SHIFTING SOME OF THE POWER FROM CORPORATE ENTITIES TO THE HANDS OF CONSUMERS: THE USE OF ONLINE SOCIAL COMMUNITIES FOR INDUSTRIES WITH "EXCITING" PRODUCT CATEGORIES

by

Teresa Cheung
Bachelor of Business Administration (Honours), Simon Fraser University, 2003

and

Mihaela Pasca
Bachelor of Economics, Babes-Bolyai University, Cluj-Napoca, Romania, 1998

PROJECT SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

Marketing

In the Faculty
of
Business Administration

© Teresa Cheung and Mihaela Pasca 2006

SIMON FRASER UNIVERSITY

Summer 2006

APPROVAL

Name:	**Teresa Cheung and Mihaela Pasca**
Degree:	**Master of Business Administration**
Title of Project:	**Shifting Some of the Power from Corporate Entities to the Hands of Consumers: The Use of Online Social Communities for Industries with "Exciting" Product Categories**

Supervisory Committee:

_____

Dr. Jennifer C. Chang
Senior Supervisor
Assistant Professor of Marketing
Faculty of Business Administration
Simon Fraser University

_____

Dr. Sudheer Gupta
Second Reader
Assistant Professor of Technology and Operations
Management
Faculty of Business Administration
Simon Fraser University

Date Approved: _____August 1, 2006_____

ii

SIMON FRASER UNIVERSITY library

STATEMENT OF ETHICS APPROVAL

The author, whose name appears on the title page of this work, has obtained, for the research described in this work, either:

(a) Human research ethics approval from the Simon Fraser University Office of Research Ethics,

or

(b) Advance approval of the animal care protocol from the University Animal Care Committee of Simon Fraser University;

or has conducted the research

(c) as a co-investigator, in a research project approved in advance,

or

(d) as a member of a course approved in advance for minimal risk human research, by the Office of Research Ethics.

A copy of the approval letter has been filed at the Theses Office of the University Library at the time of submission of this thesis or project.

The original application for approval and letter of approval are filed with the relevant offices. Inquiries may be directed to those authorities.

Simon Fraser University Library
Burnaby, BC, Canada

ABSTRACT

The proliferation of online social communities resulted in major changes in consumer behaviour. Marketers have to adapt to this phenomenon, to seize the benefits resulting from online customer engagement and minimize the risks associated with consumer's empowerment. This paper provides specific recommendations for those promoting "exciting" product categories. Three case studies are provided to better explain the advantages and challenges from implementing online social communities. As customer retention is harder to achieve, and fragmented media and advertising clutter makes traditional marketing highly inefficient, marketers have to find optimal ways to balance their Integrated Marketing Communication mix between old and new channels. A passive recognition of the existing shift in power is not sufficient. The dawn of an interesting and interactive marketing era has arrived. Marketers have to rethink their strategies, as in the future only those companies that facilitate three-way communication dialogue between customers-company- and employees will thrive and succeed.

EXECUTIVE SUMMARY

The Internet is changing the way people interact, work, entertain, and inform. The latest trend is a new form of media vehicle: online social communities. Online social communities are websites that allow users to freely publish their information such as writing, photos, video, and music on the Internet which, potentially, hundreds of others can see. In this project, extensive secondary research and literature review have been conducted to establish a background for the ongoing "control revolution," which is a shift in control from institutions to individuals made possible by the Internet, and to provide insights on how companies should make use of the increasingly popular online social communities which are facilitated by this control revolution. The fast-paced rhythm of technology and the habitual attitude of taking as granted the control of one-way dialogue to consumers make it hard for some marketers to adapt swiftly. The increased access to information due to technological advancements and the raising trust in peer-to-peer communication resulted in people spending more time online, engaging in virtual communities, and sharing brand and life experiences with hundreds and thousands of other consumers. Those marketers who take the effort to understand this shifting trend will be able to adapt quickly and thrive in this changing landscape.

