



GLENBROOK

Digital Goods, Virtual Currencies,
and Social Networks

Chicago Fed 2011 Payments Conference

FEDERAL RESERVE BANK *of* CHICAGO

May 2011

Market Size



Online Physical Goods

- E-commerce
- Internet Business
- Served

\$165 Billion in 2009 (US)



- Social Networks
- Virtual Goods, Online apps (Widgets)
- Virtual Worlds
- Examples: Zynga, Playfish; Second Life



- Online content or services
- Purchased online or mobile
- Subscriptions, avatars, downloads



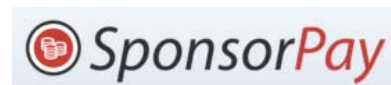
- Served Market
- Traditional e-commerce
- Purchase of physical goods online
- Purchased on mobile phones

© comScore, Jupiter, Yankee Group, eMarketer

boku PAY BY MOBILE

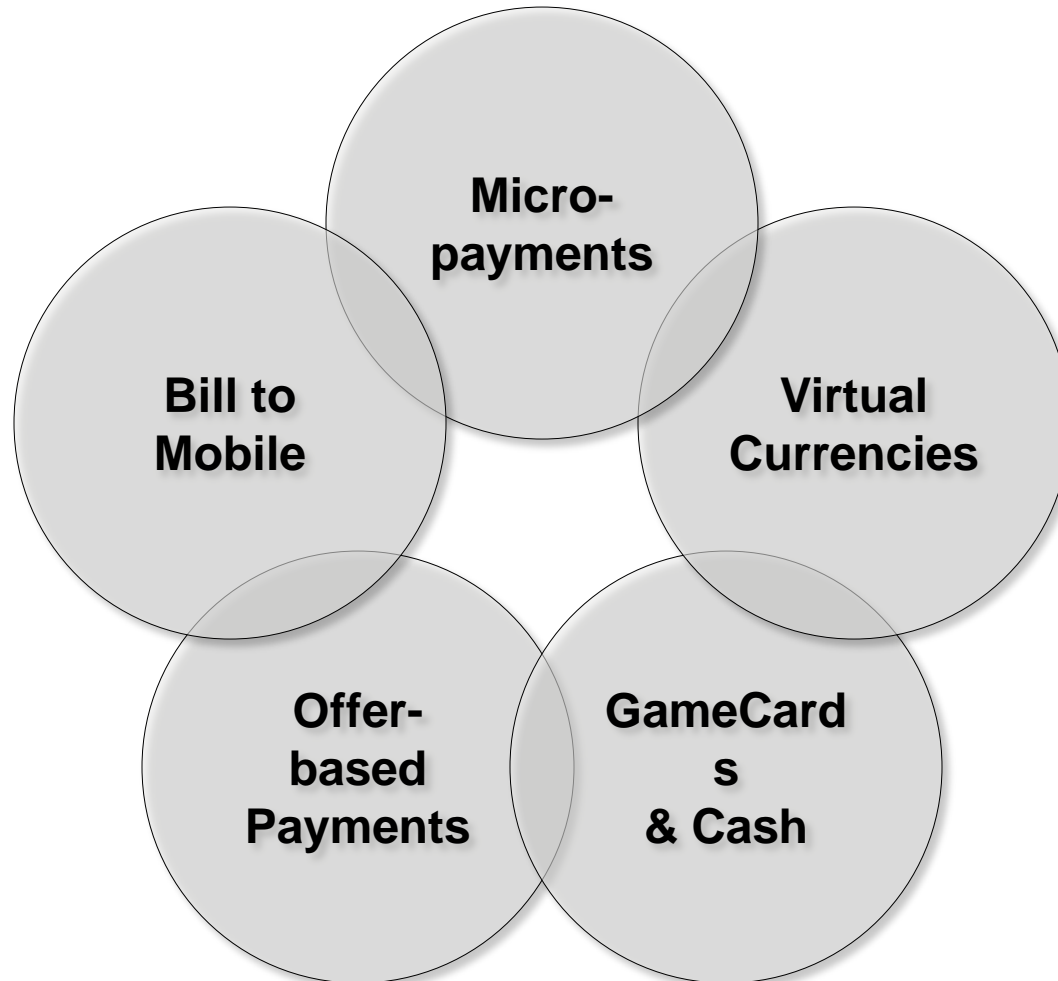
There are MANY ways to pay and be paid

What's the right way to think about all these payment methods?



