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The company and others are pushing heavily into creating virtual worlds for children, eyeing subscriber revenue and brand recognition.

By Dawn C. Chmielewski and Alex Pham, Los Angeles Times Staff Writers
January 28, 2008

Walt Disney Co. is no stranger to fantasy worlds, transporting audiences -- whether to a cottage in the woods with a young princess in "Snow White and the Seven Dwarfs" or to the Great Barrier Reef aboard the Finding Nemo Submarine Voyage ride at Disneyland.

Now, Disney is spinning its tales in the newest mass medium -- online virtual worlds, where children adopt cartoonish avatars and play games.

Disney and other entertainment companies are rushing to capitalize on the latest Internet phenomenon: the rise of virtual worlds for kids. Online haunts for grown-ups, such as Second Life, grab the attention of corporate marketers. But digital playgrounds for the juice-box set -- such as Disney's Club Penguin and Ganz Inc.'s Webkinz -- are drawing bigger crowds.

As many as 20 million children and teens will visit virtual worlds by 2011, up from 8.2 million in 2007, according to research firm EMarketer Inc.

"You're seeing a more than doubling in projected growth, between 2007 and 2011, in the number of kids and teens visiting these worlds," EMarketer analyst Debra Aho Williamson said. "That's why you're seeing Disney making so many investments. . . . All the major media companies are making virtual worlds a big focus of their activities going forward."

Some parents and advocates worry about the commercial aspects of these sites, which either charge a monthly subscription fee, serve up advertising or both. Several sites, including "Pirates of the Caribbean Online," offer a basic game for free but require payment for more advanced play.

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"It's sweet-tasting candy that kids are going to want to have," said Warren Buckleitner, editor of the Children's Technology Review. "Give a free sample. Once you get started, it's hard to stop."

Online games that invite multiple players into virtual worlds have been around for more than a decade. What's new is the increasingly younger audience. Disney's Toontown Online was among the first to target tots, but since then, Mattel Inc.'s BarbieGirls.com, Nickelodeon's Nicktropolis and others have popped up, attracting children as young as 3.

Disney plans to spend \$5 million to \$10 million apiece to develop as many as 10 virtual worlds built around familiar Disney characters and franchises.

"We're creating virtual theme parks, but much more accessible," said Steve Wadsworth, president of Walt Disney Internet Group. "You don't have to get in a car or a plane."

Worlds of revenue

Disney's acquisition of Club Penguin in August for as much as \$700 million accelerated the online strategy. Club Penguin attracted nearly 7.9 million visitors in December, according to ComScore Media Metrix, ranking it second in popularity among children's virtual world sites only to Webkinz.

And unlike social networks for grown-ups, such as Facebook.com, Club Penguin has no trouble finding a business model. For a monthly fee of \$5.95, kids can waddle to their hearts delight in the snowy world, play games and earn coins that enable them to buy clothes or furnishings for their igloo. At the time of the acquisition, Disney said Club Penguin had about 700,000 subscribers. That would represent about \$50 million in annual revenue.

It is just this kind of lucrative subscription-based revenue stream that is luring investors and developers, said analyst Billy Pidgeon of technology research firm IDC. But what they often underestimate are the costs of keeping these virtual worlds running smoothly. "World of Warcraft," for example, requires more than 1,700 full-time customer service employees to maintain the site.

"People just have unrealistically high expectations for these models and don't consider the expenses of maintaining these games," Pidgeon said.

Paul Yanover, executive vice president of Walt Disney Internet Group, acknowledged that "virtual worlds are more elaborate than running a traditional website." But Disney, he said, because of five years of experience from Disney Toontown Online, also understands "the costs of operation and maintenance" and is assured there are "really healthy businesses in online entertainment for kids and families."

Kids at least appear to have a healthy appetite to play online. Eight-year-old Madison Magursky of Irvine said she plays Club Penguin for 10 minutes every day after school, once she's done her homework. She even asked her mother to subscribe for her.

