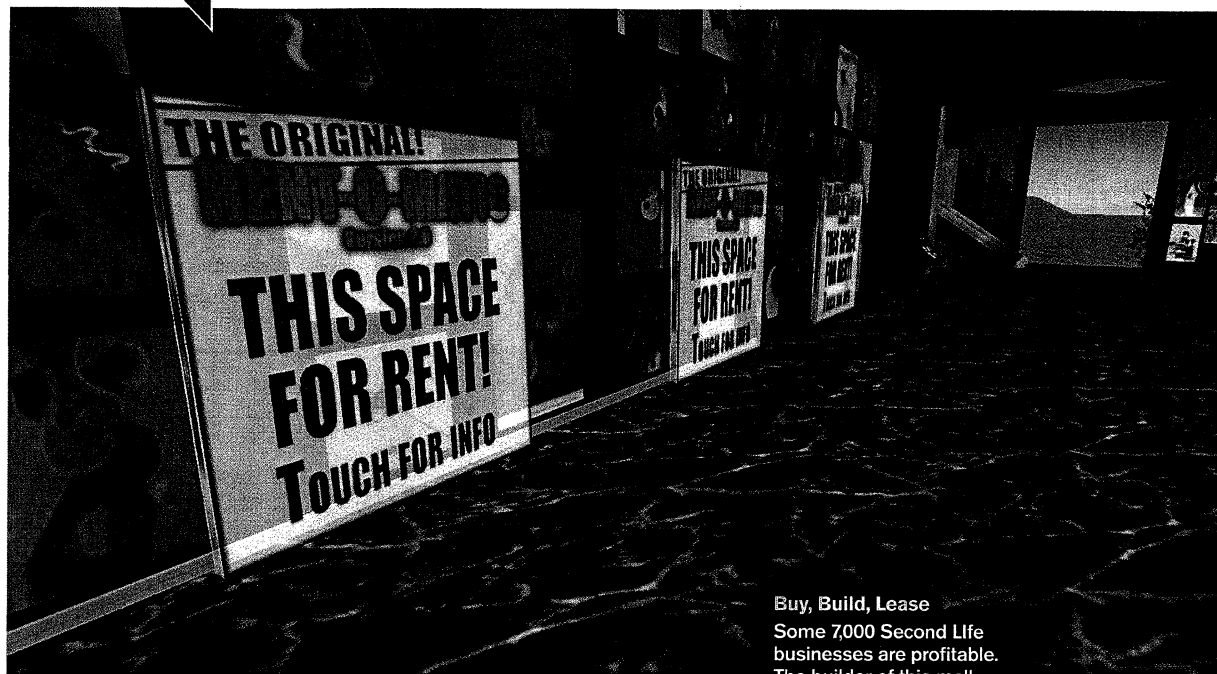


## Does Your Business Need a Second Life?



### Buy, Build, Lease

Some 7,000 Second Life businesses are profitable. The builder of this mall is now trying to attract shoppers and advertisers.

Why are companies like Toyota and Dell and Starwood Hotels getting immersed in this pixilated fairyland? Why did IBM announce it was going to spend \$10 million developing a presence in Second Life and other virtual worlds? One word: research.

Entrepreneurs can do research, too. In fact, American Apparel was the first major real-world company to formally enter Second Life when it opened a virtual store in June 2006. Now denizens of Second Life can buy American Apparel clothing there for their avatars (and pick up free virtual tacos and Tecate beer).

Raz Schionning, Web director at American Apparel, says the company's investment in Second Life has been inexpensive. For one thing, American Apparel doesn't need to employ salespeople in the virtual world—to buy something, customers just click on the items they want and agree to transfer money. He says the company's presence in Second Life has cost it about what it typically pays for a

Web banner ad campaign. For its investment, it's received plenty of buzz in the press (and some attacks from Second Life residents), sales of some virtual T-shirts (\$300 in Linden currency, about \$1.10 in real money), and perhaps a banner ad's worth of visitors who've made the leap from Second Life to American Apparel's real-world website.

"There's definitely something there," Schionning says. "But I know we haven't really figured it out yet. The only thing we know right now is that we need to leverage the platform better."

American Apparel is still feeling its way along in this world, but Second Life has been great for Wes Keltner's business. Keltner is president and CEO of the Ad Option, a year-old Lexington, Kentucky, agency. It was Keltner's idea to get American Apparel into Second Life, and the buzz from that has meant a swarm of clients and prospects. He says he has another five or six clients ready to launch Second Life presences. Keltner is even developing what he calls Second Life's equivalent of Times Square and has a commitment from Lego for advertising.

