

DEFINING GROUNDS IN LITERATURE FINDINGS FOR A BUSINESS MODEL FRAMEWORK: AN ONLINE COMMUNITY PORTAL SERVING TO A NICHE MARKET OR A PARTICULAR INTEREST GROUP

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ABSTRACT: This paper investigates what are literature findings that provide framework for establishing a business proposal – an e-business model launched in a form of an online community portal dedicated to a niche market or an interest group. Such portal should successfully serve both users and advertisers through its solid customer base and accumulated social capital in the target market segment. Findings of extensive literature research provided reasonable basis for identifying functionalities of such a business model and opened up areas for further research.

Key words: *e-business, online community, business model, social networks, internet technologies, strategic management, website marketing*

JEL: L26, L86, L1, M31

1 THE INTRODUCTION

E-business models and online communities represent important areas of study in contemporary research. E-business, enabled by technological innovations, has impacted traditional business practices in a way that it has urged the multiplication of possible business configurations, which in turn has increased the complexity and difficulty of decisions to be made by managers. Further, in order to be able to deal with the challenges imposed by fast changing environment today, we increasingly need to trust and depend on others. Social networks, that develop into online communities of interest, authentically foster participation, contribution and co-operation and help us in coping with all the things that change. Implications are that online communities can therefore be significant in the context of development of e-business models.

In this context it might be considered that most research studies on e-business models in the past have looked at website for business transactions, e.g. supply chain management, e-procurement or similar, whereas this paper, while looking at an area of non-business transactions, i.e. e-business model for an online community portal, is dealing with a different topic, which will also require continuous investigation and theorising.

2 AIMS AND BENEFITS OF THIS PAPER

The specific issue that this Paper is trying to address is creating a sound basis for a business model which takes into account principles of social networking, internet technologies and principles of website design and marketing, not losing sight of the overall business strategy.

Through substantial literature research which is covering three main topics: 1) e-business models and strategic positioning and value in e-business, 2) online communities and social networking – what are drivers and enablers and implementing success factors and 3) website marketing, user behaviours, and evaluation of websites, the Paper will investigate how models, ideas and findings can be usefully applied in support of the value proposition for the proposed business model.

3 THE LITERATURE REVIEW

The literature review covers three major areas of research. The first one is related to e-business strategy and models, tackling issues of strategic positioning and creating value in e-business. This is important as traditional business models need to be adjusted or transformed in order to better exploit the opportunities enabled by technological innovations. Nonetheless, it must not be forgotten that principles of strategic management of e-business do not really differ from traditional strategy approaches, which will be outlined in this review. Further, it will be reviewed what are prerequisites for creating value in e-business. These findings will be useful in providing recommendations for setting sound business model for the proposed website type.

Second topic of literature review covers Web 2.0, online communities and social networking issues. This is important in the light of this project as it contributes to understanding of the principles of functioning of social networking sites and social capital and how to utilise this social capital in a business model of the proposed website type.

Third area of literature research covers marketing perspective of social networking websites, marketing and revenue models of social networking websites, and aspects of website marketing and evaluation of websites as such. It is important to understand and

apply these principles in order to create fundamental for a competitive and sustainable business enterprise.

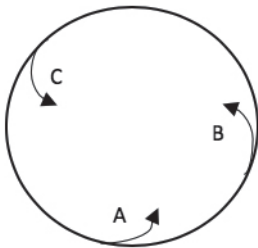
4 E-BUSINESS STRATEGY AND MODELS – STRATEGIC POSITIONING AND VALUE IN E-BUSINESS

To define e-business we will quote Stuart Robbins (2005) – “In an information economy, e-business is that form of financially related exchange that is accompanied by aggregated information – information about the customer, the supplier, the product.” So, to be an “e-business” by the above definition, the transaction must also be founded upon secure gathering information that can be usefully reviewed and utilised to further understand the exchange. In other words, as a part of the financial transaction, there must be a transfer of knowledge. Please see below figure for better understanding of e-business definition.

FIGURE 1 Definition of E-business

(Source: S. Robbins, *The System is a Mirror, ACM-SIGDC Proceedings*, 1996)

A → B



The straight line, moving from A to B is the old way of doing things. The circle encompassing A through B to C and back to A, is the “new way”.

The Circle epitomizes an exchange of value in an information-based economy, wherein each transaction adds value, provides new opportunities, increases understanding, and creates a sustaining advantage for both the customer and the supplier.

This circular aspect of successful e-business undertaking depends on the provider’s capability to capture, analyse and use knowledge gained through such a transaction for the benefits of its business growth and competitive advantage. It is extremely important, as we gather knowledge about others in our business systems, to review our use of this information. The challenge of e-business remains to capture and utilize the knowledge that adds value to organisation’s businesses.

