Monetising VR & AR

Making Immersive Content Pay

Monetising VR & AR

(VR) Intelligence

Contents

(VRX) EUROPE 2018

May 17-18, Amsterdam

The senior-level B2B event driving consumer & enterprise adoption of VR, AR & MR

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1.0 **Introduction**

1.1 **Monetising immersive content – The current state of play**

With ARkit, ARcore and the new wave of untethered HMDs making immersive content more conceivable for developers and creators, immersive games and content are building a reputation as the next big thing. Investment is flowing from the major venture capitalists, tech juggernauts and media giants, suggesting a promising future for a whole new medium.

As the technology develops and more inspiring experiences are created, across the spectrum of industries, analysts remain confident that VR/AR games and content are on the verge of mainstream adoption. However, while there is high investment and several fledging start-ups – where are the profits and what's a realistic inflection point for monetisation?

In this paper, we'll hear from the VR & AR leaders who are successfully monetising games and content, while bringing incredible experiences to consumers. With an in-depth look into traditional entertainment business models and how they transfer into the immersive tech space, this paper will explore the intricacies of monetisation in this nascent industry.

Our industry experts from Candy Lab, Jaunt and Fluffr, will reflect on their current projects and analyse the business models they believe are bringing forward the inflection point for monetising VR/AR games and content. From premium to freemium and the impact of location-based VR/AR, you'll take away a greater understanding of where VR/AR are headed and how we can drive adoption, create growth and monetise immersive experiences.

If you're looking for more on monetising immersive games and content, make sure you register for VRX Europe 2018 Conference and Expo in Amsterdam on 17th & 18th May – Europe's leading senior-level immersive tech event.

Featuring some of the contributors from this paper, and dozens more of the globe's top visionaries talking about the huge impact of immersive tech on gaming, entertainment, enterprise and more, VRX is Europe's leading senior-level immersive tech event – the ultimate opportunity for those looking to position their business at the forefront of this new platform revolution. Check out full details on www.vr-intelligence.com/europe

1.2 Collaborators: Candy Lab AR

Candy Lab AR

This report has been produced in collaboration between VR Intelligence and Candy Lab AR; an award-winning location-based Augmented Reality Technology company headquartered in Irvine, CA.

Candy Lab's technology features an Augmented Reality engine that seamlessly combines GPS and Beacon technology with a real-time content management system that allows for the creation of some incredible location-based augmented reality experiences.

Candy Lab is the brainchild of Founder Andrew Couch. After selling his last company in 2011, he set about to build a platform that gave marketers a Google AdWords look and feel while giving consumers a Mario and Luigi experience.

With his knowledge in land navigation and experiences with location-based products such as Blue Force Tracker from his days in the U.S. Infantry, Andrew knew that the technology would be successful with consumers and help brands to drive engagement and enhance the user experience along the way.

By attracting industry-leading AR scientists well ahead of the markets demand, Candy Lab has built its own 9-axis sensor fusion engine and has become the linchpin of some of the first location-based Augmented Reality experiences in the United States.

2.0 Expert Contributors

Andrew Wayne Couch is Founder of Candy Lab AR, an award-winning, location-based Augmented Reality (AR) technology company with an AR engine that seamlessly combines GPS and Beacon technology with a real-time content management system.

David Bomphrey is the Director of Strategic Partnerships at Jaunt; the leading global producer and distributor of immersive content. Jaunt helps leading brands, content creators and IP owners tell stories in the new immersive medium and distribute it as widely as possible across their owned and operated channels.

Da Phakousonh is a founding partner at Fluffr Inc., a reward token protocol, which incorporates cryptocurrency into building, promoting, and engaging in augmented reality experiences.

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3.0 Can traditional entertainment business models transfer into the VR/AR space?

Andrew Wayne Couch: Definitely, yes! AR and VR are just another way to view existing information. The real question is - how do developers implement those models differently based on the types of AR they want to use? Most people think that AR only works by scanning an image – which is the oldest form of AR. But there are also GPS and beacons, which both have proven ways to unlock augmented reality content. Developers can mix and match those three types depending on their needs.

