

Online Game Hopes to Convert Virtual Cash Into Real Revenue

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In the virtual world created by the start-up There, characters explore, flirt and play, sometimes with virtual pets, in a range of exotic settings that includes a dark forest, a tropical island, a city in the clouds and a replica of ancient Egypt. They can chat and display emotions based on typed commands.

Will people pay real money to help virtual characters buy make-believe stuff?

A Silicon Valley start-up called There Inc. plans to test that premise -- and create new sources of revenue for online entertainment in the process.

The closely held company has spent \$17 million and more than four years building an online world that is designed to let users take the form of simulated avatars that can move, chat, have fun and flirt. Besides monthly user subscriptions, There hopes to be paid by companies such as Web portals and ski resorts to build themed virtual destinations for promotional purposes or to produce revenue. The company also hopes the U.S. government will buy a simulation of the terrain in Afghanistan for use by military commanders there.

The company's monetary policy is even more striking. Like "The Sims Online," which was just launched by **Electronic Arts Inc.**, There will give users ways to earn fictitious currency that they can spend on virtual homes, entertainment and goods. For example, members are expected to try on and buy virtual shoes from **Nike Inc.** and apparel from Levi-Strauss Co. at animated kiosks in There, and buy real-world items by clicking on an Internet link.

The key difference in There: Users will also be able to trade real money for play money, using credit cards to buy additional "Therebucks" beyond those they earn or those that come with their subscriptions.

There, of Menlo Park, Calif., decided to make currency sales a key revenue source after a user test in the summer of 2001 that offered \$100 cash honorariums to 300 users. The company tried offering the users the chance to trade some of the real cash for fictitious currency. "Something like 50 or 60 of them converted some or all of their \$100 to buy more Therebucks," says Tom Melcher, There's chief executive officer. "We were astonished."

The 80-employee company, started in 1998 by a Stanford University computer-science Ph.D. named Will Harvey, is discussing its plans for the first time this week at the Consumer Electronics Show in Las Vegas. It will begin registering users for

its first public test, which will begin in mid-January, and expects a formal launch in the third quarter.

There is just one sign of the shifting boundaries between real and virtual economics. Some users in popular role-playing games, such as Electronic Arts' Ultima Online and **Sony** Corp.'s EverQuest, already make real money by auctioning off characters, weapons and other objects.

MindArk AB, a Swedish computer-game designer, has discussed a free online game called Project Entropia that would let players buy objects to use in their adventures, and even take money out of the game. In South Korea, **NeoWiz** Corp. operates a popular animated chat service that lets users buy virtual clothes and other goods for their two-dimensional characters.

Trading game currency for real dollars is a touchy topic, partly because it could give affluent players an advantage. In Sims Online, for example, characters earn currency called Simoleans for selling virtual pizzas, artwork and the like, or working cooperatively with others. The Sims "rewards players for what they create within the community, not for the wealth they hold in real life," says Jeff Brown, an Electronic Arts spokesman. "The fun is in building up your character, not in buying a happy ending before you start."

Linden Lab, a San Francisco start-up that is building an online community like There's, called Second Life, also shies away from selling virtual currency outright. "The greater majority of people would lose interest, because then the experience would start seeming like a bad copy of real life," says Philip Rosedale, the chief executive officer.

Controlling exchange rates and prices for goods and services is also very difficult, which is why most real-world governments no longer try, says Edward Castronova, an associate professor of economics at California State University in Fullerton, who has written extensively on virtual economics. He nonetheless regards There as an interesting experiment.

"What are the macroeconomic implications?" Mr. Castronova asks. "We don't know yet."

Mr. Melcher acknowledges the potential for problems but believes that the ability of people to earn Therebucks will prevent currency purchasers from distorting the experience. There studied NeoWiz's business model, and Mr. Melcher got some free advice from a friend, **Dimitri Demekas**, an economist and virtual-world buff who works on real-world issues for the International Monetary Fund.

The company opted not to limit the amount of currency in its economy but plans to set exchange rates and to influence prices through fees on virtual goods and services that users sell. It also plans to review users' creations to minimize profane artwork and copyright violations. Mr. Melcher doesn't rule out the emergence of secondary markets in virtual currency or goods outside There, but he hopes to reduce the incentive by offering a built-in auction function that could eventually enable real commerce to emerge if ground rules can be refined.

Unlike "The Sims Online," where the imperative is to satisfy characters' needs, such as food, comfort, hygiene and fun, There and Linden Lab style their worlds as virtual vacation destinations without gamelike objectives. Instead of the Sims' god's-eye view, they offer three-dimensional characters that can operate from a first-person perspective and look coy, sexy, angry or sad based on typed-in keyboard commands. There's Earth-inspired environment is broken up into a lush island, a forest realm, a cloud city and a replica of ancient Egypt. Users can walk through those landscapes or ride dune buggies or "hoverboards," which are like snowboards that fly. There recommends that players have, at minimum, a late-model \$700 PC with a graphics card. A 56-kilobyte modem is sufficient, though faster connections allow conversations via microphone rather than typing.

Virtual flirting is expected to flourish. On New Year's Eve and in the preceding daylight hours, the Sims Online recorded half a million virtual kisses -- a process that requires two characters to agree -- at 5,000 online parties, says Gordon Walton, an executive producer with the game.

Stalking and harassment have been key concerns since text-based online adventures emerged in the 1970s. To reduce the possibility, There and its predecessors have developed an "ignore" function so that users won't be bothered by people they specify. There, which has raised \$33 million in total funding, including \$16 million from its employees, got advice from veterans in the field such as Amy Jo Kim, author of a book on online communities.

"If you can build a place that women love, the guys will show up," Mr. Melcher says. "The reverse is not true."

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