The key objective of this project is to provide specific recommendations to marketing specialists in this new marketing vehicle of online social communities. Because of the scope of this paper, we are going to place emphasis on findings for industries with "exciting" product categories, which are those associated with meanings of motion, fun, innovation, and excitement. As a person is deemed more convincing by others simply when that person speaks about his or her passions and hobbies, these types of product are perfect examples of online engagement as they give individuals the feeling of elation, of being cool, and of being energized. The three company case examples discussed in this paper belong to the travelling industry, the performance automobile industry, and the beer industry.

This discussion will first begin with an explanation of the control revolution. The power concept model is elaborated to better explain how consumers exhibit higher levels of expert, legitimate, and sanction power through involvement in online social communities. It is with certainty that the business and social landscapes have been changed by this unprecedented consumer empowerment.

Positive and negative implications of companies forming online social communities are then analyzed. On the one hand, these already behaviourally-segmented markets are leading to increases in dialogue between companies and customers: these online social communities represent a window into what is appreciated or hated, or considered as important or irrelevant, by customers. Opportunities for increased recognition and awareness are created, as reputation is easier to build online through positive word of mouth. The ability to efficiently encourage customer engagement leads to tight emotional links between companies and customers, which can further lead to loyalty and customer involvement in product innovations. On the other hand, companies should take caution when attempting to decipher consumers' messages on these online social communities given the unpredictable nature of user-generated content. This openness in gathering information from consumers might also be dangerous for companies especially on R & D projects as competitors can now easily get their hands on such information. Three real-life company case examples are then presented to demonstrate the benefits and challenges from involving in online social community initiatives.

From the above analysis, recommendations have been derived to provide insights for marketing specialists to leverage the power of online social communities. Marketing specialists are recommended to not stifle the control revolution, but instead tap into the benefits of online social communities. Facilitating the building of online social communities and investing in technological infrastructures that permit open dialogue are strategies that marketers should consider to establish customers' trust. Such activities will prove to be more effective over the long run. Data mining methods have to be developed in order to maximize the value derived from the content that consumers generated. Marketers also have to skilfully manage the word of mouth, as this is a double-edged sword that can make or break a firm's reputation. Identifying the

e-fluentials, the most interconnected individuals or those with the highest network value, is also important, as advertising to these people may be as effective as advertising to 10,000 unconnected customers.

With awareness of the changing consumer behaviour and knowledge in how to leverage the use of online social communities, the companies analyzed in this paper are shown to gain positive results from engaging in this new media vehicle. However, it is recognized that within the scope of this project, the real business value in terms of performance measure such as Return on Investment is not directly proven. Further research addressing this specific topic has been suggested, such as on investigating the types of user-generated content that proves to be more valuable to a company, and experimenting with a controlled implementation of an online social community to empirically prove the impact on bottom line business performance. It is anticipated that through such further research, additional knowledge can be contributed to the marketing profession and could lead to advancement in this new media vehicle in the future.

DEDICATION

~*~ To my Dearest Mom, Jacqueline Cheung:

A realization of one of my life goals, this publication is dedicated to you! ~*~

~*~ To Uncle Al: For your advice, guidance, and

continuous encouragements ~*~

~*~ To Derek Lee: WE made it!

Looking forward to a brilliant future to come ~*~

From the heart, Teresa Cheung, 2006

~*~ To the memory of my Dearest father, Dumitru Pasca:

You are the guiding light of my life; you inspired me and gave me strength

to accomplish this goal in such short time after you passed away;

Thank you for the aura that I was always wearing

reflecting myself in your eyes! ~*~

~*~To my loving husband, Virgil Roatis:

Without you, nothing would have been possible;

Thank you for your support and your patience with me this year!

