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## Original Article

# Virtual worlds: A gateway for SMEs toward internationalization

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### Diana Hassouneh

is a PhD candidate at the Department of Business Economics and Strategic Management at Vrije Universiteit Brussel. She holds an MSc in International Marketing Management from University of East London. Her current research interests are in the areas of: Internet Marketing, Virtual Worlds Marketing, Virtual Reality Interfaces and Consumer Behavior.

### Malaika Brengman

is Associate Professor at the Vrije Universiteit Brussel, where she teaches Marketing, Consumer Behavior, Strategic Marketing Management and Marketing Research. Her research interests involve the effectiveness of marketing communications, retail marketing (on- as well as offline) and consumer and shopper behavior, with a special focus on store design and atmospherics. She has published her work in well-established journals and has presented her research findings at many conferences all over the world.

**ABSTRACT** The Internet, in its 2D form, offered answers to some of the internationalization barriers of small- and medium-sized enterprises (SMEs) and has questioned the available internationalization models. Virtual worlds (VWs) have recently emerged as a promising platform for conducting various business and marketing activities. The current article is the first to examine their value in the internationalization process of SMEs. On the basis of literature from both the international marketing and the information systems fields, as well as incorporating current business practices, a model for internationalization using VWs is proposed. VWs' potential as a market knowledge generator, a strategic tool for internationalization (marketing program testing and brand building) and as a business platform for real and in-world product is evaluated. Further, a strategy for SMEs on how to build successful businesses in such metaverses to help them achieve their objective/s is proposed.

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## INTRODUCTION

Virtual worlds (VWs), also called metaverses, have recently emerged as a promising platform for conducting various business and marketing activities. Practitioners and academics alike are starting to explore the

potential of these metaverses for businesses. Literature investigating their value for businesses is starting to emerge. For instance, researchers have examined the potential of VWs in marketing (Hemp, 2006), in offering novel and enhanced modes of

**Correspondence:**  
Diana Hassouneh  
Faculty of Economics, Social and  
Political Science, Solvay Business  
School, Vrije Universiteit  
Brussel, Pleinlaan 2, B-1050  
Brussel, Belgium  
E-mail: Diana.hassouneh@vub  
.ac.be

advertising (Barnes, 2007), as a business value creator (Arakji and Lang, 2008), as a brand value creator (Barnes and Mattsson, 2008), and as the next evolution after online retailing (Bourlakis *et al.*, 2009). As researchers have called for studies focusing on the unique opportunities and management issues encountered by small businesses in the information systems (IS) area (Premkumar, 2003), the current article examines VWs value for small- and medium-sized enterprises (SMEs) in their internationalization process.

SMEs make up an important and integral part of every nation's economy. In the European Union (EU), there are about 23 million SMEs, which provide the majority of the EU jobs and are considered crucial to economic success (European Commission, 2008). In the Arab World, small businesses dominate the economy; in Palestine, for example, enterprises employing less than 20 employees constitute around 97 per cent of the total number of registered companies (Sabri, 2008). In addition, in the United States, SMEs account for 99.7 per cent of all businesses and they employ slightly more than 50 per cent of private non-farm workers (Ou, 2006). Globally, SMEs make up over 95 per cent of business numbers and create about 50 per cent of the total value added worldwide (OECD, 2005). To capture market opportunities, exploit unique competencies, or to face threats in their home country (for example, intense competition, small market size), SMEs need to expand into new markets (Hollensen, 2009, p. 35).

Hollensen (2009, p. 46) classified barriers to internationalization into two types: barriers hindering export initiation and barriers hindering the process of internationalization. Factors that affect the export start relate to internal barriers, such as insufficient finances and inadequate information on potential customers, competitors and foreign business practices. However, in the

process of internationalization, three categories of barriers were identified. A firm may encounter *general market risks*, including comparative market distance, differences in product usage and cultural differences; *political risks*, which relate to home and host-country interventions; and finally *commercial risks*, such as delays in shipment. The Internet, in its 2D form, has provided an answer to some of the barriers of internationalization, which in turn questioned available models of internationalization (Hamill, 1997; Axinn and Matthyssens, 2002; Chrysostome and Rosson, 2009). For instance, the Internet was found to remove geographical constraints, permit the instant establishment of online branches throughout the world, allow direct and immediate foreign market entry, reduce the global advertising costs and offer small companies the opportunity to compete on a worldwide basis and reach a global audience more cost effectively (Quelch and Klein, 1996; Bennett, 1997; Axinn and Matthyssens, 2002).

Metaverses are being used by big real-world corporations such as IBM, Toyota, Starwood Hotels and L'Oréal Paris, for various marketing activities (that is, brand building). In the VW of Second Life (SL), over 100 real brands are present in-world (that is, in the VW) (New Business Horizons, 2007). Further, VWs are believed to be the next evolution after 2D sites (Arakji and Lang, 2008; Bourlakis *et al.*, 2009); therefore, we expect them to revolutionize SMEs' internationalization once again. This article, thus, examines how VWs can affect SMEs' internationalization process.