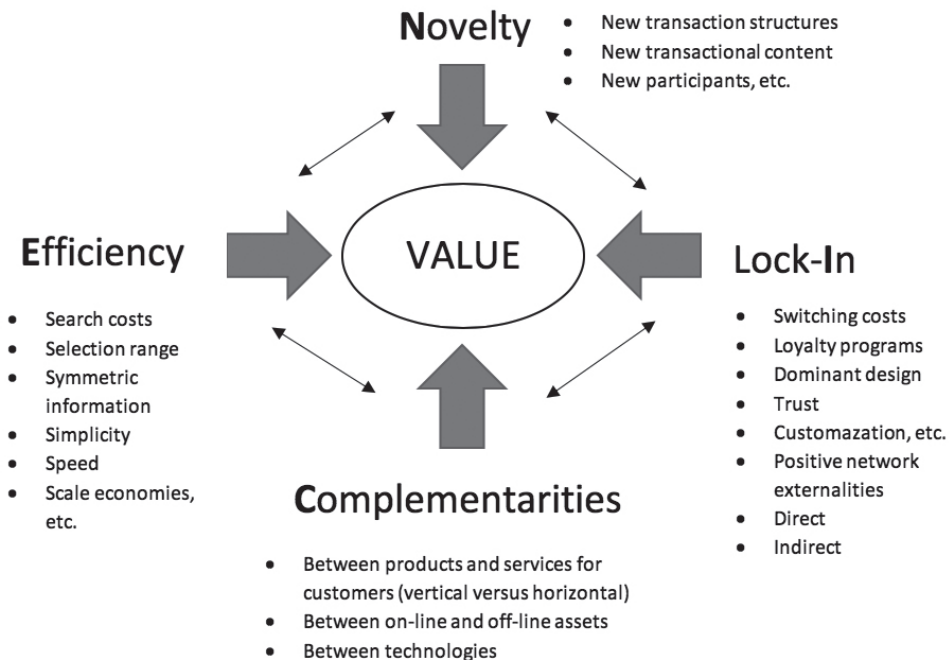
In their research Pateli and Giaglis (2004) say that the accelerating growth of e-business has raised the interest in transforming traditional business models or developing new ones that better exploit the opportunities enabled by technological innovations. One of the major impacts of e-business on traditional business practices has been the multiplication of possible business configurations, which increases the complexity and difficulty of decisions to be made by managers. One of objectives when investigating business models is to design the information and communication systems supporting the business model.

Magretta (2002; quoted in Pateli and Giaglis research) simply views a model as a ‘*story that explains how an enterprise works*’. Nevertheless, she also distinguished business models from the concept of strategy saying that, while business models describe how the pieces of a business fit together, they do not factor in one critical dimension of performance, i.e. competition, as strategy does. So, Osterwalder & Pigneur (2002; quoted in Pateli and Giaglis research) conceive the business model as the missing link between strategy and business processes.

As Côté (2005): “In the traditional strategical planning model, managers identify their company’s strengths and weaknesses, as well as the obstacles and opportunities in their business environments. They are then ready to make strategic decisions that seek to balance their company’s competencies with the business opportunities around them. This step is equally crucial for e-business planning.”¹ It is a systematic process consisting of four interrelated steps, which are analysis of the external and internal environments, selection of the e-business strategy with aim to create value, implementation of the e-business strategy and evaluation of the success of the e-business strategy. This supports Porter’s assumptions that fundamental principles of strategy remain the same in the ‘new’ economy, i.e. e-business.

As the ultimate goal of any strategic decision is to create value, Amit & Zott (2001) outlined their e-Value framework as an attempt to examine the value creating potential of different business models.

FIGURE 2 E-value Framework, Amit & Zott



¹ Côté, L., Vézina M., Sabourin, V. (London: May/June 2005) The strategic management process in e-business, Ivey Business Journal Online, p.2

The four key value drivers in their view are efficiencies, complementarities, lock-in and novelty. The internet makes it possible to increase efficiency in several ways: e.g. enhancing transactional efficiencies by increasing transaction speed and reducing costs. Complementarities that are achieved by bundling products with complementary products or products of other suppliers or in cooperation with other suppliers are crucial because it helps building online communities, i.e. groups of same minded people who keep re-visiting the site. A business model set up in this way also enables value creation by creating benefits through combining online with offline business. Lock-in is another important value driver, which refers to the ability of a business model to prompt users to engage in repeat transactions or visits to the website in our case. Lock-in can be enabled, for example, by creating 'switching costs' that customers would face if they would switch to a different service provider. If the perception of trust and customized clients' needs is created, losing these benefits would create a lock-in effect, which represents a value element of organisation's e-business model. Further, Amit & Zott (2001) believe that having novelty in terms of incorporating valuable, new products and services and integrating technologies into the existing business models in novel ways, makes it possible for companies to tap new sources of value in their business.

After acquiring a sound understanding of how to create economic value with e-business and determining the firm's desired positioning, managers must define objectives relating to sales growth, cost reduction and profitability. They must also choose the indicators according to which they would be able to assess the performance of their e-business model. All in all, strategic thinking about e-business technological solutions can be selected to support the company's business strategies and create value for the company and its customers.

As a market the internet portal space is characterized by intense rivalries, instant imitators and customers who refuse to pay a penny. There are also few barriers to entry. The question is what the sources of competitive advantage in high-velocity markets of the new economy are. As Eisenhardt and Sull (2001), the new economy's most profound strategic implication is that companies must capture unanticipated, fleeting opportunities in order to succeed. Rather than responding to a complicated world with elaborate strategies, managers should craft a handful of simple rules and then rather than avoiding uncertainty they should jump in. Strategy as simple rules is about being different and that difference arises from focusing on key strategic processes and developing simple rules that shape those processes. "As one Internet executive explained: "I have a thousand opportunities a day; strategy is deciding which 50 to do."²

In traditional strategy, advantage comes from exploiting resources or stable market positions. In strategy by simple rules, by contrast, advantage comes from successfully seizing fleeting opportunities. Entrepreneurs have always used that kind of opportunity-

² Eisenhardt, K. M., Sull, D. N. (2001) Strategy as simple rules. Harvard Business Review 79, no. 1 (January 1); p. 108 <https://hbr.org/2001/01/strategy-as-simple-rules>

grabbing approach because it can help them win against established competitors. What is surprising is that strategy as simple rules makes sense for all kinds of companies in complicated, fast-moving markets like those in the new economy. The most salient feature of competitive advantage is unpredictability and not sustainability. It makes sense to follow the lead of entrepreneurs which is, seize opportunities in the here and now with a handful of rules and a few key processes. In other words, when business becomes complicated, strategy should be simple.

