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New virtual worlds to conquer in China

By Daniel Allen

BEIJING - Having passionately embraced blogging, bulletin boards (BBS) and MMORPG (massively multi-player online role-playing games), China's burgeoning Internet population will soon have an array of three-dimensional virtual worlds and 3D social networks in which to work and play. By the end of 2011, 80% of global Internet users will be involved in some kind of web-based virtual activity. That would give China a virtual population bigger than the entire population of Mexico or the Philippines.

Driven by increased broadband penetration and rising incomes, online entertainment in China is a huge and rapidly growing

industry. Revenue from online gaming alone totaled 6.5 billion yuan (US\$840 million) last year, according to market researcher IDC. As MMORPG culture is already deeply embedded among Chinese netizens, and many players are accustomed to "repatriating" currency earned online to real life, 3D startups are expecting virtual "culture shock" to be minimal, especially when it comes to cyber-money transactions.

Sam Flemming, "dotcom veteran" and founder and head of CIC Data, a Shanghai-based Internet research company, predicts a healthy future for aspiring 3D worlds in China.

"I think, for now, they appeal to different, but still similar audiences," Flemming said. "Blogging and BBS - especially BBS, with its anonymity - provide a virtual platform for self-expression and communication within a community. Blogging and BBS have

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a closer link to offline reality, as the topics of discussions often link to offline experiences and opinions. Virtual worlds offer a more extreme platform, which as they become more prolific and easier to access will certainly find a market."

Ken Brady is director of international strategies at Centric, a US-based new-media agency heavily involved in the Chinese market. Commenting on the scale of anticipated short-term developments, Brady said, "Consider the size of [instant-messaging service] QQ, now at over half a billion registered users.

"China's the No 2 market now, with Blizzard and Shanda Entertainment just two of the major players. HiPiHi will launch this autumn, Entropia Universe is moving in soon, and Shanda has announced plans to create another Chinese virtual world. There are, of course, more out there, and many more coming. It's a busy time in China's online 3D landscape."

HiPiHi World, a Beijing-based digital startup founded in 2005, says it is bidding to be "the second company worldwide after Second Life (SL) to offer a totally interactive, immersive and open-ended experience for users to create, inhabit and govern a new world of their own design". Currently in beta testing mode with 10,000 users, HiPiHi is the brainchild of Hui Xu and Xinhua Lu, both Internet entrepreneurs with significant web experience.

It's clear that the market is taking HiPiHi seriously. According to Hui Xu, the company is about to close a round of investment involving companies and individuals from the United States,

Japan and Singapore for slightly less than \$10 million. Substantial Series A funding was undertaken by the Guangcai Investment Group, and there may be further rounds in the future.



Hui Xu, HIPIHI founder & CEO

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Commenting on the monetization of HiPiHi, Hui explained, "Business models similar to those employed by 2D sites can also be applied in 3D. 'Land' for advertising will be sold, and a range of branded products will be incorporated within the world. We have been approached by the marketing departments of many foreign and Chinese companies looking to become involved.

"Subscriptions to HiPiHi will be free, although there will be products/services for sale within the world. We haven't yet decided whether there will be a HiPiHi currency as in SL yet - a lot depends on market regulations - but there will certainly be trading."

HiPiHi will certainly not have the Chinese 3D market all to itself. According to The Financial Times, Shanda Interactive Entertainment has been developing a virtual-world game similar to Second Life for China. Shanda is China's leading online gaming company, with a market share of about 19%, and is seen as having an edge due to its established community of users. Shanda founder and chairman Chen Tianqiao wants to diversify away from fantasy worlds, but the company is so far refusing to confirm release dates.

UOneNet Technology, developing a Second Life-type offering called "uWorld", has also just finished its second round of funding. uWorld apparently offers a "3D immersive environment that takes online communication to the next level". There is no information as to which venture-capital firm invested in the Beijing-based startup launched in December 2005.

Another newly established virtual player in China is Frenzoo. ASI, owned by former co-founders of Skype, recently bought into the Hong Kong-based startup. Aimed squarely at the youth market, Frenzoo will be available as a downloadable program, letting users build personalized avatars and offering branded items ranging from fashion and FMCG (fast-moving consumer goods)

to electronics and media.

Frenzoo has been in development for two years and has already signed some up-and-coming fashion labels, including Japanese/Chinese fusion label Liucia. The site will be monetized by



Frenzoo gives you a new you

offering an in-site shopping experience, in an effort to pull consumers to brands. Frenzoo is currently in closed beta testing mode, open to users by invitation only; it will go public in the second half of this year, and will be made available in multiple languages, including English and traditional and simplified Chinese.