I rediscover you each day and I am so grateful for what we have! ~*~

"Daca dragoste nu e, nimic nu e"
"If there is no love, there is nothing"

From the heart, Mihaela Pasca, 2006

ACKNOWLEDGEMENTS

From Teresa Cheung

First of all, I would like to sincerely thank my project partner, Mihaela Pasca. Accomplishing this capstone project with you is an enlightening experience. I wish you confidence and courage to tackle any endeavour in the future!

Thank you to Brian Mitchinson at Blast Radius, who enthusiastically presented us with this opportunity. We had a blast working on this project, and will learn from you in being passionate in what we pursue.

Thank you from the bottom of my heart to my Mom and everyone in my family. I am truly grateful for everything you have provided me. Your support and advice in life is what keeps me going strong.

For standing by my side despite of winds and storms, for giving me encouragements when I am stuck or lost, for being true and understanding which illuminated my thoughts ... Thank you so very much for everything, Derek.

Thank you with the deepest appreciation to all the professors who taught the Marketing MBA 2006 class, your inspirations and insights were invaluable: Thank you to Dr. Robert Krider, Dr. Ian Hand, Dr. Ed Bukszar, Dr. Mark Wexler, Dr. Bert Schoner, Ms. Sharon Hartung, and Dr. Steve Kates. And to Dr. Jennifer Chang and Dr. Sudheer Gupta for their final seals of approval for this project.

Special thank you to Dr. Judy Zaichkowsky, Dr. Michael Parent, and Dr. Colleen Collins-Dodd, with your support, I am about to realize another life goal, to study in Europe!

From Mihaela Pasca

I would also like to sincerely thank my project partner, Teresa Cheung. I was lucky to have such a talented, hardworking and considering partner for this project. I wish you a great educational experience in Copenhagen and a wonderful career ahead.

Thank you once again to Virgil and to both our families; you all believed in me, and encouraged me when I doubted.

Deepest respect and consideration for all my professors, especially to: Dr. Robert Krider, Dr. Michael Parent, Dr. Judy Zaichkowsky, Dr. Jennifer Chang and Dr. Lindsay Meredith. It was a great privilege to have you mentors this year.

Last, but not least I thank Mr. Brian Mitchinson, Marketing Manager at Blast Radius who enthusiastically introduced us to this wonderful topic. If only more people would do their job with such passion and dedication...

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

1 INTRODUCTION

1.1 Overview of Topic

This paper looks at the up and rising popularity of online social communities and how corporations should be aware of this changing consumer behaviour. Online social communities are defined as those online sites that allow users to freely and actively interact with each other and be involved in discussing any subjects such as those related to various products and services. The emphasis of this paper is placed on user-generated content, that is, thoughts and information contributed by consumers on these online social communities. The content that consumers generate can be self-motivated or solicited specifically by a company. To probe further, with the empowerment of consumers on voicing their opinion about companies and their respective products and services through the online media, what should today's marketers do? Since the advent of marketing, marketers have been ingrained in their approach in controlling what the consumers should perceive, feel, and experience, in every aspect of commercial offerings. Given that anyone can now publish any comments over the Internet, should marketers shift some of their control on the traditionally centralized marketing approach to the hands of consumers, allowing consumers to create what the company means for them? What are the benefits and challenges for the firm in listening to consumers' responses through online social communities when building its products and services? Some aspects of benefits this paper explored include product awareness, recognition, word of mouth, and ultimately the impact on bottom line value of a business. In terms of challenges, degree

of control on containing negative word of mouth, level of reliance on non-expert

consumers, and the level of trust on online social communities, are investigated.

Marketers have to understand these days that customers have choices and

retaining them requires more effort than before. A satisfied customer today does not

necessarily translate into a loyal customer or a customer for life. That is why marketers

are concerned with establishing a quality relationship between the consumers and their

products, services, brands, or companies, and consequently create a meaningful customer

experience.