5 PORTER'S FRAMEWORK AND E-BUSINESS

Porter's framework (1980) proposes that firms must choose whether to serve broad or narrow market segments and whether to seek advantage through low costs or perceived uniqueness. Firms choosing to serve broad markets and to derive advantage through low costs are termed "cost leaders," while those that seek to derive advantage through uniqueness are termed "differentiators." Firms may also pursue "focus" strategies by targeting narrow market segments and by emphasizing either low costs or uniqueness. According to Porter, some firms do not pursue a viable business strategy, and he labels these firms "stuck in the middle." According to Porter, firms become stuck in the middle for one of two reasons. First, they might fail to pursue successfully any of the generic business strategies. For example, a firm might fail to differentiate itself from its competitors, but it may also fail to develop the capabilities or resources needed to be a successful cost leader. Porter has also suggested that firms can become stuck in the middle by trying to pursue more than one generic strategy simultaneously.

While Porter's typology has received a good deal of empirical support in traditional business contexts, in e-business firms the following is expected: the generic strategy of differentiation will be associated with higher performance than the generic strategy of cost leadership; the generic strategy of focus will be less viable than the generic strategies of cost leadership or differentiation; Integrated strategies combining elements of cost leadership and differentiation will result in higher performance than cost leadership or differentiation do individually (Kim 2004). However, Porter had tried to compensate for the limitations of his older, more traditional approach by revising his explanation of the five forces industry positioning framework in his article "Strategy and the Internet". According to Porter the Internet alters the requirements of strategy-making in the sense that dot-coms must pursue their own distinctive strategies, they need to break away from competing solely on price and instead focus on product selection, product design, service, image and other areas in which they can differentiate themselves.

In further literature research (Lumpkin 2002) it is established that nearly all firms have access to relatively inexpensive technology, so companies who choose to compete in cyberspace must find ways to capture the potential while sustaining competitive advantage

over rivals. This requires balancing a firm's market position against forces – substitute products, new market entrants, supplier and buyer bargaining power, and inter-firm rivalry – that can rapidly erode a company's competitiveness. It is questioned if these changes are so profound that traditional approaches to strategy are outdated. The authors don't think so. However, there are important changes in how these strategies can best be deployed.

Strategic thinking is even more important in the Internet age. Differentiating is still an important strategy, but how firms achieve differentiation has changed – the best approach may be to combine a differentiation strategy with other types of competitive strategies. An integrated strategy approach which would provide two types of value to customers as differentiation of service/product (e.g. high quality, brand identification or reputation) and lower prices (because of company's ability to create value adding at lower costs) may be the best solution – providing the unique value to customers in an efficient manner. In this way the benefit of combining advantages can be additive instead of merely involving trade-offs. Nonetheless, company using combination strategies have to be careful as they may fall short if they underestimate the demands of combining approaches and get “stuck in the middle”. This would be a case of keeping costs and prices low while offering top services that require higher investments.

Even with the potential pitfalls, combination strategies that are in line with market opportunities and make the best use of Internet technologies have the strongest chance of success in the era of the Internet. Thus, strategic managers need to consider how to reconfigure traditional strategies to make them effective in the new economy.

More literature (Hackney et al. 2004), based on the fact that e-markets environments are dynamic, complex and ambiguous conclude that traditional approaches to strategic analysis is of limited use where attention is necessary to virtual competition and collaboration. The emphasis is upon innovation, adaptation and attention to rapidly changing environments. “Beinhocker (1999a) suggests that what is needed is a model of a world where innovation, change and uncertainty are the natural state of competitive engagement.”³

Traditional, functional and prescriptive strategy models may be viewed redundant in these dynamic circumstances.

However, from what has been said so far, we could say that e-business is simultaneously described as different from, and similar to, traditional business environments. It is Michael Porter again who cautions against considering the Internet as “rendering all the old rules about companies and competition obsolete” and Amit & Zott, on the other hand, suggest that issues central to e-business are not yet detailed, but require further work. In her article, Victoria Figiel reviews which strategy tools available today might apply to e-commerce in terms of positive business outcomes. There are many strategy tools available to companies for evaluating traditional business concerns, and many have been

³ R. Hackney et al. / Journal of Strategic Information Systems 13 (2004) 91–103, p. 92

applied to the e-commerce environment. She warns that not applying tried and tested business principles and methods is at the heart of many of dot.com failures. Therefore, both macro and micro level must be taken into account.

Further useful tool in strategising about e-business initiatives could be atomic e-business models (Weill and Vitale, 2001) used as building blocks to create combinations into e-business initiatives. E-business model term refers to a business model that is heavily IT enabled. So, atomic e-business models are used to classify organisation's e-business initiatives and to understand which IT infrastructure services will be most important to them. On contrary, an e-business initiative can be also decomposed into its atomic models with aim for managers to understand better implementation requirements for a particular e-business initiative. The business models are often combined for synergies. True e-business requires existing businesses to change, without abandoning what made them successful. They need to migrate from the place-based physical world to the space-based e-business world.

In order to understand how to create economic value with e-business and determine the organisation's desired positioning, managers have wide range of models and frameworks at their disposal. Whichever approaches and principles they use, their decisions must support the company's business strategy utilising its resources in the best possible way and ensuring that all elements in the value chain fit together. Information technology is a powerful tool for getting the company to the desired market position, but must not be considered outside the context of strategy because it is impossible to achieve competitive advantage depending solely on technology. A well-defined information systems strategy, which enables capturing, analysis and use of information, in e-business can provide a substantial competitive advantage and business growth.

