

Welcome to the metaverse

In-depth: Advertising

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“Welcome to the metaverse”: déjà vu anyone?

For the media and entertainment industry, the dawn of the metaverse and the word soup of acronyms that accompanies it, is the latest high profile technology wave that threatens to simultaneously upend established distribution models and reinvent both the experience and relationship with the audience.

Many companies will feel they have been here before.

The last 25 years have seen digital distribution relegate physical content formats to history. Likewise search and on-demand services have transformed audiences' ability to find the content they want when they want it. Device types have changed from fixed heavy boxes, to always connected mobile-first form factors.

What is forgotten is how many companies never recovered from these changes, never adapted and and never took a positive approach to the advance of new technology until it was too late. Change was forced on them, and new companies rose where others failed: Netflix, Spotify, Amazon.



1994?



2022?



Our definition of the metaverse



- A combination of physical and digital worlds—embodying a unified digital presence into physical and virtual lives
- Fully formed high fidelity 3D worlds that embrace mixed reality via AR/VR
- Always on, persistent, and real time
- Unlimited immersive and social interaction that can occur at any scale
- A seamless digital economy delivering creation and marketplace opportunity
- An advanced workspace with new forms of collaboration, productivity and communications

It is clear that a fully realised, *fully optimised* metaverse is many years away. There will also be multiple metaverses which will have varying degrees of interconnectedness. As such, the broad sweep of its capabilities will result in usage and experiences that we cannot foresee.

Our working definition of the metaverse is therefore focused on the broad components *and their utility* that will redefine the global digital experience in the future.

What can advertisers do today?

Brand activations on proto-metaverse social platforms, e.g. social gaming or Decentraland

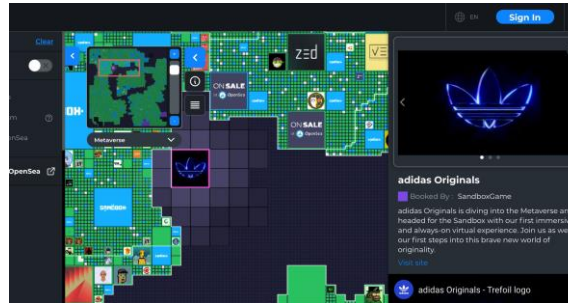
Integration of branded IP into platform's core game



Brand space on UGC marketplace



Balenciaga skins on Fortnite



Adidas tie-in on The Sandbox



Spotify's Planet Hip-Hop on Roblox



Gucci handbag on Roblox

These typically consist of marketing without onward referral or off-platform sales attribution, but there are also direct **monetisation** options, in the sales of digital assets

Platform-independent sale of NFTs: digital assets, sometimes with associated online or offline perks



RTFKT x Nike NFT



McDonald's McRib NFT



Advertisers find unique opportunities in the metaverse

- Metaverse advertising has the potential to be more effective than its real-world media counterpart, both on the creative side and for user experiences, which is much harder to achieve for virtual music and sports events relative to their live counterparts
- Large brands are clamouring to create branded experiences in virtual worlds. **The demand is not being slowed by economic pressure**
- **At their best, branded metaverse experiences will attract organic usage and could even be direct revenue generators**, such that brands advertise them on other, more traditional channels
 - At this point, the line between the product and the marketing breaks down: if someone buys a virtual Gucci handbag for real money, it's both a conversion and part of a deepening customer relationship
 - Agencies and brands are keen to establish *utility* in their metaverse activations, ideally by helping customers transact but also by improving their experience of virtual environments. Most experiments presently fall short of this ideal
- Brands are paying most attention to **custom, bespoke integrations with social gaming platforms**; they are seizing the opportunity to do something unique and creative on platforms with **built-in audiences**
- These audiences are a huge sell. Brands are less interested in building an experience on a more 'neutral' platform and promoting it themselves. However, they are unhappy with the data they get out of popular platforms, for whom brands are not core stakeholders
- **NFTs and VR-only experiences are more niche pursuits due to the small addressable audiences**, though some branded NFT drops have been successful
- **The cost of bespoke integrations with the popular platforms is likely to go up**, leaving brands struggling to find an audience on open marketplaces. However, other social games and dedicated metaverse platforms will step in to capture growing spend
- Producing native 3D assets and delivering appealing immersive interactive experiences to users makes metaverse advertising expensive and heavily reliant on specialised agencies. AI tools will ease the cost pressure eventually, but are not yet good enough