People today interact with brands, products and services in the same manner they

interact with humans (Aggarwal, 2004). A competent, reliable, honest and forward

thinking person will be more credible, and, therefore, more influential. Similarly, a

unique, trustworthy, and honest brand will stir customer's interest: from "dating" (one

time shopping) to "long-term engagement" (loyal customer). What is important here is

that the client evaluates every aspect of the brand, from the actual products and services

to the colours used in the store displays, prices, advertising, courtesy of sales

representatives, the personal memories elicited from the product, the website, and the

firm's reputation which includes word of mouth. It is the overall customer experience

with the brand that counts. As Max Lenderman (2006) said, "a brand is the sum of the

customer's experiences with the relevant product or company. It is transmitted in every

interaction with the customer over the lifetime of the relationship." For marketers it is

crucial to open dialogue between brands and customers. They have to rethink the

strategy in order to engage consumers personally in these relationships, focusing on

consumer experience as paramount of doing business. As an example, companies like

JetBlue Airways did the little things right to provide a consistently superior experience: headsets and snacks are free, when the weather slows down or cancels a flight customers get a flight credit right away, flight attendants are renown for their friendliness and helpfulness, the company operates two "cafés" where delayed passengers can relax and get free refreshments, and hurried parents can watch their kids play in the JetBlue play areas. Now they enjoy profits every quarter, in times when the high costs of doing business decreased profits for companies like Delta, United, and American Airlines (Lenderman, 2006). Everything is about experience.

1.2   The Internet

The Internet brought more that just another media channel. It is all about the new ways of "doing" and "creating" media: blogs, online user groups, discussion boards, Wikipedia (people's encyclopedia), audio podcasts, and the proliferation of popular consumer feedback sites, like Epinions.com, or Amazon.com's reader reviews. Terms like "consumer generated media" (CGM) describe "a variety of new sources of online information that are created, initiated, circulated, and used by consumers intent on educating each other about products, brands, services, personalities and issues" (Blackshaw and Nazzaro, 2004). It is about "democritizing media": anybody can say anything to everybody. Internet and bloging are considered "democratizing media" forces that give voice to the opinions of these personal contacts. Corporate communicators and marketers need to change their thinking about the effectiveness of traditional paid methods and explore novel ways of earning media coverage and building relationships online (Poulson, 2006).

Mini-media includes word-of-mouth vehicles, including but not limited to: consumer-to-consumer email, postings on public Internet discussion boards and forums, consumer ratings web sites or forums, blogs (short for weblogs, or digital diaries), moblogs (sites where users post digital images/photos/movies), mobile advertising (ways of promoting a product on the screen on cell phone or with short messages), social networking or online social community web sites, and individual web sites. Here consumers can interact with the medium and can provide commercially-oriented content to the medium. Mediated environments are created by participants and then experienced (Evans et al., 2001).

New media technologies offer more than an opportunity to serve up conventional, traditional advertising to consumers through new channels. They also can build stronger brands by allying businesses with online social communities serving lifestyle and niche interests.

Traditional media includes all forms of old marketing channels: TV, radio, print, billboards, basically forms of "one to many" communication whereby a firm transmits content to a large group of consumers. No interaction is present between consumers and the firm.

In a recent survey, when asked where they turn to first for trustworthy information, only 29% of US respondents cited television, down from 39% three years ago. The Web is now mentioned by 19%, up from 10% in 2003. Respondents said their most credible source of information about a company is "a person like me" (with ratings higher than doctors and academics). The trust in peers has risen from 20% in 2003 to 68% in 2006 (Marketing Week, February 2006). From the marketers' point of view, the

rise of peer-to-peer power means that the efforts should now be focused on developing

employees and customers as credible brand and product advocates, instead of creating

top-down advertising messages.

A 2004 UK survey of 10,000 consumers found that 76% cited word of mouth as

the main influence on purchasing decisions, compared to traditional advertising which

flounders at 15% (Kirby and Mardsen, 2006). These numbers clearly demonstrate how

new media impacts macro-media and the traditional forms of marketing.