The challenge for managers remains to create synergies between traditional business models and emerging new e-models deploying information technology and systems in the most efficient way in order to achieve competitive advantage and sustainable development for their organisations.

6 WEB 2.0, ONLINE COMMUNITIES AND SOCIAL NETWORKING

Web 2.0 is the popular term for Internet technology and applications including blogs, wikis, RSS, podcasting, mashups, and social networks (Lai and Turban 2008). One of the most significant differences between Web 2.0 and the traditional Web is that content is user generated, and there is greater collaboration among Internet users. Web 2.0 is used as an umbrella term for core of technologies, trends and principles. Web 2.0 has not only changed what is on the Web, but also how the Web works. Organisations that understand these new applications and technologies and utilize their benefits early have chances to

greatly improve their business processes, both internally and externally through better collaboration with customers, suppliers and other partners. Moreover, these media can be used with little or no cost and with great ease. Therefore, social media, enabled by Web 2.0 technologies, is considered a powerful democratization force because on a massive scale, it enables communication and collaboration which also goes beyond geographical barriers.

The following characteristics of Web 2.0 are important in the context of this paper:

- The content is user created and therefore self-publishing
- There is the ability to tap into the collective intelligence of users; the more users contribute the more popular and valuable a site becomes
- Unique communication and collaborative environment are created specific for the target topic
- Possibility of making data/information available in new ways, i.e. “mashed up” through different users interfaces
- Enabling of unique sharing of all sorts of content including media
- Ease and user friendliness of the service due to possibility to use applications entirely through a browser
- A major emphasis is on social networks

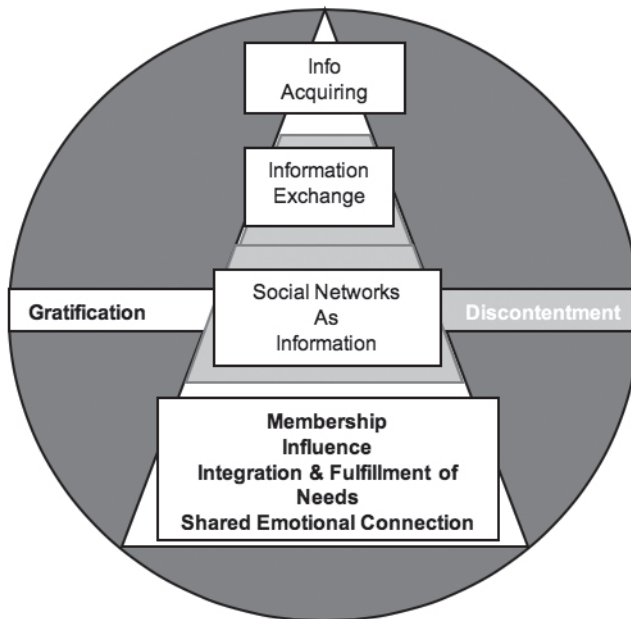
Online groups, social or others, have become extremely popular, and this is attributed to the growth of social networking sites and communication and collaboration technologies.

Studies of collaborative information use in electronic environments suggest that online virtual communities have many characteristics in common with face-to-face communities. The current state of any online community is the result of historically evolving choices, practices, and relationships with the offline world (Sproull et al, 2007). “Some works debate the nature of online networks, often defending them as “real”. One of the earliest treatments of this issue can be found in Thomsen et al. (1998), who posit an ethnomethodological approach to examining cyber-communities as a reflection of the *changing nature of human relations and human interaction*”⁴. In their paper Hersberger, Murray and Rioux (2007) present a holistic conceptual framework for examining virtual communities. Graphically represented as a four-tier pyramid, the framework integrates models of community, social networks, information exchange and information-sharing behaviours. The framework also accounts for the affective dimensions of virtual communities. Taken as a whole, the theoretical underpinnings of the framework suggest that strong virtual communities are established with a foundation made up of factors related to membership,

⁴ Hersberger, J. A., Murray, A. L., Rioux, K. S. (2007) Examining information exchange and virtual communities: an emergent framework; Online Information Review Vol. 31 No. 2, p. 136

influence, integration and fulfilment of needs and shared emotional connection. With this robust foundation in place strong community relationships develop through the evolution of social networks in which individuals develop strong ties with some virtual community participants and weaker ties with others. Communication and information sharing are critical components in the development and maintenance of strong virtual communities.

FIGURE 3 Conceptual framework examining online virtual communities, Hersberger, Murray and Rioux



The process of socialisation involves activity where people are shaped by the norm, culture and value of their identified group. Some of values and characteristics of Web 2.0 social networking groups are viewed to be friendship, democratic participation and harnessing collective intelligence as the competitive advantage of Web 2.0 sites almost entirely rests on the critical mass of participants and therefore the network effects from user contributions represent the key to group dynamic.

According to Lai and Turban there are five types of social networking groups:

- 1) Groups that Operate on Friendship and Participatory Democracy (e.g. YouTube, Facebook)
- 2) Groups that Operate on Viral Supports and Shared Experiences (e.g. eBay)
- 3) Groups that Operate on Peer Expectations and Appreciation: MMORPGs Networks (online role playing, e.g. WorldofWarcraft)
- 4) Groups that Capitalize on Synergy and Collective Intelligence (e.g. Wikipedia & Wikia)

What is viewed to be extremely important is a trust-based group dynamic through which a sense of community is developed and groups are formed and persist. Coleman's (1990) social theory may provide a framework for understanding group formation and interaction at least in organization-based social networking sites, and the placement of trust in individuals within groups. According to Coleman a social networking site is a "constructed social organization". There is both a macro-group, created by the corporate actor who designed it, and then there is a collection of micro-groups formed by the users. Trust is both a micro- and a macro-level phenomenon in which there is an interplay among actors who decide to place trust in another actor or break someone else's trust. There is likewise the transition that allows these actions to reform the system's behaviour, and the transition that allows the system to influence which actors are considered trustworthy. Evidence from virtual social groups (Lai and Turban 2008) indicates that users can and actually tend to trust their group members and even acquaintances with expertise, identity, personal information and similar.