NFTs offer little for consumers

Most metaverse-facing advertisers are focused on creating experiences for virtual worlds. However, some brands have been experimenting with NFT drops.

Adidas, for instance, dropped 30,000 NFTs in December, in collaboration with BAYC and others, generating about \$24 million total in primary sales.

- Adidas ensured the NFTs had utility: holders were later able to claim limited edition clothing, with more features promised

Compared to 'core metaverse' experiments, NFTs have obvious advantages:

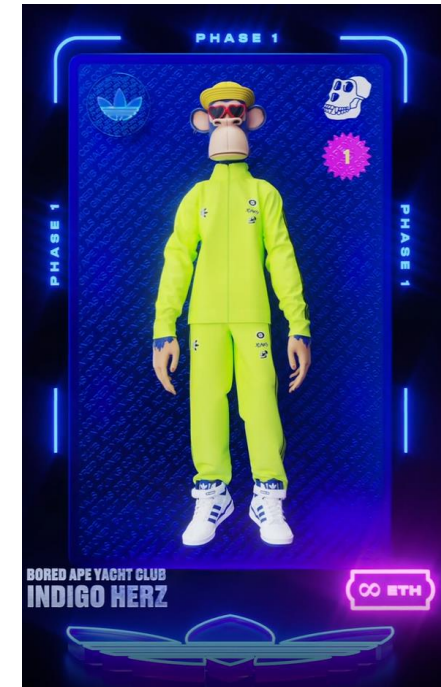
- They are **transactional**, with a cashflow, rather than being a cost centre
- They are **easy**, with low development costs and many partners eager to help brands with logistics
- They can help brands find and connect with **superfans**. Adidas now has a way to reach thousands of people willing to invest large amounts in Adidas digital and physical limited editions

However, there are risks in engaging with NFTs:

- Their value has generally dropped in recent months. This weeds out some of the speculators, but limits the sales upside and makes 'failures' more likely
- Reputational damage: scams, hacks and volatility are common in crypto. A brand's best customers could buy a costly token that becomes worthless. Many people are entirely opposed to any NFT activity, particularly in gaming, the otherwise natural starting point for joining NFTs and metaverse

Currently, there is a **decent business case but little customer case** for branded NFTs. Adidas customers would have been better served by a normal merch drop.

The user case could come as more platforms integrate NFTs in a useful way.



Minecraft team says NFTs and blockchain are, well, blocked




Blockchain 'does not align with Minecraft values of creative inclusion and playing together,' Mojang says

Team17 U-turns on controversial Worms NFT project following intense backlash

Opensea, Polygon, Eurogamer

Brands are instead focusing on social gaming platforms




Key features of established proto-metaverse platforms

Platform	Estimated audience	How to access	How brands partner	Key characteristics
	200m MAUs	Free to play Downloadable on all mobile, PC and Mac, Xbox, and some VR Not available on Nintendo Switch or PlayStation	Brands can work directly with Roblox; be partnered by Roblox with an independent developer; or bypass the platform and work with agencies to independently create on the platform	World-building is a central draw of the game in its native form Very young audience—just under half of users are under 13
	140m MAUs	Paid download Available on PC and Mac (via Store or downloaded on browser), Android, iOS, Xbox, Nintendo Switch, PlayStation and VR	Similar to Roblox, with less emphasis on managed partnerships	Infinite open world game with blocky graphics Worldbuilding and survival are central features Risk averse due to young users and parent co Microsoft
	80-85m MAUs	Free to play Downloadable on PC, PlayStation, Xbox, Nintendo Switch, Android phones via Samsung Galaxy Store; and cloud gaming—not available on Google Play Store or iOS due to disagreements with Apple and Google	Similar to Roblox, with more recent focus on Fortnite Creative Mode, its UGC marketplace Fortnite Creative 2.0 due to launch by end of 2022 with expanded creation tools	Live multi-player battle royale with 100 players per server Fortnite Creative launched in 2018—Epic CEO Tim Sweeney said in April 2022 that half of time spent is now on creator-generated worlds