In this article, we argue that VWs can be used by SMEs as a strategic tool not only to move faster into international markets, but also to do it more wisely. On the basis of literature from both the international marketing and the IS fields, as well as incorporating current business practices, a model for internationalization using VWs is proposed (see Figure 1). The model

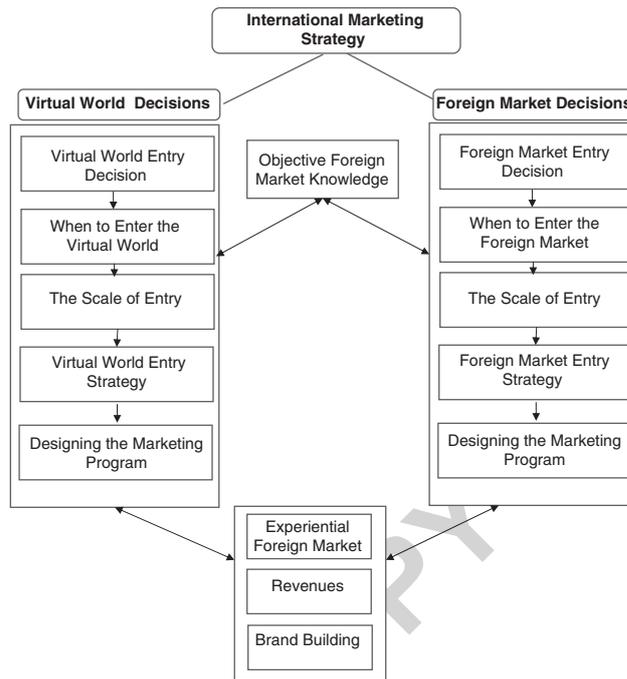


Figure 1: International marketing model using virtual worlds.

demonstrates how SMEs can make use of VWs to (1) grow revenues; (2) accumulate market knowledge; and (3) build their brand in a desired market before actually entering it. Although entering a VW is not cost free (Arakji and Lang, 2008), the value it offers might exceed the actual investment if planned conscientiously. Using VWs, SMEs can directly reach foreign markets by offering their real product/s or virtual ones in-world to VW users. Further, through interaction with customers in real time, observing customers' behavior in-world, facing the in-world competition, and testing their marketing program (product, price, place and promotion), SMEs can be empowered with exceptional foreign market knowledge. Such knowledge will enable these firms to make better informed foreign market entry decisions, while reducing the perceived *psychic distance*. *Psychic distance* is defined as 'the sum of factors preventing the flow of information from and to the market' (Johanson and Vahlne,

1977, p. 23). Examples are differences in language, education, business practice, culture and industrial development. SMEs can also make use of the medium's special characteristics and start building their brand before actually entering the foreign market of interest and/or afterwards.

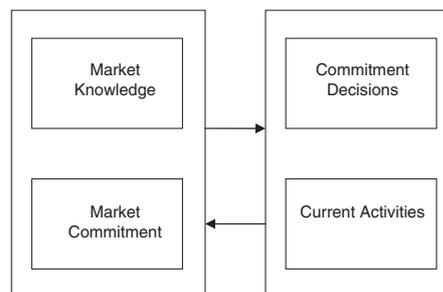
On the other hand, for companies to have a successful presence in-world, a strategic approach needs to be undertaken (Barnes and Mattsson, 2008). Therefore, a detailed model on how SMEs can achieve their objective/s while entering a VW is proposed. This model provides firms with the necessary know-how regarding different VW entry decisions.

This article is structured as follows. First, we describe the Uppsala model and discuss its validity for explaining firms' internationalization process in the Internet era. Subsequently, the potential of VWs as a market knowledge generator, a strategic tool and as a platform for business is evaluated. Consecutively, we explain the main VW

entry decisions needed for achieving a successful presence in-world. Finally, a conclusion is drawn regarding the usefulness of VWs for the internationalization of SMEs and venues for future research are proposed.

## THE INTERNATIONALIZATION PROCESS

According to Mtigwe (2006), research on the internationalization process of companies centers on the Uppsala model. This is largely because of the model's simplicity and incorporation of a dynamic view of internationalization (Forsgren and Hagstrom, 2007). The model was constructed on the basis of the premise that a lack of knowledge because of differences between countries is a critical obstacle to decision making concerning internationalization (Johanson and Vahlne, 1977). The Uppsala model (see Figure 2) assumes that the state of internationalization ('market knowledge' and 'market commitment') affects perceived opportunities and risks, which subsequently influence the 'commitment decisions' and 'current activities' (change aspect), and thus the opportunity development (Johanson and Vahlne, 2006). Thus, the model deals with knowledge acquisition (that is, with learning); how firms learn and how that affects their investment behavior (Forsgren, 2002). The more the knowledge about the market, the more valuable the resources and the stronger the commitment to that market will be (Johanson and Vahlne, 1977).



**Figure 2:** Uppsala model.  
Source: Johanson and Vahlne (1977).

According to Johanson and Vahlne (1977), there are two main types of knowledge: *objective knowledge*, which can be taught, and *experiential knowledge*, which is gained by experience, learned by doing. Johanson and Vahlne state that on the basis of 'objective market knowledge', it is only possible to formulate 'theoretical' opportunities, whereas 'experiential knowledge' makes it possible to perceive 'concrete' opportunities on the basis of a 'feeling' about how they would fit into the present and future activities (1977). This concept of learning, that is, experiential, was criticized for being narrow; rather, learning can also happen through imitation, incorporating people or organizations, or by searching and scanning for new information (Forsgren, 2002). Further, some firms (for example, Internet-related firms) were found to skip stages even if they were not equipped with the required knowledge (Axinn and Matthyssens, 2002). Such behavior was reasoned by firms perceiving higher risk of *not* investing than investing without the market knowledge (that is, to gain first-mover advantage) (Forsgren and Hagstrom, 2007). It is noteworthy, however, that some of the Internet firms studied by Forsgren and Hagstrom (2007), suggested that applying a cautious, incremental strategy based on acquiring market knowledge, could have made them more successful, or at least saved them from bankruptcy. Thus, it seems that the need for market knowledge itself is not questioned, but rather the possibility for acquiring such knowledge in a more feasible and speedy manner. On the other hand, Oviatt and McDougall (1999) proposed that the opportunities offered by the advanced technologies (for example, the Internet) are behind the fast internationalization of small firms rather than the acquired foreign market knowledge. We believe that the technology has affected SMEs' internationalization speed, both directly (that is,

using the Internet as an international sales channel) and indirectly by allowing firms to gain foreign market knowledge more easily (for example, using the Internet search engines). Further, Axinn and Matthyssens (2002) suggested that customer value and market-based assets (for example, customer base, market reputation) can play an important role in driving companies' internationalization.