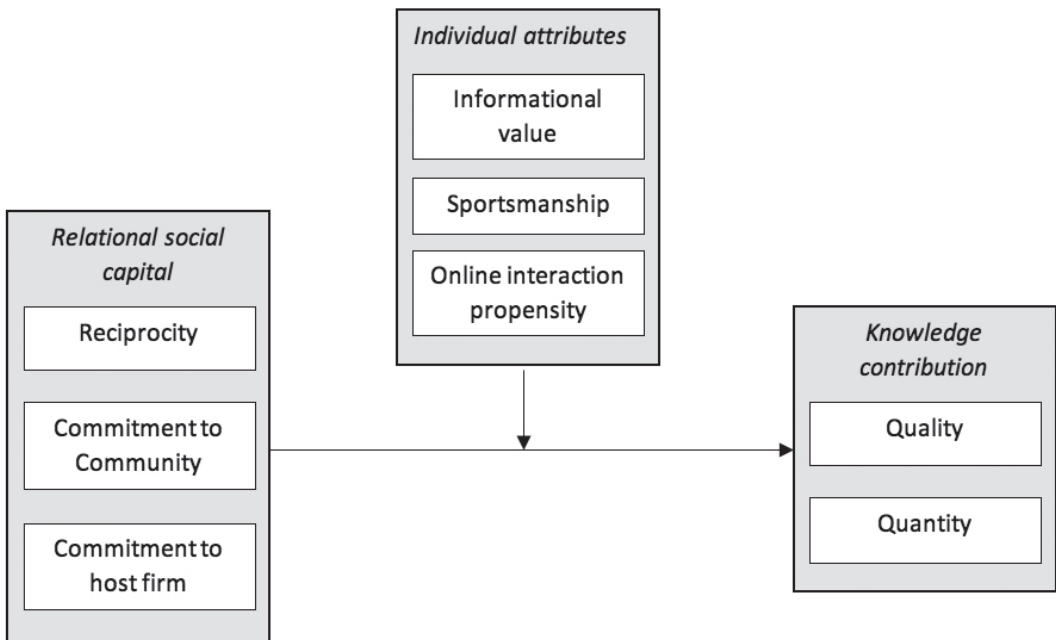
Lai and Turban propose a triad relations model of social life on the Internet. It demonstrates the integration of tools, people and thinking within a trustworthy setting. A community is viewed as integral to the online social networks and web technologies and tools. The process of communication, collaboration and information and content sharing is supported by innovative technologies and it can be said that the rewards of web communities are mainly social and cultural in nature. Online social groups are sustainable because of our need for community and social connection. The key is also finding an issue that captures people's attention. People must care about the issue, have opinions about and be enthusiastic enough to share their views (McWilliam, 2000).

One needs to be careful however as use of web tools and applications may involve risks which could be viewed as inhibiting factors in achieving successful operation. Certain individuals may for example dominate social networks, forums, blogs or wikis and may introduce biases. Further, user generated content may be inaccurate or published without permission. On the other hand, by overall controlling the discussion or dialogue within communities, social networking brand sites face the risks of losing the interest of their members and losing the rich creativity inherent in their audience (McWilliam, 2000). Exercising the delicate balance between controlling and letting go would require a new set of skills for hosting firms in a way that the community must not be overly proscribed in what it says, yet it should cohere with the brand values as they are intended and total brand site strategy.

Another important issue is social capital (Wiertz and de Ruyter, 2007) – it is conceptualised as an intangible resource of support that emanates from membership of a social group which can be mobilized in times of need. The basic premise of social capital is that investment in social relations results in benefits (Coleman 1988). While investments are made by individuals in the collective, the benefits accrue to both the collective as a whole and the individual members. Consequently, the promise of social capital accumulation

enables participants to act together and pursue shared objectives. Wiertz and de Ruyter propose that three individual attributes pertaining to the message, the medium, and the messenger will influence knowledge contribution in firm-hosted online communities. These attributes are (1) the perceived informational value of the message, i.e. the knowledge exchanged in the community, (2) an individual’s level of tolerance of imperfections in the medium, i.e. the online community, expressed by sportsmanship, and (3) online interaction propensity, the messenger’s tendency to engage in online interactions. See conceptual model below.

FIGURE 4 Conceptual Model, Wiertz and de Ruyter



In the context of electronic networks of practice and open source communities, research indicates that individuals participate out of instrumental reasons: access to high-quality information and the opportunity to exchange ideas and solutions. Further, (Nahapiet and Ghoshal, 1998) suggested that individuals will only contribute knowledge if they expect that this action will create value for the collective, with the anticipation of personally benefiting from this value in the future. If a member of a firm-hosted online community perceives the information provided to him by other community members to be valuable, both in terms of quality and quantity the indebtedness towards the community and consequently his desire to reciprocate and contribute knowledge will increase.

Sportsmanship is defined as ‘the willingness to tolerate less than ideal circumstance without complaining’ (Podsakoff et al. 1997). It is viewed to have a beneficial effect on co-operative behaviour. Higher levels of sportsmanship provide a sort of shield against the potential negative consequences of imperfections that occur due to technical problems or

unintentional errors made by community members, like supplying wrong information for example, and as such strengthen the effects of relational social capital on knowledge contribution.