Now when you add cryptocurrencies into that mix, you create a way for companies to encourage users to stay within their ecosystem. For example, with Fluffr you can find a cryptocurrency floating on top of a location. You take your camera, aim it at a Fluffr logo out in the world, and actual cryptocurrency comes off that marker into your wallet.

Over time, that currency could increase in value, and anyone will be able to mine it with just their mobile phone by visiting retail locations to collect it.

David Bomphrey: Absolutely – in fact, I think the business models will be very similar. Even though VR and AR audiences are still scaling from an adoption perspective, the opportunities are huge. The appetite for video content in general, especially across social channels, is only growing and fuelling consumer demand, which is evolving to want more personal, immersive experiences. This means that this technology (with the likes of 360 video acting as a gateway), will soon be mainstream across those traditional models such as advertising, subscription models or pay-per-view.

If you look at where TV originated and the time it's taken to get it to where it is today, versus the quality of first-generation VR technology, the difference between the two is phenomenal in comparison, so it's a very exciting time for immersive mediums.

Da Phakousonh: I think they definitely can. Companies in the entertainment space are experimenting and trying different things with add-ons. We're interested in how the public will react to the upcoming movie Ready Player One that will demonstrate the incredible power of VR and AR to the public. I believe that entertainment experiences like this will normalise the technology and move people to actively seek out VR movies and download AR experiences.

A few days, ago we met with a VR company who is interested in integrating VR/AR technology with large-scale music festivals, like EDC in Las Vegas or Coachella in California. This could be paired with a subscription model where customers would have access to a 360-degree view from behind the DJ.

The experience also allows users to pause the action, zoom into the crowd, and look around with relative freedom. There are so many different ways to bring entertainment alive in VR/AR, and companies are just beginning to really explore it.

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4.0 Which models are currently working for successful studios to monetise their games?

David: Games are an entirely different model, but there are a couple of variances which are proving popular in bringing VR games into the mainstream. If you think about what PlayStation and Xbox do, their model is based on the production of expensive, high quality visual experiences, purchased outright or downloaded and played online.

That model was disrupted by 99p games in digital mobile stores that caused differentiation to occur, where console platforms were focused on player experience and fidelity, the mobile guys focused on snackable experiences and in-game purchases.

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Da: I think that VR and AR games will have to lean towards what the mobile industry has done already. If you look at Angry Birds back in 2014 or Candy Crush Saga – these games offered free content right upfront to get customers hooked. They then introduced either in-app purchases, micro transactions, or a pay wall to access the full experience. I can see that model working well within VR.

When you have something new, like VR, it's difficult to convince people to pay a premium price up front. Providing real solid preview content and giving away the first parts of the experience for free, as we see on mobile today, are great ways to get people on board.

"When you have something new, like VR, it's difficult to convince people to pay a premium price up front."

5.0 How does non-gaming content differ? What models should we look at and what's a realistic inflection point for the monetisation of non-gaming entertainment content?

Andrew: The more you try to monetise, the more the experience sucks. The current model for monetising is that you put some sort of block in front of my face on my mobile phone. The iframe is like a hook: it gets you right around the corner, waits for you to land on a page, makes the page go to 00 so you can't back out, and then blocks the content until you see an ad. The result is that users will often delete the app and never use it again.

The absolute best way to monetise is to make users feel like Mario and Luigi or even Sonic the Hedgehog in real life. All those coins that are in the user's path are strategically placed so when you collect, you don't have to be knocked over by the brand to get engaged. Think of receiving "coins" or cryptocurrency outside a retailer that you could use within that very same retailer. And even if you don't spend that cryptocurrency that same day and hold onto it in your wallet, it could increase in value as there is more economic activity. The currency itself has the potential to appreciate.