Another aspect of the Uppsala model is *market choice*. Johanson and Vahlne (1977) suggest that companies begin internationalization in markets that have less 'psychic distance' and then gradually move to markets with greater levels of 'psychic distance'. This gradual linear view of internationalizations, however, is hard to maintain in the e-commerce context, where the process seems to be fast and discontinuous (Axinn and Matthyssens, 2002; Forsgren and Hagstrom, 2007). Further, although the model predicts firms' growth irrespective of any such decisions being made (Forsgren and Hagstrom, 2007), Internet-based firms were found to take a proactive approach by considering international growth a top priority (Forsgren and Hagstrom, 2007).

This article argues that VWs can be used to directly reach foreign markets and thus internationalize faster. Moreover, we argue that a firm can acquire 'market knowledge' – both objective and experiential – as well as build a customer base through entering an appropriate VW. This market knowledge and customer base will reduce the 'perceived psychic distance', help SMEs in taking better foreign-market entry decisions, influence their 'market commitment' and thus internationalize in a faster and smarter manner.

## INTERNATIONALIZATION THROUGH VWs

VWs are 3D Internet-based simulated environments that can be categorized into two types: game-oriented and freeform VWs

(Bainbridge, 2007). In game-oriented VWs, users (called 'players') have a goal to achieve in game and are there mainly to have fun (for example, World of Warcraft). However, freeform VWs are virtual environments that mimic the real world and their content is user-generated, that is, users can create any object from scratch. Users (called 'residents') living in-world using a 3D virtual character 'avatars' can own a house, a car, work, join events, buy or sell objects and interact with others in real time. Users of such VWs are there mainly to socialize and enjoy the VW away from real-life restrictions, with no specific goal imposed by the VW (for example, SL, There and Meet Me). Such characteristics, along with possessing their own currency (for example, Linden Dollar in SL), make free-form VWs viable and attractive places for conducting commercial activities. The second type is, thus, the one of interest for the current study as it offers businesses the opportunity to conduct business in a way similar to the real world, open a store, sell their products or services, interact with customers and deal with the in-world competition.

## VWs as a foreign market knowledge generator

VWs have been found to be effective platforms for learning, acquiring proficiency in real-life skills and gaining confidence in doing real-life tasks in different disciplines. For instance, in medicine (Wiecha *et al*, 2010), military (Zielke and Linehan, 2009), and in business (Derryberry, 2009), learners can immerse in VWs, collaborate and learn by doing, using virtual artifact to construct knowledge (Walker, 1990). Further, VWs provide a safe and anonymous opportunity to learn by doing without the fear of making errors with critical consequences (Dede, 1995; Derryberry, 2009). Moreover, 3D virtual environments were found to be especially appropriate for facilitating learning

of the cognitive complexity and nuance of cultures (Zielke *et al.*, 2009). But, what cultures are on play in these metaverses?

According to Book (2004), the emerging cultures of play inside VWs are largely influenced and inspired by the real-life cultures. 'They are synthetic worlds within which real societies accumulate. Builders can vary almost everything except human nature itself' (Castronova, 2006, p. 17). 'Avatars' are seen as a reflex of their creators, an extension of their personalities and real identities (Andrade, 2009). Customers (avatars) are openly expressing their deep-seated desires in VWs (Arakji and Lang, 2008). Castronova (2006) has demonstrated that VWs are effective and attractive venues for conducting social sciences studies. Further, VWs are usually targeted toward a specific country or culture, which in turn makes them viable for studying a foreign market culture/society.

The VW 'Meet Me', for instance, is intended only for a Japanese audience. 'Meet Me' is a 3D virtual representation of Tokyo. In-world users can enjoy games, entertainment and shopping for various items including clothes, land, housing and furniture using Cocore – the VW currency (Leigh, 2007). 'Meet Me' is a VW that is tailored to the Japanese culture. Kunimasa Hamaoka of Transcosmos – the company that developed 'Meet Me' – argues that 'the Japanese audience prefers a more predictable, secure and socially proper environment than the anything-goes 'SL' world provides' (Alexander, 2007). Thus, if a firm would be interested in learning about the Japanese market, entering the VW 'Meet Me' would be of value.

Although several other VWs have an international audience, most of its users seem to come from one country, region or a couple of countries. Most of the active users of the VW 'SL', for instance, appear to be coming from the United States, 40 per cent, followed by Germany, 10 per

cent, and the United Kingdom and Japan, each accounting for about 7 per cent of its active users (Second Life, 2008). A firm can target the group it is interested in, in such a VW with in-world marketing activities, treating the American as the dominant culture and the others as sub-cultures, just like in real markets.