Knowledge contribution in firm-hosted online communities should be strongly influenced by an individual's willingness to engage in such online interactions. Individuals have different propensities to communicate with others and the level of contribution by individuals in online interaction might be also explained by the presence or lack of general disposition to engage in online interactions. Wiertz and de Ruyter propose a new behavioral disposition – *online interaction propensity* (OIP) – that is defined as prevailing tendency of an individual to interact with relative strangers in an online environment. This disposition which is rooted in personality explains why one person will engage in online interaction and another will not under identical circumstances.

The overall picture that emerges Wiertz's and de Ruyter's results is that knowledge contribution is most strongly influenced by a customer's online interaction propensity, commitment to the community, and the informational value he perceives in the community.

Farquhar and Rowley (2006) explored relationship and community development in online consumer communities. Community coupled with commerce, content and communication are discussed as the essential components of successful web presence. Organisations that control popular virtual communities are in a position to dominate business transactions over the internet.

7 MARKETING PERSPECTIVE IN VIRTUAL COMMUNITIES

The interest in virtual communities from a marketing perspective is driven by the belief that the complex network of personal relationships and increasing identification with the group as a community, provide a foundation for a very attractive business model. Commitment and loyalty are generally viewed to be linked to value creation. Online communities need to create value for all of their stakeholders, including the host, members and any third parties such as advertisers. Value is created differently for different stakeholders, because members, community organisers, and advertisers will all seek different benefits from participation in the community. All stakeholders must be able to take value from the community for it to continue. Value creation can be achieved through the information content or other products generate by and shared within a community, or through the very existence of an identified group:

– *Value through community existence* happens when community brings together consumers/users of specific demographics and interest. This present opportunities for transacting business and communicating messages about products and services that are of

interest consumers, and which marketers and advertisers value and are consequently willing to pay for.

– *Value through content contribution and co-production* is created when members' input to the community consists of information content in the form of comments, feedback, elaborating their attitudes and beliefs and informational needs. Members may provide such content unsolicited, or in response to queries by other members or the organiser of the community. Community organisers may also contribute their own content. If the content is sufficiently valuable to members, they may become a member of a community.

– *Value through commerce* is achieved when websites are not simply about communication and information exchange, but also have some commercial activities and therefore commercial purposes and may for example sell some of their services to members of the community or others through their website.

In virtual environments, although customer power may mean that customer-to-customer interaction may have negative effects for suppliers, for customers such interaction will always be positive. Every new member of virtual community increases the usefulness or value of the community as a whole, for both new and existing members. The larger the community the more attractive it becomes to other members, and the more attractive it is to retailers and target service providers.

Creating and maintaining an online community requires resources and commitment on the part of the community host. Specific aspects of community management that would require attention would include 1) website content, 2) member engagement and 3) business viability.

Website content may derive from the community organiser or from community members, and community sites often have elements of both. A key role for the community organiser is to ensure depth, currency and quality of content. This involves not only supplying and structuring content, but also managing member created content.

Member engagement or member contribution to a community is vital to its success. Too many observers or lurkers who learn from other contributions but do not make their own contribution will reduce the level of interactivity in the community. Member behaviour also needs to be managed through code of conduct, and where necessary, interventions. Both members and hosts need to respect member's privacy.

Business viability is manifested in advertisers' expectations of value for advertising fees and commissions. If online communities cannot deliver value to advertisers, revenue from this source will decline and the business viability of the community may be in question. Critical mass focus, and level of member visits and engagement are important facilitators of business viability.

Good questions that range from the fundamental, as to whether virtual community is really important for the success of commercial ventures on the web, to more detailed

questions about the nature, stability, and maintenance of relationships in virtual commercial communities:

- Does community really matter?
- Is community more or less important for different types of organisation, product offerings, or purchase decisions?
- Can loyalty and commitment be cultivated in virtual relationships? If so, how? And how can these be measured?
- What benefits that virtual communities offer their members entice new members, and contribute to member retention?
- What roles do leaders and facilitators play in virtual communities, and how can organisations cultivate members who will contribute to the community?
- What about webs of relationships? Can these be modelled, possibly using social network analysis?
- What triggers switching between virtual communities?
- How important is learning (about a community, supplier offerings, and search and navigation) as a disincentive to switching?
- Can branding be used to create swift trust (or to carry over trust from traditional environments) into virtual communities? What impact does swift trust have on relationship development?
- How can the success of virtual community be measured?
- What is the relationship between community success and business performance?
- Can simulated membership based on commercial transactions alone operate as the basis for a virtual community?