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David: What's exciting is that there is already a growing market for this sort of immersive content. Technology innovation, cost reduction, content quality and increased frequency of use are all inflection points which will see this sort of content receive further market adoption. One of the most interesting developments is the increase in production of high quality 360 video to support brand storytelling. This content can be distributed through existing brand applications, we already help a number of brands do this through our Jaunt XR Platform, and a range of HMDs (head mounted display) with research showing that consumers are two times more likely to share this type of content and eight times more likely to remember it .

When it comes to business models to maximise this content, you have VR being created as companion assets to offer consumers additional experiences, or value add to existing content subscriptions, we also believe you'll soon start to see pay-as-you-consume type models similar to the likes of Now TV as well as seeing pay-per-view VR events, as you do today with things like boxing matches.

We're confident we'll see the emergence of all of these models as the market matures, some even within the next 12 months.

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Da: Non-gaming content is a really interesting space. I see a huge opportunity with education. If you look at a company like Rosetta Stone that's selling foreign language education, there's an opportunity for AR/VR. For example, if you're trying to master a foreign language and you're offered a fully immersive experience, that's something people would pay for.

I'm actually working on this right now personally, and if a company could make me feel like I was actually in Paris, talking to a waiter with ambient noise in the background, and the people on the next table are having their own conversation that I can catch some of, that would be an incredibly compelling experience. For me, that would be an automatic seller.

"Technology innovation, cost reduction, content quality and increased frequency of use are all inflection points which will see this sort of content receive further market adoption."

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6.0 What's the place for location-based VR & AR in driving awareness, adoption, and revenues across the industry?

Andrew: The really successful companies are going to be using AR as a major, if not the major part of their strategy. Pokémon GO is a great example: guiding people to the front of a store because there is a Charmander or some sort of digital commodity that the user wants to collect.

In a similar vein, Google Adwords had the Google Maps team get involved a while back where they linked location with advertisements to boost targeting. If you were part of search engine marketing in those days, you'll remember how lucrative that was. They discovered that you could use a zip code paired with a phone opted into local search. If that local search updated with the ICBM data at the top of their webpage, then the Google ads would qualify as being more relevant because you were closer to it. What they found was that over 80% conversions occurred if the user was within 1000m.

We've seen other companies do this accidentally. In experimenting with location-based technology, they would inadvertently send people to specific retailer locations, and people were spending money at those locations because they were physically there.

With the technology that we at Candy Lab are launching, developers all around the world get to have that same benefit and create really compelling experiences.

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David: We are seeing significant money being made by organisations through location-based experiences, across the world.

In China, most people's first experience of VR is high-end quality HMDs and full interactivity or 6 Degrees of Freedom (6DoF) at a VR Café, Mall or Museum. The number of location-based experiences is high and revenues from ticket sales are growing quickly.

It's an opposite story however in the West, where most people will probably have experienced 360 video or worn a Google Cardboard as an introductory experience and then migrate to the high end devices later. What we're also seeing is the likes of IMAX investing heavily in end-to-end solutions, in much the same way as they did with projection. These content providers recognise they need to own the entire technology suite to deliver amazing experiences, and we'll start to see increased fields of view, high pixel counts, high bandwidth delivery and high compute power solutions because of these kinds of investments.

Finally, you have the likes of The Void. They have had the Star Wars experience in a few places in the US as well as the Westfield shopping centre in Stratford, London. The experience is great, and they are successfully charging £30+ a time for a 15-minute experience, so the revenue potential is big.

> "We are seeing significant money being made by organisations through location-based experiences, across the world."

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Da: My background has been digital marketing for the past 15 years, working with pay-per-click ads on Google since it was first launched. I've marketed everything under the sun: from helping Netflix with their free trials when they were going up against Blockbuster to mobile app downloads. Nowadays, marketers need something new because they can't keep going back to the old ways.