On the other hand, each VW is believed to have its unique culture (Hemp, 2006). Although we assume that the users' original culture will be dominating their behavior (based on the work of Castronova, 2006), this may be altered by the VW culture. VWs are different in the possibilities offered to their users (for example, flying is possible in SL but it is not possible in the VW of 'Kaneva'). We believe that these distinct possibilities are what make up the VW culture and 'avatars' behavior would thus be altered accordingly. For instance, although the heaviest users of SL are aged 45 years and above (Bananaverse, 2008), mostly young avatars are found in-world or even non-human avatars are used (Hemp, 2006). These possibilities, along with anonymity, allow people to live in a dream away from real-world restrictions. Nevertheless, Henry Jenkins, head of Massachusetts Institute of Technology (MIT's) Comparative Media Studies program, noted that 'Marketing depends on soliciting people's dreams, and here (SL) those dreams are on overt display' (Hemp, 2006). Thus, learning about the VWs' culture is critical for the SME to successfully achieve their objectives. *As people, generally, are believed to adjust to new cultural environments by time* (Oberg, 1960), *we assume that the early adopters of a VW, who have been 'living' in-world for some time, would probably be more affected by the VW culture than the new VW users.*

Moreover, VWs allow firms to better understand their customers and competitors. SMEs, for instance, can collect a huge amount of information about their customers' behavior within the world in an

automatic way. 'Avatar's digital nature means that every one of its moves – for example, perusing products in a store and discussing them with a friend – can be tracked and logged in a database' (Hemp, 2006, p. 56). Such behavioral information can be invaluable to businesses, allowing them to deeply understand their customers and to test their offering (VWs as a testing platform is elaborated on in the next section). Furthermore, a firm can choose to directly reach the customers for information. An SME could, for instance, conduct focus groups easily, and with little expense manage research panels and so on. Achim Muellers, head of brand relations and cooperations at BMW, argues that 'SL is great to get very honest feedback, more honest than in any focus group, because in a focus group, you sort of know what's expected from you. SL residents are more extroverted and honest about their feelings' (DMD *et al*, 2007). In addition, most of the real companies, which are present in a specific VW and are targeting VW users by their in-world marketing activities, would be expected to be present in the foreign market as well (such as Nike and Sears in SL and in the United States). Therefore, through entering the appropriate VW, SMEs can acquire market knowledge not only about the culture/society and their customers, but also about the competing companies in the foreign market of interest. This knowledge would, thus, affect the firms' different market entry decisions, that is, whether to enter the market, how, when and whether adaptation is needed for their marketing program.

### **VWs as a strategic tool**

Virtual Reality, the technology behind VWs, have been successfully used to simulate a real shopping experience to study consumer behavior and product choice in traditional stores (for example, Treiber and Needel, 2000; Kopf and Treiber, 2003).

These experiments were found to accurately predict the results of real in-store tests (Draper, 2007). Putting this together, we assume that VWs would allow SMEs to test their marketing program before going into the foreign market of interest. In addition, VWs offer SMEs the possibility to start on building their brand in the foreign market beforehand and thus can be used as a strategic tool for internationalization, as discussed below.

### **Marketing program testing**

The perceived value of products is culture/market bound (Kotler, 2003, p. 395). A well-accepted product in one country may not be accepted in another. Many firms are forced to modify their product offerings when entering new markets: the product features may be altered, package, brand name and/or color among others, for cultural, religious or other reasons (Czinkota and Ronkainen, 2007). Introducing a product that is negatively perceived in a foreign market and then having to modify it requires a lot of the SMEs financial resources, which are already limited. Testing the product before it enters the market reduces such a risk. Many researchers agree that the Internet, as a low-cost, interactive and multimedia-rich technology, enables consumers to virtually experience new products and provides new simplified modes of large-scale interaction between producers and consumers (Fuller and Matzler, 2007). By means of Virtual Reality interfaces, customers can interact with a 3D product image in real time and have a 'virtual product experience'. Studies have shown that Virtual Reality is capable of enhancing 'telepresence' (for example, Song *et al*, 2007), which is the illusion of 'actually being there' in a computer-mediated environment (Biocca, 2002). As a matter of fact, such 'Virtual Product Experiences' have been demonstrated to

enhance customers' actual and perceived product knowledge, thus positively influencing the attitudes toward brands and purchase intentions (for example, Biocca, 2002). Virtually experiencing a product enables customers to form better opinions and make better decisions regarding the product value. Dahan and Srinivasan (2000) illustrate that virtual prototype testing on the Internet provides almost identical results to using physical prototype testing, but it is also quicker and more cost effective.

Using VWs as a product testing platform is suitable for both products and services. Nevertheless, some attributes (such as smell) cannot be virtually experienced yet with the available technology. American Apparel test-marketed their first line of jeans within their SL store in the summer of 2006, 2 months before launching them in their real-world stores (Hedley, 2006). Starwood, the international lodging chain, has also used 3D worlds to test large-scale, expensive undertakings such as a new hotel brand and themed properties. Starwood built and collected feedback about its new brand of hotels – Aloft – in SL a year before breaking ground in the real world (Lui *et al.*, 2007).

Using Virtual Reality technology, a lot of behavioral information in-store can be gathered (that is, duration of consumers' search, navigation pattern, time spent in the store or on inspecting products and so on) Treiber and Needel (2000). Another important advantage of Virtual Reality environments is that set-up, altering the tests and collecting the data can be done very quickly (Burke, 1996). Further, the virtual store environment is totally controllable by the researcher/SME (that is, all store elements, including virtual versions of competitors' offerings, can be manipulated or held constant as wished). Thus, using VWs, SMEs can test not only their product, but also their pricing strategy and store design. According to Patrice Varni, head of Internet marketing at Levi's, Levis Strauss

priced a new style of Jeans at a 'premium' to the generic virtual jeans available in the VW 'There', in order to test 'how many people were willing to pay extra for Levi's versus generic jeans' (Hemp, 2006, p. 54). As far as store design is concerned, VWs' stores share a lot of atmospherics with traditional stores (for example, store building and color) (Brenngman and Hassouneh, 2009) such as common design elements can be altered and tested within the VW for ultimate real store design.

Furthermore, SMEs can learn about customers' behavior, lifestyle and expectations regarding the ideal location for their real stores or business ventures in the foreign market. Such information could be particularly important for service providers (for example, a specialty restaurant). Finally, as VWs allow for two-way communication in real time, VWs offer SMEs the possibility to collect important information from VW users to best reach their target audience when promoting their offering in the foreign market (for example, magazines/newspapers readership, channels watched).