How should companies respond to this trend? As Scot Donaton (2006) stated,

"here is what you should do about user-generated content: nothing. Do not try to control

the narrative. Do not kill the parts you do not like. Do not interrupt. Stand back, and

learn."

However, some marketers are more prepared than others to change something in

their views. As Alan Moore, co-founder of engagement marketing specialist SMLXL

said: "what we are beginning to see is marketers very painfully taking their first baby

steps towards engaging with consumers and understanding that nobody is as clever as

everybody" (Marketing Week, March 2006). The difficulty hinges on the fact that

marketers were all trained in a world where they controlled the dialogue, the message,

and the advertising. The "intrusive" model of communication where companies can

impinge their message on a largely uncaring and unreceptive audience is fading away to

the "era of engagingness," where customers are invited to actively choose to be a part of

their brands (Cadell, 2005).

1.3 Online Social Communities

A social network is defined as a set of people, organizations or other social entities, connected by a set of socially meaningful relationships, such as friendship, co-working, or information exchange, and interactions to better achieve desired outcomes, by sharing expertise, resources, and information (Lea et al., 2006).

Kardaras et al. (2003) define virtual communities as a group of individuals who use electronic means such as the Internet to communicate and share interests without the need to be in the same place, have physical contact or belong to the same ethnic group. The first virtual community appeared in the 1970s, but it was not until the 1990s that virtual communities exponentially grew, thanks to the appearance of the World Wide Web (www) and the spreading of electronic mail (e-mail), chat rooms and instant messaging systems (Flavian and Guinaliu, 2005).

The major difference is that communities define its members which have boundaries and meanings, while networks are not. Belonging to a virtual community also has emotional and evaluative significance. "In an emotional sense, social identity implies a sense of emotional involvement with the group, which researchers have characterized as attachment or affective commitment" (Dholakia et al., 2004). The term "virtual community" was initiated in 1993 by Rheingold. Today, the term is slowly being replaced with "online" or "web-based," as "virtual" implies something that does not exist in reality. In this paper, the terminology of 'online social communities' is used to denote these encompassing meanings. With the evolving innovative uses of Internet technology, consumers can generate their own content and share it with others through not only emails and online discussion boards, but also blogs (web log), moblogs (pictorial log with

digital images or movies), and sites such as MySpace.com and Flickr.com which are discussed in a subsequent section. These are examples of how consumers use online social communities to interact with each other.

What is characteristic for online social communities is that the audience is composed by active participants. Individuals engage in these communalities at the level that they want, as frequently as they want and with whom they want. However, online social communities can vary in terms of size and heterogeneity. Small, homogeneous communities are a characteristic of villages and traditional work groups. These are good for conserving existing resources. Larger online social communities exhibit more heterogeneity in social characteristics of the network members and more complexity in the structure of these communities.

From a sociological point of view, small groups are characterized by neighbourhood solidarities, defined as tightly bounded (each member knows everyone else), densely knit groups with strong relationships between members. The large social networks are loosely bounded and geographically dispersed groups that interact with one another for a specific reason, and usually without prior planning (Dholakia et al., 2004).

Different types of users characterize online social communities: the "*tourist*" is lacking strong social ties to the group and has a rather small or only contemporary interest in the topic; the "*mingler*" maintains strong social ties but is not really into the topic; the "*devotee*" on the contrary is highly involved with the topic but not very much related to the community. The "*insider*" is strongly associated with the community and highly involved in the topic. Devoted, enthusiastic, actively involved, and sophisticated user segments are represented in online social communities by insiders and devotees

7

(Fuller et al., 2004). As for the types of online social communities, Szmin et al. (2004) identified four possibilities of organising an online social community, which is depicted in Figure 1-1 as follows:

Figure 1-1 Four Possibilities of Organization for Online Social Community.