Web 2.0 Payments Realms

Many realms, many companies, many overlapping...



Web 2.0 Payment Terminology

Some new terminology for some old ideas...

| Old Term | New Web 2.0 Term! |
|--------------------------|-----------------------|
| Micropayments | Virtual Currencies |
| Closed Loop Prepaid Card | Game Cards |
| 1-900 Billing | Bill to Mobile |
| Performance Marketing | Offer-based Payments |
| Digital Goods | Virtual Goods |
| Business Model | Monetization Strategy |
| P2P Payments | Social Payments |

Micropayments

They're back and they thrive on the social Web

- Small transactions – as little as 25¢ – are difficult to cost justify without micropayment specific solutions
 - Many small transactions are aggregated into a larger single purchase transaction
 - Pricing to merchants optimized for small value transactions
- Early micropayment systems overreached and failed to gain traction
- Today, micropayments are back as a key element of social game and application monetization strategies
 - Purchases are denominated in familiar national currencies, not a virtual currency (e.g. \$1.99 vs. 20 Facebook Credits)
 - Tend to be used by sites that do not offer their own virtual currency
 - Providers make it very easy for non-payment savvy application and game developers to integrate

Virtual Currencies

Virtual currencies drive the Social Web

- What is a virtual currency?
 - Virtual currencies are like tokens in an arcade
 - They have some notational value that can be exchanged
- What is a virtual currency platform engine?
 - Helps sites issue, manage, analysis, and control their own virtual currencies
 - Used by online game sites and by apps on social network sites
- What can you sell with a virtual currency?
 - Functional goods: Special game powers
 - Self Expression artifacts: Decorations for avatars, charity donations
 - Gifted goods: Virtual beer, virtual flowers
 - Digital goods: Music, video, etc.

Facebook Credits

The safe and easy way to buy things on Facebook



Available in your favorite games

Credits offer a quick and secure way to purchase premium items in many of your favorite free games.



We never share your financial information

When you use credits to buy premium items, the transaction is between you and Facebook. You get to

Facebook Credits gift cards

Now you can give your friends the gift of powered-up game play. Use our store locator to find a gift card retailer near you.

[Redeem Gift Card](#)



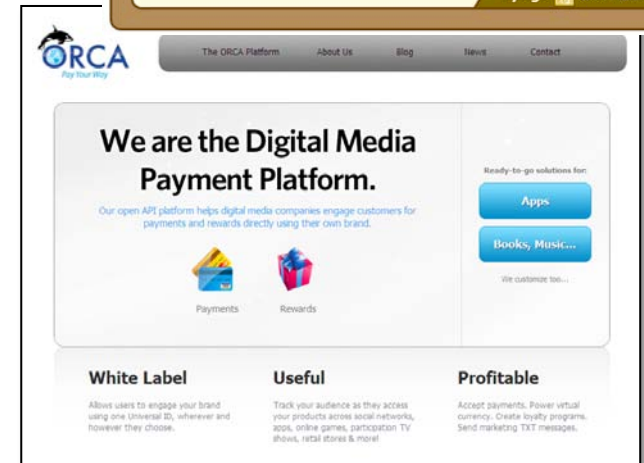
Who We're Watching in Virtual Currencies

- In-House Currencies

- Facebook Credits
- Zynga zCoins
- Microsoft Points

- Virtual Currency Providers

- PlaySpan (acquired by Visa)
- Social Gold (acquired by Google)
- FatFooGoo (acquired by Digital River)
- Others...