### **Brand building**

Brand building has been discussed thoroughly in the literature from both theoretical and managerial perspectives as a strategic tool for developing brand loyalty (Gommans, Krishnan, and Scheffold, 2001). However, few studies (for example, Berthon *et al.*, 2008) have examined branding within SMEs. As most VW users come from one or few countries, we believe that VWs can be used by SMEs as a brand building tool in the foreign market of interest before actually going into the market and/or afterwards.

These days, to build a brand, companies need to find ways to persuade consumers to invite brands into their lives, through integrating messages with entertainment (*Business Week*, 2005). Further, companies



that foster building virtual brand communities will be the ones rewarded with customer loyalty and economic returns (Hagel and Armstrong, 1997). And this is exactly what VWs provide, a very engaging, interactive and full-of-entertainment platform that allows for creating and growing a brand community. US car manufacturer in SL, for instance Pontiac, encourages residents' participation in many ways: their virtual cars are fully customizable to individuals' preferences, free virtual land is offered for residents wanting to create virtual space related to the Pontiac brand, in addition to regularly organizing different social events (for example, racing, concerts) (KZero, 2009a).

VWs indeed offer unlimited possibilities for engaging customers and for creative ideas to come alive. Good creative ideas do not necessarily have to be expensive. SMEs can find creative ideas to communicate their intended messages by means of brainstorming sessions among their employees or even in collaboration with residents of the VW. Being creative will enable an SME to make use of the VWs' blogs and virtual word-of-mouth (WOM) to increase awareness of their brand. WOM marketing was found to play a major role in increasing awareness of a recent Levi's campaign. Social media such as blogs and social networks accounted for 38 per cent of the campaign awareness as compared to 30 per cent of awareness coming from TV and smaller percentages coming from all other media used (Nesbitt, 2008). Moreover, when a firm hosts an important event or comes up with a true creative idea, not only will the residents of the VW talk about it, but also the press of the foreign market. Publicity is free, more credible and almost six times greater as many people read articles as they read ads (Asacker and VanAuken, 2007).

In VWs, a brand is built at every point of contact with the customer and is affected

by all business activities in-world. In the VW of SL, real brands' value was found to be either positively or negatively affected by the companies' different activities in-world (Barnes and Mattsson, 2008). Brand building in-world can be accomplished through opening a store, virtually experiencing the product, organizing social activities/events, in-world campaigns, WOM and community blogs. The more points of contact between the customer and the brand, the more the customers are aware of the brand and the stronger the attitudes formed.

It is worth noting that many VW brands have outperformed their real counterparts in terms of attracting traffic into their sites. In December 2007, for instance, the site of Silver Motorsports Complex, the VW car brand, has received about 25 000 0 visitors, more than any other car brand, followed by Mercedes Benz with about 10 000 0 visitors (KZero, 2009a).

Furthermore, VW experiences were found to affect consumers' real-world behavior (Kwon, 2008). Patrice Varni, head of Internet marketing at Levi's, envisions that users making an in-world purchase of an appealing style of jeans (in the VW 'There') will affect real-world online purchases (Hemp, 2006). Thus, building a large base of customers in the VW, who are brand loyal or with positive brand attitudes, could induce the SME to move to the real market to grow revenues offline.

### **VWs as a business platform for real and in-world products**

VWs, themselves, can be used by SMEs as the means to approach the foreign market through offering their real or virtual product/s for sale in-world. Metaverse retailing is believed to be the next evolution after the e-retailing (Bourlakis *et al*, 2009). Although many SMEs have an online presence (Bennett, 1997; McClean *et al*, 2003), VWs possess some unique

characteristics that distinguish them from other online company presence. First and foremost, they entail 3D environments that allow businesses to offer their customers a real shopping experience without the constraints of real life. Products can be visualized in three-dimensions and interacted within real time using 'avatars'; in other words, customers can experience the products rather than just see them (Barnes and Mattsson, 2008). Second, these worlds have established a large user base (Arakji and Lang, 2008), that are 'living' in these VWs, and who may encounter a company's store and buy their products while wandering around, just like in real life (Brenngman and Hassouneh, 2009). Furthermore, VWs are expected to increase and grow in terms of registered users and number of VWs (Prentice *et al*, 2009). By some estimates, 80 percent of active Internet users will participate in an online world by 2011 (Prentice, 2007). Finally, shopping was found to constitute a popular activity in VWs. In a survey that was conducted in SL (Reperes, 2007), 72 per cent of SL residents surveyed stated to go shopping at least weekly and over half of them reported to make a purchase on a weekly basis.

Although some researchers are suspicious about the real business value possible in VWs (Arakji and Lang, 2008), several stores in VWs are already selling real products for VW users and shipping them to their real home address. For example, IWOOT, a store in SL, offers real gadgets and gifts for sale to VW users. In addition, selling virtual products and services (virtual shoes, furniture, clothes, event management) to VW users seems profitable in real-life standards and would be especially of value to SMEs of the developing countries. For instance, SL supports more than 7000 profitable businesses (Boyd and Moersfelder, 2007), and allows top entrepreneurs to earn more than million (US) dollars per year (Au, 2009a). In fact, for some entrepreneurs,

SL is their only source of income (Au, 2009b). The low-entry barriers of VWs (Bourlakis *et al*, 2009), along with the anticipated profitability, makes approaching a foreign market through VWs an attractive strategy for SMEs.