	Non-Profit Maximization Organization	**Profit Maximization Organization**
Dialogue Focused	Content focused (e.g. Help Group)	Customer focused (e.g. Value Exchange)
Information Focused	Hobby focused (e.g. Fan Club)	Vendor focused (e.g. Defence Organization)

Data source: Szmin et al., 2004

The "profit maximization organizations" can be customer or vendor focused, depending on the level of dialogue within the online social community. For instance, an online shopping community, such as the fans of Manchester United football club, is organized in a vendor focused online social community, while eBay is a customer focused online social community. More and more vendor focused communities are shifting to customer focused community, as the dialogue is facilitated within participants. The level of dialogue influences non-profit maximization organizations as well: the loyal fans of Harley-Davidson are a great example of "hobby focused" online social communities, while <www.childrenwithdiabetes.com> is an example of a "content

focused" online social community where people can find information about diabetes and help each other.

To provide further illustrative examples of what are online social communities, two of such are discussed as follows.

MySpace.com is an online social community that provides users with bandwidth and storage for them to publish their content, such as photos, music, videos, biographies, and more, on the Internet (Levy and Stone, 2006). The site is touted as a place for friends with over 70 million users. Users can build their network of friends, literally to the thousands, and share with others their content through web logs under diverse topics such as "Fashion, Style, Shopping," and "Food and Restaurants" (MySpace.com, Retrieved April 2, 2005).

As for Flickr.com, it is a platform where people can post and share their photos for others to search through. For example, if someone is looking to purchase a camera, the person could type in the terms "'Brand X' camera," and photos of camera along with comments made by the owner of those photos will be listed. The person who conducted the search can look through the different camera models available, and read some of the specifications and feedback from those who posted the photos.

Another scenario of how online social communities are reinventing ways for people to shop or purchase is as follows. Instead of visiting a traditional travel agency for information, someone who is looking to travel to the Rocky Mountains in Canada can now go to Flickr.com first. This online social community plays an intermediate role in the purchase decision process, as it is very likely that along with these trip-inspiring pictures of the mountains, tips, comments, and advertisements of tour operators could be

found with these photo postings. From other's recommendations on which tour operator is the best in leading tours to the Rockies, consumers make their choices on which company they ultimately purchase from. These are some examples on how online social communities and consumer generated content can facilitate the purchasing behaviour of products. On Flickr.com website, after a search of the "Rocky Mountains" for example, relevant advertisings are displayed to the right hand side of the screen.

The following grid in Figure 1-2 shows the different forms of online social communities, an evolution from the previously primitive Internet forums to the advanced chat and blog media vehicle. This paper looks through these diverse expressive media vehicles to determine if business value exists for companies to shift some of their control on marketing to let consumers determine what their offerings mean in the market.

Figure 1-2 Evolution of Online Media Vehicle.
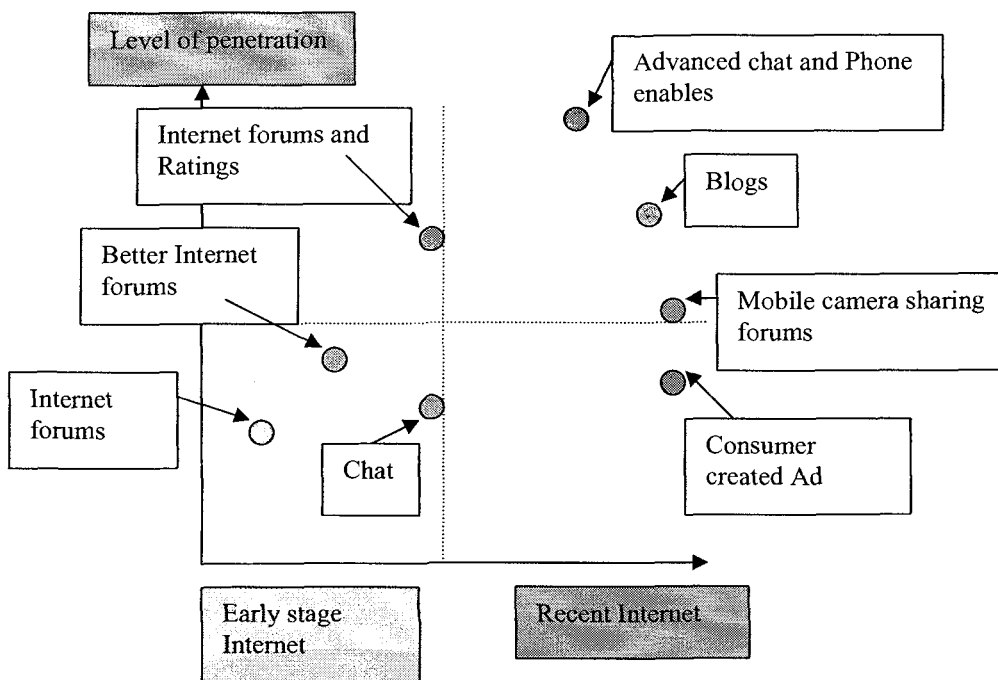
Data source: Blackshaw and Nazzaro, 2004