"I told her I wanted to be a member, because you get to buy fantastic gifts and decorations for your house and stuff," Madison said. "And you can do certain things . . . that other people who aren't a member can't."

"But she said 'no.' "

Setting a hook

Disney is counting on parents being more pliant than Madison's mom.



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In October, it launched "Pirates of the Caribbean Online," a game that lets players live out their swashbuckling fantasies. Players take on the identity of a pirate and interact with characters from the film, including Jack Sparrow and Davy Jones.

Pint-size pirates are enticed to pay a \$9.95 subscription fee to get access to more weapons, better ships or special islands.

Buckleitner of Children's Technology Review extols "Pirates" as an engaging, mainstream game. His daughters "can't wait to get their homework done and start playing." However, he was concerned when his 12-year-old daughter ambushed him for his credit card to subscribe.

"Either I pay and keep my child happy, or I deal with a meltdown," Buckleitner said. "I'm stuck in the same loop that millions of other parents have been in."

Disney says it opted for subscriptions to defray the costs of monitoring and providing a safe environment for kids to play online. It chose not to permit advertising. Webkinz drew criticism from a parent group last month for displaying ads for the "Alvin and the Chipmunks" film and encouraging young users to buy chipmunk costumes and food for their virtual pets.

For Disney, a virtual world such as "Pirates" pays dividends beyond the potential subscription revenue. It keeps fans of the movie franchise interacting with the characters and primed for the next chapter in the "Pirates" epic, be it a film, a game or merchandise.

Drafting in the game's wake is the "Disney Fairies," set in Tinker Bell's virtual world of Pixie Hollow. For now, players can go online to create their own fairy. Later this year, their fairy will be able to take wing in the virtual neighborhood of Neverland, which builds anticipation for the direct-to-DVD film, "Tinker Bell," due out this fall.

Also in development is a virtual world inspired by Pixar's "Cars," in which players create and customize cars and follow in the tire tracks of Lightning McQueen, who races in pursuit of the fictional Piston Cup.

Other companies are also rushing to stake their claims online. This month, Time Warner Inc. invested in the teen site Gaia Online. And Viacom Inc., which owns Neopets, plans to spend \$100 million over the next two years developing games and online platforms for kids ages eight to 14.

"The media companies are starting to realize that virtual worlds represent a very easy, very controllable, very compelling and very sticky media channel," said Stephen Prentice, analyst for technology research firm Gartner Inc.

Tough to keep players

The challenge, of course, is getting players to renew their subscriptions.

Prentice said virtual worlds such as Second Life have a high initial rate of downloads but suffer sharp declines, either because of a steep learning curve, loss of interest or boredom. As many as 12 million people registered as residents -- but fewer than 900,000 logged on in the last month. Even Philip Rosedale, the chief executive of Linden Lab, which developed Second Life, has acknowledged a churn rate as high as 90%.

The high cost of replacing customers is not deterring deep-pocketed new entrants, however.

Sony Corp., one of the earliest companies in the virtual worlds market and publisher of the classic online game, "EverQuest," is developing a game for teenagers and their families called "Free Realms." Instead of quests that can take hours to complete, "Free Realms" offers quick activities and mini-games -- raising a pet, tending a garden, playing a quick soccer

game.

"Instead of kill creature, repeat, we wanted to give kids a virtual amusement park," said John Smedley, president of Sony Online Entertainment, which is developing the game.

Games that are free are often supported by advertising, raising other concerns among parent advocates.

"None of the environments we looked at gave you something for nothing," said Beau Brendler, director of Consumer Reports WebWatch, which is set to release a survey of 10 virtual world and game sites for children. "They either want information for marketing purposes or money to subscribe."

Although the Child Online Protection Act prevents sites from collecting information from children under 13 years old without their parents' consent, sites can collect aggregated data on where its visitors roam and what they click on to determine what ads to display.

With Disney, the idea is to impress its brands and products on young consumers, Brendler said.

"Disney tends to see its products as marketing channels for its other products," he said. "Parents just need to be aware that Disney is a very smart marketer."

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