It is worth noting, however, that the technology behind VWs is still in its early stages and thus it might take time until they can completely fulfill demanding business applications on a big scale (for example, number of avatars possible at a given time) (Bourlakis *et al*, 2009). At the mean time, stores selling real products in-world are forwarding customers to their 2D websites to complete the transaction and/or to browse more variety of products (for example, Snowbooks store in SL, the real books retailer) (Brenngman and Hassouneh, 2009). VWs, thus, possess unique characteristics that, as they mature, have the potential to outperform 2D sites as a direct marketing channel for real products. The view that the metaverse will play a significant role in the future and radically change the way we do business is shared by many researchers in the field, for example, Hemp (2006); Arakji and Lang (2008); and Bourlakis *et al* (2009).

To gain any of the above-discussed values, SMEs need to strategically plan their entry into VWs. Entering VWs requires similar key foreign market entry decisions as entering real foreign markets (see Figure 1); therefore, these sequential steps will be reviewed profoundly in the following paragraphs.

## FOREIGN MARKET ENTRY DECISIONS AND VWs

When going international, firms are faced with some important entry decisions (Hill, 2007). First, they have to decide which market to enter, when to enter and the scale of entry. Then the firm has to decide on the entry mode (for example, export, joint venture) and finally on their international marketing program design.

### Market entry decision (which market to enter)

While choosing an appropriate foreign market, a firm will seek a balance between *benefits, costs and risk* (Hill, 2007). ‘Systematic’ international market selection is a significant determinant of export performance, even when controlling for decision-maker and firm-specific characteristics (Brouthers and Nakos, 2005). On the basis of how successful Australian international businesses selected their international markets, Rahman (2003) developed a two-stage model for selecting international markets. The first stage is based on evaluating the *market size attractiveness*, followed by the evaluation of the *market’s structural attractiveness* (for example, cost, structural compatibility and government policy variables).

With regard to VWs, as there are many VWs online (KZero, 2009b), in deciding on which one to enter, a company needs to look for the ones that would be most appropriate to meet its objectives. In fact, each VW has its unique audience, theme, culture and rules, which should all be studied before entering the metaverse.

A crucial consideration is the VW audience. The SME needs to enter the VW, which is tailored to users (customers) of the market of interest. In addition, the SME should consider the type and number of representative businesses operating within the different metaverses, which are tailored toward the same audience. However, if an SME wants to use the VW to directly approach the foreign market (that is, by selling their real or virtual product in-world), the number of active VW users, rather than registered users, should be a key concern. Furthermore, VWs vary in their regulations regarding setting up a business in-world. For instance, in SL, a firm does not have to contact Linden Labs (the company that owns and runs SL) to arrange for setting up a business. The firm can directly subscribe, buy land and start its virtual

business (DMD *et al.*, 2007). Setting up costs are another important criteria while choosing between VWs. For instance, SMEs need to study VW membership costs, and the cost of purchasing a land that meets their objectives (that is, size, location, technical capabilities).

The SME may decide to enter more than one VW at the same time, to increase their revenues, brand awareness, knowledge about one specific foreign market, or to compare different markets to choose an appropriate one to enter for real. ‘Scion’, which is a recent brand of vehicles targeted toward the younger generation, produced by Toyota Motor Corporation, for instance, has established a presence in several VWs, such as ‘There’, ‘SL’, ‘Gaia’ and ‘Whyville’, in order to increase brand awareness, convey the brand’s attitudes and to cultivate and engage a brand community (Harper, 2008).

### When to enter the foreign market

A firm needs to decide whether to be a first mover or to take a ‘wait and see’ approach to reduce associated risk. According to Acedo and Jones (2007), *Risk perception* is an element that may prevent a firm from: internationalizing at all, in a timely manner, or fast enough to capture available opportunities.

Also for SMEs that consider entering a VW, the timing is extremely important. Being the first to enter a certain VW may offer the firm a first-mover advantage. For instance, many residents could visit the store or buy the product, allowing the firm to grow revenues, learn about the culture and get immediate feedback from consumers. Being the first could also mean that more people and media will be talking about the company, creating a buzz in-world and publicity in the foreign market before actually entering it. Companies such as American Apparel, Adidas, Dell and Nissan received millions of real-world

impressions after building an island in SL (DMD *et al.*, 2007). However, if the SME is aiming to learn more about the competition in the foreign market, then it may be wise to wait until representative businesses of the foreign country have entered the VW.

### The scale of entry

A firm can enter on a large or small scale, depending on the involvement, commitment and risk the firm is willing to take (Hill, 2007). Entering on a large scale in the real world implies a rapid entry and the involvement of a significant amount of resources. A firm can enter a VW on a large or small scale as well, depending on the SMEs' objectives and the resources they are willing to commit. For example, a firm with no prior international experience, that perceives the 'psychic distance' of a foreign market to be high and lacks resources (time, money and/or IT skills), can choose to enter a VW as an *observer*. This entry strategy means that an employee will subscribe to the appropriate VW/s and 'live' there, observing businesses' behaviors and offerings, engaging in conversations with in-world residents and observing their shopping behavior. Using this entry strategy will give the firm some general basic knowledge about the foreign market and thus reduce the perceived 'psychic distance'. A large-scale entry, on the other hand, will allow the firm to gain extensive foreign market knowledge about the culture, consumer behavior and competitors, or to maximize their revenues. An SME can, for instance, choose to open more than one store in the VW and appoint several employees to gain foreign market experience by interacting directly with consumers and getting immediate feedback about their offerings.

### Market entry strategy

A firm can choose between exporting, licensing, franchising, joint ventures and

wholly owned subsidiaries (Hill, 2007). The decision will depend on both firm- and market-specific factors. The most commonly used theory in entry-mode studies was found to be 'transaction cost analysis' (Canabal and White III, 2008). The basic rationale behind 'transaction cost theory' is that firms need to create governance structures that will minimize costs and inefficiencies associated with entering and operating in a foreign market. The second most commonly used theory was found to be 'OLI', which is based on the notion that entry-mode choice consists of three factors: ownership, location and internalization (Canabal and White III, 2008).