The new space is location-based marketing. If you can find some engaging token or item and drop it in front of your store, people will show up to your store. That is the power of location-based games. But creating that experience on your own is tough, and I needed an AR partner to make it work. Candy Lab had the engine to power that, so they were a natural fit for us.
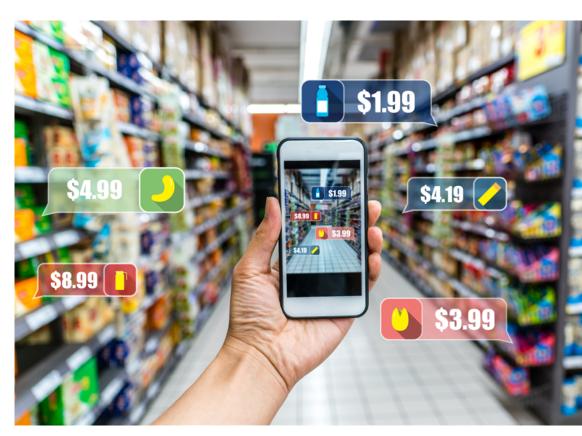
When you integrate cryptocurrency with location-based AR to drive traffic to stores, the blockchain portion of the technology helps show proof of engagement. That proof really allows you to show value to marketers and deliver a return on their investment. Marketing that intentionally drives foot traffic to the physical store front directly has not been done before. This will be a game changer.

"If you can find some engaging token or item and drop it in front of your store, people will show up to your store."

7.0 What are the opportunities and challenges in incorporating advertising into content?

Andrew: For location-based AR, we've already been fighting some of these challenges. If you look up "Candy Lab versus Milwaukee", you'll find a landmark case in federal court. At the time, Pokémon GO had dropped stops on parks in Wisconsin, and the city's leaders got fed up and introduced legislation that we believe violated our first amendment rights here in the US.

Even after the stops were removed, that legislation stayed. That meant that if any other developer was able to figure out the technology, by the time they went live they would have to worry about American legislation impeding on their business, all because of an ordinance that Milwaukee County had issued.

The problem with that legislation is that it set a precedent for companies to have to fill out loads of permits for their AR experiences to work within the city. If other cities used that ordinance as a template to create their own, there's no way an AR company could scale across the country that way. We successfully argued that this violated the first amendment right. We did that for the whole development community.

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David: The same could be asked about incorporating advertising into any medium. The rise of ad blockers on the web is undeniable and everybody records TV and fast-forwards through the adverts these days so the industry simply needs to get smart.

"There's never been a more exciting time to truly harness the power of storytelling"

Brands should advertise in a way that is sympathetic to the medium itself. The smart advertisers will go back to things they have been doing for some time, like classic product placement, asking the question of how do you make your brand part of the story rather than a bolt on the start or the end? Smart brand marketers will recognise that immersive content provides a whole new medium where you can fully involve consumers in a narrative in a way that has never been possible before. There's never been a more exciting time to truly harness the power of storytelling, and with adoption really starting to pick up speed, we're just starting to scratch the surface.

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Da: As far as challenges, the biggest challenge for developers has been that they don't have access to augmented reality and cryptocurrency yet, and we just fixed that. You'll see for yourself when we launch this spring.

The main consideration in advertising is not being too aggressive and turning off customers. The best advertising campaigns are the ones that use humour or a social aspect. The key is to not be too intrusive with your message – both in terms of what you're saying as well as how the message gets delivered.

Ultimately, you just have to create great experiences that are going to delight customers every day. We believe that Fluffr and Candy Lab are creating amazing experiences with retailers, that customers are going to get excited about and want to participate in.

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8.0 Meet the experts & learn more about monetising VR/AR content

With so much opportunity on the horizon for VR/AR technology and content development across Europe, now is the time to hear from those building the future of VR and immersive tech and network with the true industry leaders.

VRX Europe 2018 in Amsterdam is purpose built to give you the chance to do just this. Established as the region's leading senior level cross-industry immersive tech event, the agenda features the brightest minds from across gaming, media, enterprise, brand marketing and immersive technology.

With speakers representing everyone from Rovio, GSK, BMW, P&G & Sony, to IKEA Volkswagen & Microsoft, there's no better place for you to learn from and network with the top tier companies leading the charge.

Head to the dedicated event website to see more: **www.vr-intelligence.com/europe**

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