

March of Club Penguin: Onward and upward

Posted by [Curt Cherewayko](#) on Jun 24, 2009

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One of Lane Merrifield's first jobs as a teenager was operating the robotic alligators that are part of the Lion King parade at Disneyland.

It was among a slew of tasks he had while working in the entertainment division of Walt Disney Co. (NYSE:DIS).

"I ended up doing a bunch of different stuff," said Merrifield. "They had me ice skating, because they knew I was Canadian."

Today, as head of Disney Online Studios Inc., whose flagship property is Club Penguin, an online social network where children role-play as penguin avatars, Merrifield's career has come full circle.

Disney acquired Club Penguin for US\$350 million in August 2007, less than three years after Merrifield and two Kelowna-based colleagues, Dave Krysko and Lance Priebe, founded the animated virtual world.

Club Penguin was also eligible to receive up to US\$350 million from Disney for meeting revenue targets.

However, Disney announced last month that Club Penguin missed out on the first \$175 million tranche.

Merrifield explained that, while the company has grown, it didn't meet the high revenue expectations that were included in the acquisition.

"Those dollars weren't insignificant targets to hit," said Merrifield.

Since the deal, the company has grown from fewer than 150 to more than 300 employees in Kelowna, partly as a result of a recent employment drive in that city.

The company has expanded into Australia, the United Kingdom and, to facilitate the growth of its Spanish and Portuguese versions of Club Penguin, Brazil and Argentina.

"We oftentimes don't say that we have expanded as much as we've followed the audience," said Merrifield.

He noted that his early days with Disney's entertainment division influenced Club Penguin's development and pointed to Disney's emphasis on customer service, safety and educational development.

Customer service notwithstanding, parents and organizations have voiced concerns about Club Penguin. They say it's addictive, isn't all that educational and is little more than a platform for selling merchandise to children. But Merrifield cites a list of awards the social network has won from parental and technology groups, such as the National Parenting Publications Awards, for providing an entertaining, safe, educational and age-appropriate experience.

He also noted that two-thirds of the company's staff in Kelowna is dedicated to safety and moderating the virtual world. It also has parental locks and timers so that parents can limit how long their children spend on Club Penguin.

Merrifield said criticism comes with the territory of providing online entertainment for children.

Club Penguin occupies a large share of that territory. According to a February report by ComScore Inc., Club Penguin is the top virtual world in United States, with an audience of nearly eight million, or 4.3% of all virtual- world users in the U.S.

Club Penguin merged with an L.A.-based Disney operation about nine months ago, becoming Disney Online Studios.

With Merrifield at the helm as executive vice-president, Disney Online is also in charge of other Disney networks such as Toon Town and Pixie Hollow.

All three founders, who grew the company with nothing more than some personal capital and capital from angel investors and friends and family, have stayed on with Disney.

Analysts and angel investors like Basil Peters frequently cite Club Penguin, which was founded using little capital and sold in a short timeframe, as the exemplary social media company.

"[These days] you can build a company for almost no capital," Vancouver-based Peters said last April.

Merrifield said that, in the Disney acquisition, Club Penguin gained access to the infrastructure required to elevate the company to a new level.

"The plan we have executed on has not been Disney's plan for us," he said. "I can show you even before we were acquired by Disney a list of all the things we wanted to do someday, but didn't have the infrastructure to do it."

Disney's Club Penguin game for the Nintendo DS handheld console has become the fastest Disney video game to ship one million units, a milestone it reached earlier this year.

Club Penguin also has mascots roaming the grounds of Disney theme parks and is launching its third series of merchandise.

"The biggest challenges since launching consumer products last October," said Merrifield, "has been to keep the shelves stocked."

And with regards to criticism that Club Penguin has become a platform for marketing Disney merchandise, Merrifield said there's no advertising in the virtual world or in the Club Penguin Times, a weekly news bulletin.

"Unfortunately we know we're not going to be able to please everyone," said Merrifield. "We know at the core of who we are we're doing the right things for the right reasons."

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