After considering the three basic entry decisions regarding VWs, an SME also has to decide on how to enter such a VW. An SME can choose to '*sell*' a virtual version of its products through in-world retailers. This strategy allows for specific knowledge to be gained while keeping costs minimum. The firm can sell through a popular in-world retailer (exclusively) or use intensive distribution. To build their brand, L'Oréal Paris has distributed more than 34 000 virtual make-up items in a 3-month period via existing SL businesses and designers (Virtual World News, 2008). Using this entry strategy, a company can get feedback from the retailers about its product offering or even directly from customers, that is, by means of surveys or interviews.

To gain more extensive foreign market knowledge, however, a company needs to commit more resources and '*set up a store*' in the VW. The number of customers that visit virtual stores may exceed the number visiting real stores. According to Bret Treasure (DMD *et al.*, 2007), average traffic in SL per week is 36 000 or 40 times the volume of the real-life businesses. Setting up a store and selling a virtual version of the company's products directly to consumers allows gaining immediate feedback and may provide an extensive amount of

vital information. By means of their virtual store in 'There', Levi's collected behavioral information about their customers. They found, among others, that 53 per cent of the women who purchased a virtual pair of jeans spent 75 per cent or more of their time socializing, much more than women who did not buy Levi's virtual jeans (Elkin, 2003). Moreover, this entry strategy offers the SME an opportunity to learn about their competitors through facing and dealing with the competing in-world brands.

Eventually, a firm can even *sell its real products* to the VW inhabitants. 'Starfruit', a gift service provider in SL, offers VW residents the ability to buy flowers, chocolate, t-shirts, wine and jewelry, which can be delivered to their real postal address (Starfruit, 2008). This strategy is especially useful when important features cannot be experienced online, such as taste or smell. Fundamentally, SMEs can actually combine all or some of these entry strategies to enhance their ultimate learning experience, increase brand awareness and/or to gain more profit.

### **Designing the foreign marketing program**

While entering a foreign market, a company has to decide whether to copy the local marketing mix to the international market, to adapt all or part of it, or to conceive a localized new mix. On the basis of an integrative analysis of 36 studies concerning standardization/adaptation strategy, Theodosiou and Leonidou (2003) concluded that the decision of whether to standardize or adapt the marketing strategy largely depends on the firms' situation in a particular foreign market at a given time.

Similar to entering any new market, in the case of VWs as well, businesses need to understand their culture and *localize* their marketing activities where necessary in order to be successful. As VWs are mainly

entertainment places where people want to have fun and escape real life (Hemp, 2006), the trick, according to analysts, is 'to strike a balance between enhancing realism and not damaging escapism' (Hedley, 2006). In other words, to offer a fantasy and a great experience to VW residents that 'feels' real. Thus, it is especially important that a company takes into consideration both the foreign market culture and the VW's culture, in order to be well received by its 'residents' and in order to allow SMEs achieve their objectives.

### **Product**

While designing virtual versions of their products, to build their brand or to gain profit, a company has to find a way to add value to the in-world residents by means of its core and/or extended product/s. SMEs may decide to make special versions of their products that fit the VW culture or may choose to offer experiences or services to accompany their offerings that contribute to the VW community. Companies that offer something of value to in-world residents are the ones believed to be successful. The market research company 'Market Truths' in SL calculated an overall SL brand impact of Metric and found that brands that score highest on the metric tend to go beyond showing their products, provoking virtual versions or web links. They appear to provide opportunities for deeper engagement by making a brand-relevant contribution to the community and creating opportunities for interaction such as co-creation and customization of products (DMD *et al*, 2007). Thomson, for instance, receives more traffic as it offers educational content (Cere, 2007), whereas Nike sells virtual shoes that allow wearers to run faster than other avatars (Hemp, 2006). However, if the SME aims at testing their product, while adding a service or experience that contributes to the virtual community, only

an identical version of it should be created.

Before designing their virtual products, businesses should consider the attributes of their products, which can be experienced virtually, and map out their marketing strategies accordingly (Lui *et al*, 2007). Calvin Klein, for instance, launched a virtual version of their new CK IN2U fragrances for men and women in SL. As avatars cannot smell, the virtual perfume bottles enable SL users to spray each other with virtual bubbles. Moreover, UK SL users were offered the possibility to order a free sample of the new fragrance (Wallace, 2007). By enabling users to spray each other with virtual bubbles, CK added value to the product and gave SL avatars a reason to virtually try the new fragrance.

Another important consideration is the product–VW culture fit. Although SL attracted people of all ages (Fetscherin and Lattemann, 2008), the SL VW culture is rather young. Therefore, selling products oriented toward the elderly may not be as successful in such VW. In case that the fit is not tremendous and the company is aiming at testing their offering, then the objective should be made very clear to the VW users. This way, the firm can get direct feedback from their specific target audience about their offering by means of surveys and/or interviews.

### Price

While setting a price for their offering, a firm should consider their own objectives, estimated demand and costs, as well as the offers and pricing strategies of their counterparts (Kotler, 2003, p. 473). The same holds true for setting a price in VWs. A company may choose to charge a low price in order to generate rapid market penetration and visibility or a high price in order to give its offering a certain status (Kotler, 2003, p. 473). A company may also decide

to just follow the generally accepted market price. Offering products for free does not seem to be such a good approach, as this may cause a real price competition within the VW and may even be considered disrespectful to the VW economy. Toyota, the Japanese carmaker, priced its entry-level Scions for US\$2 in SL, which is the going rate for entry-level cars designed and sold by the VW residents, rather than giving them away for free in order to respect the SL economy (Jana and McConnon, 2006). Moreover, charging products in the VW means the firm is getting revenues, covering VW entry costs and potentially even making profits. Such revenues would be considered of value to a small company that is limited in financial resources.