Eda Chow, Frenzoo's director of marketing and development, commented, "Frenzoo is neither a virtual world nor a website. Frenzoo offers a true 3D experience via a downloadable program. Most other social-networking offerings today are indeed Web-based with little in the way of real-time interaction between users, and they also limit options for deeper brand engagement for advertisers.

"Many of these sites use a 'real estate' model for ads, where search, banner and flash/video ads take over much of the webpage. We feel our approach for Frenzoo - a 3D client program where advertising is a natural part of the experience - has the potential to be more engaging and direct for users and advertisers targeting them."

Overseas competition will arrive in mainland China soon in the form of Entropia, already a large and globally established virtual world. Reportedly beating Second Life to the punch, Entropia will have the backing of the Beijing municipal government, and will be developed by Gothenburg, Sweden-based company MindArk, supported by Beijing-based online-entertainment company Cyber Recreation Development Corp. CRD head David Liu envisages an "Entropia utopia", bringing 10,000 work-at-home, pollution-free job opportunities to China.

With a stronger gaming emphasis than SL or HiPiHi, Entropia is

likely to retain its mix of MMORPG and real-cash economies in China. Although it currently has a total online population of about 500,000, a virtual population explosion is clearly anticipated, as the new Chinese partnership permits up to 7 million concurrent users. The highly ambitious long-term objective is to attract 150 million users from all over the world, and to generate more than \$1 billion annually in e-commerce. Last year Entropia had a turnover of more than \$360 million.

Entropia recently broke new ground by selling five virtual banking licenses for \$400,000. Virtual Entropia banks will work in a similar way to real-world banks. Initially license owners will be provided with secure systems enabling them to lend money to participants and collect interest, design and name their own virtual bank buildings, use the extensive advertising opportunities available, and make their own personnel available through avatars that can interact with and provide service to other avatars.

Entropia Universe is the only virtual universe on the Internet whose currency (PED - Project Entropia dollar) has a fixed exchange rate with the US dollar (10 PED equals US\$1). PEDs can easily be moved between Entropia and the real world using an automated-teller-machine card. The Entropia ATM card can be used to withdraw real cash instantly from more than a million ATMs worldwide. How exactly the system will work in China is yet to be seen, although MindArk apparently has very detailed logs and reporting systems in place to counter any money-laundering attempts.

One of Entropia's banking licenses went to Chinese-born Anshe Chung (real name Ailin Graef), legendary cross-world virtual celebrity and entrepreneur, and SL's first "millionaire". Chung currently owns hundreds of servers' worth of SL land, most of which are sold or rented to other users as a part of her "Dreamland" areas. In February 2006, Ailin Graef legally incorporated Anshe Chung Studios Ltd (ACS) in Hubei province.

Since 2004, ACS has been a global leader in virtual real-estate development, and the company now has more than 60 full-time employees turning over millions of dollars per year in virtual real estate, content development and financial services. This year, ACS received high-profile venture-capital investment and has begun to branch out into additional virtual worlds. In addition to thousands of virtual-world residents, ACS clients include Fortune 500 companies, churches and governments, whose entry into virtual territory has been designed and developed by ACS.

Entropia also plans to profit from virtual real-estate sales in China by enabling media companies to add their own planets to the Entropia Universe; the company is reportedly in negotiations with film, music, and gaming companies. Competitor Second Life has made several similar corporate branding deals in its virtual world.

Although Entropia and HiPiHi share much in common with SL in terms of general features - 3D; avatars; in-world economy; user-generated content - China's main competitors may come from closer to home. South Korea's Cyworld launched in China in June 2005, and its subscriber base has grown at a rate of 15,000 per day. According to Cyworld owner SK Telecom, the Cyworld China community now numbers more than 3 million. In South Korea, Cyworld has about 19 million subscribers, close to 40% of the country's population.

Cyworld's virtual economy centers on a currency called the dotori, Korean for "acorn". Chinese members can buy dotori with international or Chinese credit cards. Subscribers can purchase furnishings for their "mini-homes", or buy their avatars special clothes or logos. They can buy gifts such as get-well-soon cards, and virtual flowers to appear in "mini-rooms" for convalescing. Cyworld earns an estimated \$300,000 a day selling acorns. Cyworld also sells 200 million songs each year for about 50 cents each, making it second to Apple's iTunes for global online music sales.

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