[Source: Enders Analysis]

Other proto-metaverse platforms

Key features of established proto-metaverse platforms

Platform	Estimated audience	How to access	How brands partner	Key characteristics
 Decentraland	300k MAUs	Free to play Sign-in can be linked to wallet Accessible on browser on PC/Mac but not on mobile	Content Creator Program with verified partners for brands to connect with Creators/brands can import their own 3D models	NFT-focus: underlying tech part of the draw for its audience Decentralised, user-owned Users purchase plots of land
 Worlds Meta	300k MAUs*	Free to play Only available on Oculus VR Mobile and desktop applications in development	Creator monetisation tools only launched in April 2022: developer and agency space behind that of other platforms	VR-focused design meaning simplified graphics that can be accommodated by Meta's affordable headset
 THE SANDBOX	300k MAUs	Free to play Available on browser or to download on PC or Mac, available to download on Android, iOS, Google Play Store	Brand partnerships are largely conducted directly, using The Sandbox's in-house development team	Decentralised ownership, blockchain-based. Users purchase plots of land and develop monetisable assets Core gameplay only in limited 'Alpha' runs with exclusive access

*This figure was leaked in February 2022.
[Source: Enders Analysis]

The audience-data trade-off: if you build it, will they come?

Brands face a choice between:

- 1) Building a branded experience on one of the existing go-to social gaming platforms like Roblox, Minecraft or Fortnite
- 2) Hosting their experience on a purpose-built platform

So far, brands have shown a clear preference for the first option, which has **the central advantage of an inbuilt audience**: they can expect that their branded experiences will be visited by some of the many users already using these games.

- This is particularly true for full integration of brand IP into core game modes, such as Marvel characters being integrated into the plot of a Fortnite season. The other option is to build an experience that sits in a UGC marketplace, like Fortnite Creative Mode or the Minecraft Marketplace, which will be one option among many for browsing users
- **When building content on platforms, the utility is also clearer for both brands and users**: sales of digital assets and gamified features make sense to users in the context of these social games. A purpose-built brand space will require much greater investment to promote on other media channels, and establishing a reason for users to be there in the first place will be more of a challenge

The trade-off here is between this inbuilt audience and the data that brands might otherwise gather. Measurement, let alone sales attribution, is an issue on existing platforms: platforms do not provide brands with performance data beyond number of visitors and their geographies, and requiring sign-up in order to gather data adds friction.

In following the audience, brands are heavily dependent on the shifting development of platforms as usership becomes established.

- In the longer run, the terms of these kinds of partnerships may be volatile: for it to be worth Fortnite's or Roblox's while to continue with these branded experiences, such experiences will need to generate more revenue than ordinary gameplay. **Brands are not core stakeholders for these platforms**
- New platforms may emerge to chase this goldrush, forcing brands to redirect efforts to another platform, and rethink the utility question entirely. For example, Player Unknown's Battlegrounds (PUBG) recently debuted an in-game integration with K-Pop group BLACKPINK