Vivox, a start-up based in Framingham, Massachusetts, sells VoIP telephone services to online games and social networking sites so people don't have to type at one another while they're in those worlds. (For all the buzz about people talking with one another in virtual worlds, what they're doing is instant messaging.) One of its customers in Second Life is Languagelab.com, which is building out property in Second Life as a way to immerse language students in the language they're learning. Vivox also has placed 3-D phone booths in various parts of the virtual world.

Rob Seaver, Vivox's CEO, says he has every intention of making real money in Second Life. But mostly, he thinks Second Life lets him explore the future of the Internet and think about what that might mean for his business. "A lot of what Second Life portrays is the future," Seaver says. "This 3-D virtual realm is a significant part of the evolution of the Internet and more and more activities will be presented in the virtual world."

—Michael Fitzgerald

## SECOND LIFE

thought I seemed to be a capable, balanced, good-engineering-background entrepreneur, so I could figure out something.

**But we could convince** absolutely no one that what we were doing made any sense. People said the technology can't possibly be made to work smoothly because there are too many problems with building a simulation combined with broadband, combined with streaming, combined with rendering, talking to many computers at once, the whole idea is just completely impossible.

**The second thing they said** was, This is not for ordinary people. Even if it is compelling, there will only be a few crazy people that want to do it. And then you guys will be dead.

**Oh, and user-created content** had never been a fundable idea. Now, everybody's doing it. But in the beginning the idea that random people were going to build a three-dimensional world

was just impossible for people to understand. A lot of applications, and all 3-D applications, were top-down designs, where some master designer built all the content and you just wandered around in it. And we were saying, You [the world's residents] are going to build everything. You are going to build these walls. And everybody was like, That's terribly stupid. Nobody got it.

**There were six very quiet years.** It wasn't discouraging the first couple of years because we were just having fun. When we got to be 20, 25 employees it got pretty stressful. What we didn't really think about was if the content alone is what compels other people to come and join, then you have a pure word-of-mouth exponential growth model, and that means you are going to have to wait a long time for the plane to take off.

**It was discouraging** as we grew and we started to make some progress, to the point where residents were making stuff. And the

## My Second Life Life

After 20 minutes in Second Life, I'm stuck on the place. Literally, I've blundered into a tree and I can't escape. Or rather, my avatar has, that being the virtual me, a three-dimensional animated figure I control with my computer mouse and keyboard.

My avatar self looks like a Ken doll in blue jeans and a T-shirt, which is a surprise to me, since I thought I had picked the large furry rabbit. No matter. I know I can change my appearance at will in Second Life. Or at least, I can in theory. Of course, in theory I should have stayed on Orientation Island, where all Second Lifers begin their time in the virtual world, and learned how to avoid trees.

The next day I decide to change my avatar. Since I'm here on business, I try to make my avatar look like me. (What I can't do is pick my own last name, although I find out later that Linden Lab will sell me the right to create my own name. For now I'm Wenlock Jacks. Not very businesslike, perhaps.) Second Life is both a gigantic world and a finely detailed one—there are dozens of things I can do to my appearance. I can even try to match my love

### It's Me, Wenlock

The author at virtual play. Yes, he can fly. No, he can't figure out how to get rid of the hat.

handles. After going through untold manipulations, I declare myself satisfied and click Save. I gasp—look at that haircut!

I realize that it's been two hours since I started. I begin to understand why people buy things in Second Life—I could have gone to, say, Dalian Enterprises, an in-world business (since you aren't going to run a human body shop in the real world) and bought a new body for 300 Linden dollars. That's about \$1.25 in real money. It beats two hours of my time to get bad hair.

Second Life can be frustrating. It's slow, and after a week I have no idea how to use gestures, or much control over where I look. I am uncertain about buying property here and building on it, though I would probably enjoy it. Over the past week, I've spent an hour or two (or three)

each day in this world. That's just not enough time to understand the lay of the virtual land.

But a week is enough time to see that for all its irritating clunkiness, Second Life is intriguing. There are elaborately designed temples on Svarga, the experimental weather simulator built by the National Oceanic and Atmospheric Administration, and an exact model of a planned Starwood Hotel. Given another generation or two of technology, homebuilders, architects, and interior designers might create photorealistic buildings and rooms, easy to change, that will smooth real-world projects. Retailers could go from today's two-dimensional websites to full three-dimensional stores that would give consumers more natural ways to shop while online. You could go see your favorite band "live." I like my world, but I can see why I might want to spend time in a virtual one. —M.F.