Game Cards & Cash

Facilitate payment from the underbanked

- Enables youth and others without access to payment cards to participate in online game communities
 - Purchase in a retail environment, typically for cash
 - Global solutions often tied to kiosk and walk-in payment schemes
 - Often purchased by someone other than the game player, e.g. parents
 - Some are re-loadable
- Some cards are game specific, others can be used across a variety of game properties
 - The multi-game providers often offer branded solutions to game developers
- Most are closed-loop prepaid cards, but some are beginning to move to open loop

Who We're Watching in Game Cards & Cash

- Zynga
(via InComm)
- Zeevex
(Via InComm)
- Ultimate Game Card
(from PlaySpan's PayByCash)
- Electronic Arts
(Prepaid Visa)
- Playdom



Serve more customers by accepting cash payments



[Learn More](#)

Reach 24% of U.S. households that don't have a credit or debit card



CONSUMERS

Buy online and pay offline with cash

[LEARN MORE](#)

MERCHANTS

Accept cash nationwide for online or phone orders

[GET STARTED](#)

PARTNERS

Drive more foot traffic to your business

[LEARN MORE](#)

Buy Facebook Credits and Pay with CASH






[Buy Now...](#)

Buy Amazon.com Gift Cards and Pay with CASH



[Buy Now...](#)

LATEST NEWS

-  [PayNearMe Launches Cash Payment Service at 7-Eleven Locations](#) [Read...](#)
-  [Win an iPad! We're celebrating the launch of PayNearMe by giving away an iPad...](#) [Read...](#)
-  [PayNearMe Betting Cash Makes Comeback](#) [Read...](#)

[View All](#)

PayNearMe

How it works... high-level story

- Buyer make a purchase online and prints out PayNearMe Slip
- PayNearMe Slip directs buyer to the nearest 7-Eleven
 - Buyer enters their zip code as part of checkout process
- Buyer presents PayNearMe Slip to 7-Eleven clerk, who scans bar code and accepts exact cash amount
- Payment credit is posted in real-time to merchant; merchant prints purchase receipt on 7-Eleven cash-register receipt
- Everything is done with the buyer is at face-value with no extraneous fees

Offer-Based Payments

Earn credit to purchase goods, play games, and earn virtual currencies

- No cash, no problem!
 - Research indicates that “29.7% of social gamers do not have the ability or the means to pay for virtual currency with cash options”*
- Offer-based schemes enable users to participate in surveys, watch a video, or sign up for a trial subscription in order to earn credit that can be used to purchase goods, play games, or earn virtual currencies
 - Promotional advertisers include name brands
 - Claim significant reach and ability to precisely target offers
- Solutions across multiple social and game sites, as well as virtual worlds
- Industry tainted by offers that caused unwitting consumers to download unwanted software or unknowingly sign up for a recurring subscriptions

* Source: comScore, March 2010

Who We're Watching in Offer-based Payments

- TrialPay
- Tapjoy
- Super Rewards
- Peanut Labs
- SponsorPay
- gWallet
- Gambit

The screenshot displays the TrialPay website interface. At the top, the TrialPay logo is on the left, and navigation links for 'Industries', 'Products', 'Shoppers', and 'About Us' are in the center. A search bar with a 'GO' button and 'Sign In'/'Sign Up' links are on the right. The main heading is 'Social Apps & Casual Games: Overview', with a breadcrumb trail 'Home > Industries > Social Apps & Casual Games'. A left sidebar contains a menu with 'Overview' (highlighted), 'Online Services', 'Retail', 'Social Apps & Casual Games' (with sub-items: 'TrialPay In Action', 'Who Cares?', 'Sign Up'), and 'Software'. Below the sidebar is a 'Case Study' section for 'Green Patch'. The main content area features the text 'Maximize the revenue from your games' next to a graphic of a person with social media icons (hi5, bebo, facebook) and 'Casual Games'. Below this is a paragraph: 'TrialPay maximizes profits for publishers of social apps and casual games with the highest quality payment platform that offers the largest payouts, broadest capabilities and best customer service in the industry.' At the bottom, a row of logos includes playfish, PopCap, Broderbund, EIDOS, (Li) Green Patch, and Play First.