Current activations are highly bespoke, limiting appeal

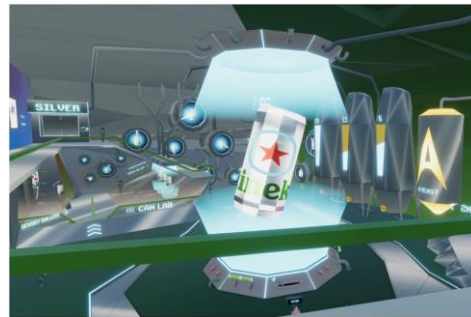
- The formats for proto-metaverse marketing range from static banners pasted into virtual spaces, all the way to entire metaverse experiences brands develop and deliver themselves
- Currently, most of the interest is at the more bespoke end, despite the expense. Bespoke activations draw more attention and likely have greater impact on brand affinity, but the market is limited to larger brands
- Even at the basic end, inventory and exchange tech are severely lacking compared to standard web, app and video ads
- We will see growing inventory, standardised ad units, and improved measurement. At that point, demand from SMEs will drive growth of metaverse ads from the 'standard' end
- In the middle, workflows to develop virtual experiences and assets will become more efficient, and so more affordable



Standard



Bespoke



Costs will remain high until development is automated

Costs for bespoke activations are high: **agencies reportedly charge tens to hundreds of thousands of dollars to create in-game branded spaces**, varying significantly depending on how extensive the campaign is. **The cost of creating and hosting a large-scale music event can run into several million dollars.**

Demand for these activations is high: platforms are receiving more requests than they can accommodate internally, and are focusing on **building out a creation economy** that allows for independent development. More creation tools are being made available to users and partners. Brands are increasingly bypassing official platform partnerships in favour of working with new independent creative agencies, but these will not widen the bottleneck much.

There is fierce competition for development talent, affecting the games and film industries as well as proto-metaverse asset creation.

Brand activations need to be ‘native’ to each platform—brands can’t use a shiny photorealistic asset from PUBG in Roblox—and there is little automation in asset creation.

In two years, AI will be central to the creation of assets, and will ease this pressure.



Meta, DALL·E (“an astronaut riding a horse in a photorealistic style”)



- OpenAI’s DALL·E tool represents considerable improvement in AI image-generation from text inputs—pointing to a future where the assets needed by brands in activations can be created at low cost
- In February 2022 Meta demonstrated its Builder Bot AI: a tool that can interpret natural language voice commands to create virtual spaces, and so shows the potential for scalable options
- In September 2022 Meta released research on its Make-A-Video AI, capable of generating video from text or still image input

Brand experiments: Walmart seeks an audience on Roblox

Walmart launched two experiences on Roblox in September 2022, developed by Publicis's Power of One and Journey: *Walmart Land* and *Universe of Play*. *Universe of Play* features mini-games devised around the best-performing brands in the retailer's toy aisle; *Walmart Land*, though it does contain some mini games, is poised to focus on events and purchases. So far *Walmart Land* has racked up over 5m visits, whilst *Universe of Play* has a comparatively paltry 9k visits.

The scale of this activation suggests a decent chunk of experimental budget has been thrown at it. Walmart's efforts involve secondary brand partnerships (for example, virtual Skullcandy headphones feature).

Direct monetisation remains limited, but the sale of digital assets may be expanded, and the company is reportedly exploring the possibility of charging brands for inclusion. *Walmart Land*'s three areas will be expanded to seven, and there are plans to host a virtual concert ('Electric Fest') at some point in October, with motion-capture performances by Madison Beer, Kane Brown and YUNGBLUD (how 'live' this experience will be remains to be seen).

Walmart is hitting all the standard brand activation notes: branded space, concert, mini-games, merch. The company's stated intention is to familiarise the next generation of shoppers with its brand: broad statements about "community-building" raise the question of who the intended audience is, and crucially what the brand can hope to learn about them given the limited data it will receive from the platform. Engagement may be an issue: the typically mostly empty spaces do not inspire confidence, and server sizes are small, but continued experimentation with live or secondary brand tie-ins may bear fruit.