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investors would still just say, You have got to turn this thing into some sort of video game. It needs to have a purpose. They wanted us to make it like something that had come before it so that they could value it.

**When we couldn't grow** it as quickly as it needed to, we had one round of layoffs. There were 31 of us and 11 of us left. That was in late 2003, when we pretty well thought we were dead.

**And then we did one discontinuous thing:** We recognized that there was a core of people who were really starting to want to build the content and invest in it and really value it. And we said, What you have in Second Life is real and it is yours. It doesn't belong to us. We have no claim to it. Whatever you do with Second Life is your own intellectual property. You can claim copyright on it. You can make money.

**We said** the same thing about land: Land is yours to own and resell. We had been reading Hernando De Soto's *The Mystery of Capital* and Jane Jacobs and all these books about innovation and ownership and why great places are great places. And we said, Let's just make this a real world. Let's let it have a real economy and let's make property have real value. There was a lot of buzz around that. The investors could see this thing starting to go. In early 2004 we got a couple million bucks more.

**I think I felt like** we were going to make it maybe in early 2005. I felt like the fundamental network economics of buying and selling stuff was irreversible.

**Our approach to engineering was this:** Tell everybody in an e-mail every week what you are doing, then make some progress of some kind and tell everybody in an e-mail how you did it. That was our organizational scheme. We said, Everybody is smart here. Identify what you are going to do today and get it done.

**That evolved over time** into the work system that we have today. We have this huge database of stuff to do. You choose your own work from it. So groups are formed more organically. I am pretty critical of traditional business styles. The biggest way you avoid that is you continue to make everybody entrepreneurial, which is easy to say—everybody says garbage like that in big companies. But the way you really are entrepreneurial is that you have to set your own strategic direction. That's what entrepreneurs do. You have to take risks and you have to expect to be held accountable.

**We have this thing** we built called the Love Machine. The Love Machine allows anyone who works here as a Linden employee to send anyone else a brief note that says "Thank you for doing this for me." There is a little webpage where you can go to send an e-mail, and then you get a little e-mail that says "Love From Philip" in the subject and it's got text in it. Now, you think, what's the big deal about that? Well, all of that stuff goes into a database. Your review carries that. Everybody is sending love to each other. It creates a positive collaborative environment.

**Most businesspeople communicate** in a mostly negative way. If people are encouraged to be entrepreneurs and take risks, they can also become combative and competitive. You have to balance that. So we built the Love Machine for balance. We joke that some day we will be more famous for the Love Machine than for Second Life.

**We use a lot of the ideas** from *The Wisdom of Crowds*. We vote internally on tasks. And when you get something done

**"If people are encouraged to take risks, they can become combative and competitive. You have to balance that. So we built the Love Machine."**

you can say, "Oh, I got 17 votes on this." And again, you use that as part of your review.

**We also use anonymous spot surveys** for a lot of stuff. So I send out surveys saying, like, "Should we get rid of me as CEO?" Or I send out several options: "We should get a new CEO: now; when we have 200 people; when we have 500 people; never."

**There were some nevers.** I think people didn't figure I was good for a thousand-person company. I actually think I am, but I'd be fine not doing it, either.

**We don't even have a concept** of budgeting here, really. For example, we don't have a travel budget. If you travel you have to send an e-mail to everybody that says how much you spent and why it was worth it.

**As an entrepreneur in high school,** I thought starting a company was about a process where you do all these official things to create a company. I was so proud of my business license. I hung it on the wall. Now I've realized that a company is a culture and a model and a business surrounding an idea or ideas.

**People are starting to do business meetings** in Second Life. When I looked at that originally, I was like, Why would anybody do a business meeting or a conference call in a virtual world? What a dumb idea. Actually, it is not. You are more likely to speak the truth to me in Second Life than you are in a real business meeting.

**An enormous amount of intellectual energy** is going to move into this world, and some of what we are doing in the real world will therefore be displaced. You can imagine New York City being kind of like a museum. Still an incredibly cool place to go, but with no one working in those towers because work, creative work, where you are engaging with other people face-to-face, you are going to do in a virtual world. It's going to leave these cities [gestures toward downtown San Francisco] and move into digital worlds. It is easier to do things there. ●

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