### Place

A company that chooses to enter a VW by ‘setting up (a) store/s’ is faced with two important decisions to make regarding ‘place’: the VW store location and store design. Before buying a land, a firm has to consider the nature of its offerings, objectives and the resources available. Some areas within VWs attract more traffic than others, which suggests that more ‘residents’ may encounter the store. Nevertheless, it is important to note that areas that are too crowded may encounter technical problems. In SL, for instance, a ‘full region’ sim (which is a region of 65 536 m<sup>2</sup> in size) performance begins to degrade when there are about 50 avatars on it, and would crash when there are around 100 avatars on the sim (Wapedia, 2009). Furthermore, the cost of land will vary depending on the size, shape, style, location of the land and what else is nearby. A land that is ocean front in SL, for example, sells for more than land that is far away from the water (Howl, 2008).

While designing the store, it is important to consider the business situation, competitors’ stores, the foreign market culture



and the VWs' unique culture. American Apparel's failure in SL, for example, was partially attributed to a lack of respect to SL's culture when creating ordinary buildings with very few options for residential interaction (DMD *et al.*, 2007). Circuit City and the Armani store in SL were also criticized for the same reason (Reynolds, 2008).

SMEs that choose to 'sell' their products through in-world retailers, rather than by setting up their own stores, will also have to decide on their distribution strategy. Depending on the VWs' specific and the firms' objectives and available resources, a company may decide to distribute its products intensively by all available VW outlets or may choose to sell to one or a few retailers exclusively. Finding the right in-world retailer/s is critical for the success of this entry strategy. SMEs need to study the in-world retailers to find the right store/s for distributing their offerings, in terms of relevance and accessibility. KZero, the company that distributed the virtual makeup of L'Oréal Paris in SL, found for instance that more than 60 per cent of all transactions were made by two SL stores (Virtual World News, 2008).

### **Promotion**

After entering a VW, an SME has to promote its products in order to persuade customers to buy them or to visit the in-world store. Advertising in VWs includes static billboards and dynamic billboards, which can be placed alongside the streets and virtual landscapes. Brands that have already used these include Nike, Reebok and Pizza Hut (Hedley, 2006). A company can also place newspaper or magazine ads depending on the VW. In SL, for instance, placing a full page ad in its Second Style magazine costs about \$11 and is claimed to reach 25 000 SL readers (Second Style, 2008). Furthermore, SMEs can promote

their products using the different community blogs, classifieds, groups and VWs' forums, which, although believed to be effective in such a social network platform, are also almost cost free.

However, according to analysts, the real excitement is in 'virtual product placement' and the integration of brands in story lines (Hedley, 2006). 'Scion', for instance, launched a campaign in 'There' in the summer of 2007 by building 'Club Scion'. The club offered a nightclub-type environment for people to have fun and socialize, while being immersed in the car brand. In the end, some 13 000 individuals visited Club Scion, spending a total of 1915 hours inside (or approximately 9 min per user). While in the club, people clicked on Scion's kiosks 44 000 times, an average of 3 clicks per person. Scion considered it such a huge success that it decided to extend the campaign (Harper, 2008).

By entering an appropriate VW and implementing the right in-world marketing strategy as discussed above, an SME can manage to run a successful business in a metaverse, enabling it to achieve their objective/s to gain profit, to build their brand and/or to learn about the market of interest. Learning about the foreign market culture, consumer behavior and competition would reduce the perceived psychic distance, and allow an SME to make better informed, actual, foreign market entry strategy and marketing program decisions.

### **CONCLUSION**

To conclude, VWs offer SMEs a unique opportunity to internationalize faster and smarter. Through having a successful presence in an appropriate VW, the SME can acquire market knowledge that would minimize their perceived risk, and increase their confidence in own capabilities of having a successful presence in the real market. Further, having a successful presence in-world would mean that the firm

has built a base of customers, who are brand loyal or at least have positive brand attitudes. This base of customers in addition to the firms' feeling that they understand their customers' needs and deep desires would induce the firm to build upon their in-world success by going into the real market. SMEs' actual investment in the market in terms of amount and strategy would be greatly influenced by the acquired market knowledge in-world and in both directions.

We truly believe that in time the transition will be in both directions, with VW brands moving to the real world. Although real-world well-known brands' presence in VWs was considered an invasion to avatars fantasy world (Arakji and Lang, 2008), we believe the opposite transition would be welcomed. Such transition, from the virtual to the real world, can happen by the brand original owner or even by another company that acquires it.

On the other hand, the Internet, in its 2D form, allowed SMEs to reach foreign markets directly as an international sales channel (Hamill, 1997). Currently, as VWs are still in their infancy, they can be used as a business platform only for virtual products or for real products in coordination with 2D websites, that is, to complete the transaction, or to offer bigger number of items. As VWs mature, however, the medium has enormous potential in outperforming 2D online stores. VWs allow for an enjoyable and realistic kind of shopping experience and unknown stores can be located by avatars passing by.

Research on VWs is just emerging, and thus many topics are open to research. For instance, studying avatars is indeed crucial; their motivations for being in free-form VWs, shopping motivations and behavior, stores/brands loyalty and so on. Studying the effectiveness of the different VW entry strategies is another venue that demands investigation. Further, what makes

a successful in-world marketing program? Which real products would people be willing/like to purchase in VWs, for example low- or high-involvement products? Should retailers combine virtual with real products in their store? How different is branding in VWs from other media? How do users' in-world experience affect their real-life attitudes and shopping behavior? These are just few venues for future research in this growing research area.

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