Bill to Mobile Payments

- Near-frictionless payment within a game or social app
- Billed with mobile phone charges on monthly statement
- Global schemes, operating in dozen of countries with hundreds of mobile carrier partners
- Game developers pay large fees – in excess of 15-45% - but when selling virtual goods with minimal cost, that's okay



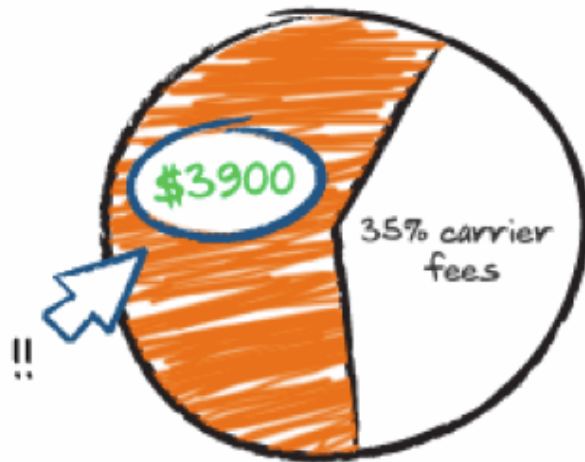
Boku Economic Pitch to Merchants

IT ADDS UP

Let's assume 1000 customers each willing to pay \$10

BOKU

600 Customers
(60% conversion)



Credit Card

70 Customers
(7% conversion)



Better conversion means higher net payout, even with carrier fees.

Who We're Watching in Bill to Mobile Payments

- Zong
- Boku
- BilltoMobile
- Allopass
- mBlox
- MoPay
- Payfone

ZONG
mobile payments

About
Products
Zong+
Coverage
Costs

FAQ
News
Contact
Jobs
Share

Introducing **ZONG+**
+ Lower transaction fees
+ Higher price points
+ Faster settlement time
[Learn More](#)

All you need is my number?

Frictionless Mobile PaymentsSM
Get more paying customers with Zong. All your user needs is a mobile phone to make a payment. Over 70% of the global online audience does not have a credit card, but most all of them have a mobile phone. Zong gives you a new way to expand your customer base by providing an easier way to pay.

Converts 10 times better than credit card
Zong's frictionless user experience gets real results. Our customers have seen conversion rates skyrocket after adding Zong as a payment option. No billing address, no expiration date, no 16-digit card number to type. Just type something you know by heart: your mobile number. [Watch Zong in action now.](#)

[Get started now](#) or [Learn More](#)

Zong in the news
[Zong's credit-card based mobile payments system is growing fast](#)
[MobileBeat](#) | Feb. 16, 2010
[Mobile payments to grow fast and furiously in 2010: Zong](#)
[Mobile Commerce Daily](#) | Jan. 4, 2010
[It's a phone! It's a browser! It's a wallet!](#)
[Fortune](#) | Nov. 05, 2009

FROST & SULLIVAN
2009 BEST PRACTICES AWARD
NORTH AMERICAN MOBILE PAYMENTS
NEW PRODUCT INNOVATION AWARD

Zong+ Screencast
Watch a live demo of Zong+, our latest innovation

Subscribe to our Newsletter
Get fresh Zong updates in your inbox

Evolution Paths?

Bill to Mobile Today

Tomorrow?

A Convenient Payment Platform

Digital Goods



Physical goods

Paid by Carrier Bill



Platform linked to other non-carrier payment methods

Small Dollar Value



Larger dollar values

High Discount Rate



Lower discount rates enabled by "direct connect" to major carriers



GLENBROOK

www.glenbrook.com
www.paymentsnews.com

Erin McCune

 **GLENBROOK**

Glenbrook Partners
1100 Alma Street, Suite 101
Menlo Park, CA 94025

+1 (415) 441 4840
erin@glenbrook.com