Roblox, Walmart

Utility will be hard to establish in some brand verticals

All brands hoping to enter this space will need to answer the question of how and why to engage an audience: ensuring the brand activation makes sense in terms of

- **utility** (for the audience)
- **identity** (of the brand)

Experiments easily miss the point when they aim to merely recreate in a virtual space an experience or product that is not improved by, or is at worst fundamentally unsuitable for, such a transformation. Early in 2022 a 2017 video made by an agency for Walmart showing what a future 'virtual supermarket' might look like re-emerged to widespread ridicule due to its singularly unimaginative vision of virtual commerce.



Walmart/MutualMobile, Heineken

For luxury brands, creative digital collectible goods can appear as a natural extension of their brand offering and wider marketing efforts; **this will not be the case for FMCGs**. There is an attraction to giving your social gaming avatar branded sneakers or attending a virtual fashion show—people's fashion choices reflect their identity which they will want to carry over to their metaverse avatars. However, users will not bother to buy 'metaverse food'.

Heineken's self-aware Decentraland campaign in March 2022 made this very point.

- It announced a virtual product, Heineken Silver, with the tagline “No calories, no hidden ingredients, no beer: try to try it”
- This was a brand-true and playful marketing scheme, and certainly successful: but its success was not *as a metaverse campaign*

Brand experiments: *WimbleWorld*

In spring 2022, Wimbledon and Ralph Lauren launched *WimbleWorld* on Roblox as part of the tournament's centenary celebration.

- Visitors can compete with one another on the courts, purchase limited edition merchandise and clothing for their avatars in a virtual shop, and 'meet' Andy Murray
- It has had 11.4m visits since April (for comparison, *Nikeland* has had over 21.8m visits in the year since it launched)
- It looks set to remain open for now, as one of the longer-term brand experiences on Roblox

WimbleWorld reveals the potential for successful Roblox developers to sell expertise and access to their existing audience as a package deal.

- It was developed by Swedish developer The Gang, also responsible for realising a host of predecessor brand partnerships on Roblox including *Gucci Town*, *Spotify Island* and *McLaren F1 Racing Experience*
- **This approach utilises an existing audience:** as part of the deal, Wimbledon took over The Gang's existing game on Roblox, *Strongman Simulator*, which has more than half a billion visits, driving loyal players from one world to another



Roblox, partner brands

Advanced data and new products beckon

In the longer term, the compelling proposition for metaverse advertising centres around:

- **advanced data collection:** as the third-party data that advertisers have depended on for measurement and attribution in online advertising is degraded, advertisers are hoping for a future in which more granular data is *willingly* given by users interacting with their brand activations, where those users see the utility of such an interaction. How possible this will be will depend on platform terms
- **new products:** the sale of digital assets on metaverse platforms represents an entirely new revenue stream with clear benefits for a wider range of brands once costs come down
 - **As more brands enter the space, however, the creative challenge will increase:** even if brand activations in the metaverse are received without too much scepticism on the whole, once the novelty wears off users will soon become even more discerning about what constitutes a purposeful or effective campaign. Users will have to actively *choose* to enter branded experiences, which will be competing with the millions of professionally produced and UGC games and events on metaverse platforms

In following the audience, brands will need to be nimble in their investment in response to wider developments in the still-nascent platform and tech space. VR could suddenly become more central if Apple releases a convincing headset. Repurposing existing assets or ad content for new proto-metaverse platforms may be intensive.

In the next two years, we will see the beginning of standardisation around measurement, asset creation and advertising standards on existing platforms. A number of regulators will be scrutinising developments.

- There will be increased investment in related ad tech, with big tech players already building out related in-game advertising. Roblox has indicated it intends to pursue more scalable and automated ad solutions, and this year the IAB belatedly updated its standards for in-game measurement, redefining ad viewability for 3D virtual spaces
- Regulators will be keen not to end up in the position of playing catch-up, as they have been on issues of online safety and tech competition. The appetite for regulatory and legislative intervention is increasing in the UK, EU and US, and these bodies are likely to take a dim view of any over-collection of data, particularly on sites which for now have a very young audience. Labelling of ads may become an issue, and the blending of commerce and advertising may raise eyebrows—in which case it will be crucial to show real consumer benefits

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