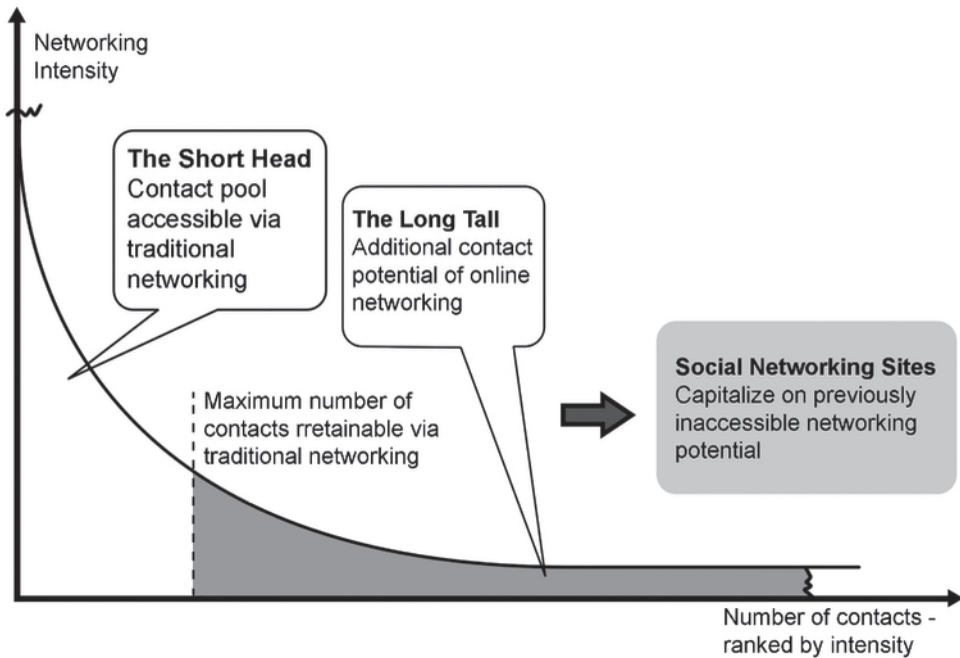
8 MARKETING AND REVENUE MODELS OF SOCIAL NETWORKING SITES / WEB-SITE MARKETING & EVALUATION OF WEB SITES

As Doyle (2007), in order to create marketing strategies suitable for our customers, we must first understand what the customer is influenced by during the decision-making process. This might be the most important way to learn how and where to correctly invest our marketing efforts. Researches show that more than 75 per cent of customers will consult a friend before deciding on the purchase of a certain product or service. But the main issue here is whether organisations know how to utilise this fact to their advantage. In other words, most of our customers will consult a friend prior to making a decision about a certain purchase.

Word-of-mouth marketing is no novelty. It is one of the earliest forms of marketing, going back as early as biblical times, when Eve suggested that Adam taste the apple, because it was very sweet. Nowadays, there are a number of ways in which we can utilise word-of-mouth to effectively meet our marketing objectives. It is a well-known fact that the customer is in control, deciding for himself what the right product is, and when and how to buy it.

In their paper, Enders et al. (2008), address the question how social networking sites (SNS) create and capture value using different types of business models. SNS-s are viewed as superior to traditional means of networking as they offer new ways of getting to know people and also facilitate the management of existing contacts. To analyze the reasons for the rise of SNS authors try to apply the concept of “The Long Tail” (Anderson, 2006) to social networking sites.

FIGURE 5 Long Tail of social networking; Source: cf. Anderson (2006)












By granting their users access to contacts in the long tail, SNS remove the cut-off point after the short head that limits the size of traditional networks. This, in turn, allows users of SNS to tap both into the short head and the long tail of social networking. “The Long Tail concept illustrates how the emergence of electronic retailing and digital goods created a paradigm shift in the way companies can generate revenues.”⁵




⁵ Denker, H.P., Enders, A., Hungenberg, H., Mauch, S. (2008) The long tail of social networking. Revenue models of social networking sites. *European Management Journal* 26, p. 201

Numerous different website providers currently try to benefit from this new potential with different business models. Building on the categorisation by Laudon and Traver (2007) for e-commerce revenue models, Enders et al. want to classify revenue models for SNS into three categories: (1) advertising models, (2) subscription models, and (3) transaction models. Most communities would implement a combination of these three models. They argue that for each revenue model at least one out of the three main revenue drivers identified in their research is important: (1) the number of users on a platform, (2) the users' willingness to pay for a specific service, and (3) the level of consumer trust. The existing user base and the stream of new members determine the number of users. The user's willingness to pay for the service depends on the value the SNS provides to its customers. On SNS, the level of consumer trust depends on the trust users have in the platform itself and the trust they have in other users.

Advertising appears to be a predominant form of revenue generation due to a tendency among users to demand free services. For websites relying on an advertising model, it is necessary to attract large and/or highly specialized, differentiated viewership in order to maximize revenues. However, users are ready to accept advertising to a certain degree; they perceive it as the price they have to pay for receiving free (or cheap) online content (Canzer, 2006). A certain minimum level of trust, however, is necessary for these business models, just as for any e-commerce business model.

FIGURE 6 Revenue models, revenue drivers and implications for SNS, Enders et al.

Revenue Model	Revenue Drivers			Implication
	Number of Users	Willingness to Pay	Trust	
Advertising Models				„Lengthen the tail“
Subscription Models				„Fatten the tail“
Transaction Models				„Drive demand down the tail“

 No Impact
  Medium Impact
  Very High Impact

The second major source of revenues for SNS consists of subscription models where a website offers its users content or services and charges a subscription fee for access to some or all of its offerings. The crucial driver for subscription-based models is the creation of high levels of unique customer value, which determines their willingness to pay for a service. On SNS, customer value originates mainly from user-generated content and related activity and interaction.

The third possibility for SNS to generate revenues is through a transaction model, where a company receives a fee for enabling or executing a transaction (Laudon and Traver, 2007). In this case, the platform operator can profit from a fee on the volume of transactions conducted over the platform. In order to create sustainable revenues from a transaction model, a critical mass of users is essential and also willingness to pay needs to exceed a minimum level. Due to information asymmetries, customers require information about the product and the company from a trusted source. While a critical mass of users and a minimum willingness to pay among members are both important prerequisites for this model, the key revenue driver for SNS relying on a transaction model is trust in peers and the platform.

Planning, implementation and control must be integrated into the on-line marketing communications of business, regardless of business size.

