Sorority Life, a game in which players create and dress groups of co-eds, and then, rather violently, pit them against one another until the most glamorous house wins. She discovered very quickly, she said, that she would be trounced in every showdown if she didn't have enough fashionable items.**

**Ms. Pickering has paid more than \$30 in the last few months to buy the game's virtual currency, called Brownie Points, which she has used on items like the Miss America tiara and hair, and the Cinco de Mayo party outfit, which included a sombrero.**

**"That is about as much as I'd be willing to pay for a game off the shelf in a store," she said.**

Some game fans claim that in some cases, virtual goods can be better than the real thing. Jamie Kwong, a 13-year-old in Altadena, Calif., spends hours a week on a "paper doll" site called Stardoll, buying dresses and handbags. She created Juliet606, with brown eyes and hair to match her own. Unlike the actual paper dolls she used to play with, the tabs do not rip off.

"With Stardoll it all stays on there, my brother can't get on it, and everything is good," she said.