As Grigoroudis et al. (2008) the assessment of website quality is considered as a problem of measuring user satisfaction, in order to analyse user perceptions and preferences. Quality assessment is of multidimensional nature and in order to achieve high quality websites designers have to firstly understand the different quality dimensions that affect user expectations and then relate these quality characteristics to specific design features. Several website quality aspects may be summarised in the following principal quality dimensions:

Content – related to the responsiveness of a website to satisfy a user inquiry and to the trustfulness about the information offered: content credibility/ completeness of information;

Personalisation – important for web designers in terms of personalisation of information, interface and layout;

Navigation – related to support provided to users when in and around the site, i.e. convenience of use of navigation tools and links to other sites;

Structure and design – a more technical nature of this aspect as it refers to loading speed, real time information, software requirements and browser compatibility;

Appearance and multimedia – aspects related to website's "look and feel" giving emphasis on graphics and multimedia artefacts i.e. graphics representation, existence and usability of images, voice and video.

Research by Sweeney and Lapp (2004) explores the concept of service quality through evaluation of critical service incidents, and in the context of unique environment provided

by a website in which the customer directly interacts with the firm's website. The results indicate that the minimum required in a web site is that it offers the user a feeling of control, for example by providing him with a navigational system that enables easy movement across the pages. The website must also be perceived as not too slow to load or respond to user requests. In addition, the links in the site must work properly and the information needs to be up to date. While these aspects do not lead to perceptions of high service quality, their absence does lead to perceptions of low service quality.

As Kumar and Benbasat (2006) recommendations and consumer reviews are universally acknowledged as significant features of a business-to-consumer website. The results of their study based on filtering the content of Amazon.com in real time show that provision of recommendations and consumer reviews increases both the usefulness and social presence of the website. Personalisation is a process of providing information and applications that are matched to the interests, roles and needs of a visitor to a website. "Hence, personalization can be employed by a website to reduce costs and to encourage customer loyalty by providing value (Tam and Ho 2003, Zahedi and Lu 2003)."⁶ The effective use of recommendations leads to greater customer loyalty to the b2c site and higher sales through targeted cross promotions (Ansari, 2000). Support for provision of recommendations and consumer reviews by a website will increase both the perceived usefulness and the social presence of the website.

Another study concerned with exploring the importance of the internet as a new information source with respect to the extent of usage by consumers of different product types, finds that consumers' online information search behaviour and influence of other consumer opinions and ratings are related to users purchase decisions (Be, Chen and Widdows, 2004). Compared with the era without internet, consumers can more precisely make purchase decisions because of the abundant information sources on the internet. In the classification of products into search and experience products the importance of different sources of product information to consumer varies. Search products are defined as those dominated by product attributes for which full information can be acquired prior to purchase, like mobile phones or shoes. Experience products are dominated by attributes that cannot be known until purchase and use of the product, or for which information search is more costly or difficult than direct product experience, such as travel packages and dinners at new restaurants. Consequently, the recommendations of others would be used more for experience products than search products. In the context of the internet, this interactive medium opens up possibilities of online information search as an alternative to experience. According to the authors consumers of experience products should value and use online information more than those of search products, due to the different products' characteristics and the cost/benefit ratio of various information sources. For the purchase decision of experience products, a consumer will value the post-trial experience

⁶ Benbasat, I., Kumar, N. (Dec 2006) Research Note, The influence of recommendations and consumer reviews on evaluation of websites. *Information Systems Research*. Vol. 17, No. 4, p. 425

(either from the other consumers or a neutral evaluative report) more than the information from sellers.

However, the internet is viewed to be a useful tool for information research in general, so basically it will help the consumers of both product types to reduce the search cost and to increase the benefit of collecting more information when making a decision. Nonetheless experience products, in contrast to search products, usually do not carry those intrinsic attributes to make consumers able to evaluate the quality objectively. They would rely on their own experiences or comments from friends and families, so called 'soft data' to make a judgement. In this relation, the internet provides a broader resource base for virtual human contact, and people are no longer restricted by their personal networks. Since the internet provides a forum to gain more personal information from online consumer networks, online information sources from other consumers become important for experience products. Rha (2002) found that consumers who searched for experience products' information ranked the information from other consumers to be more important than retail sources. By the same principle it was found that neutral product evaluation information would show more important for experience products than for search products. Further, as Be, Chen and Widdows (2004), the relationship of the perceived usefulness of the internet as a source of information and the perceived ease of internet use is positively related to the extent of consumers' usage of various information sources on the internet, which means that the higher the perceived usefulness and ease-of-use of the internet, the more frequently consumers used online information sources.

Nevertheless, marketers have to recognize that the function of the internet as an information source does not replace the traditional offline sources, but adds valuable information.

Further interesting phenomenon to consider in the study of pattern and amount of information search, would be high vs. low involvement. When consumers are highly involved with a product category, they constantly collect information about the product (Bei and Widdows, 1999). Since highly involved consumers are interested in all kinds of information regarding a product, the internet is a vital complementary information channel. However, for low involved consumers, the purpose of information search is to facilitate decision-making, and online information compensates the traditional information sources.

9 CONCLUSION

Research of literature has shown that there would be justified grounds for a project of this type as the ideas would fit into literature findings. The project could be viewed to have justified roots supported thorough academic knowledge in the areas of social networks, of creation of viable e-business models and of applying appropriate principles of website evaluation and marketing. It would be recommended to conduct an extensive targeted survey with a particular interest group to provide understanding of the attitude of respondents towards the use of an online portal and a notion of needs that are not sufficiently satisfied at the moment in a particular market and interest segment. Such a survey data analysis could presumably tell us more about an appropriate e-business model, i.e. what would precisely be valued types of information and knowledge or functionalities that such a website would provide.

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