10

1.4 The Shift of Control to Consumers and Changes in Consumer Behaviour

"For the first time consumer is the boss, which is fascinatingly frightening, scary and terrifying, because everything we used to do, everything we used to know, will no longer work" - Kevin Roberts, Chief Executive, Saatchi and Saatchi (Markillie, 2005)

Ever since the 1990s, experts in the marketing field forecasted complex changes brought on by the Internet. Bakos, in 1991 pointed out that "with the introduction of the Internet, the power structure between buyers and sellers will shift in favour of buyers" (Rezabakhsh et al., 2006). Then, in 1994, Rust and Oliver predicted that "services offered over a public electronic network that includes video, image, text, and voice communications for home and office would significantly enhance the power of consumers by dramatically increasing the quantity and quality of information available to the consumer"(Rezabakhsh et al., 2006).

By the end of the decade, this shift was already a certainty. Even Bill Gates emphasized that "the biggest change that the Internet will bring is the shift in power from merchant to consumer" (Tapp, 2002).

One of the explanations is that consumers now have better access to information: they can make price/value comparisons quickly, acknowledge the myriad of alternatives, and have everything just a mouse click away. "Buyers are portrayed as having unprecedented power to avoid goods and services they do not want, shape those they do want to individual taste, and shop around for the best price-quality combination" (Shipman, 2001). As stated by Murphy, "information, as the adage goes, is power. When you know something, you have the ability to make a better choice" (Rezabakhsh et

11

al., 2006). All these different perspectives prove the autonomy and power that consumers exhibit these days.

Corporate entities, and marketing people who "seek to understand these consumers, to address their concerns without 'giving away the store,' and also to understand how best to take advantage of the many opportunities this new information media presents as a vast forum for direct sales and advertising," (Evans et. al, 2001) are significantly affected by the Internet. The influence of the net is not only on consumer groups.

Technology is just one side of the coin in the explanation for the transfer of power from companies/marketers/advertisers to consumers. More fundamentally, for many consumers, especially younger ones, brands have largely replaced social structures such as neighbourhood, tribe (group), or religion as the building blocks of identity (Solomon, 2005). People assign meaning to themselves and to others in large part by the constellations of product icons surrounding them: "consumers will want products that offer fulfilment, and that will include the sense that their life has meaning and significance. Brands that express ethical values will become popular precisely because they will help to make life meaningful" (Moynagh and Worsley, 2001).

More and more consumers are taking control of their lives. They are not passive recipients of advertising, manipulated into buying a product. Although an advertisement's power of suggestion still has a strong influence particularly for drawing people to familiar brands because they seem less risky, the scepticism of consumers on advertisings in general is growing. As stated in a Marketing Week (April 2006) article, "one hundred years of near 100% push media have generated an illusion of control

12

among advertisers." With an empowered customer, however, companies have to tailor their offerings and abandon the traditional approach of 'we will produce and market to you' to the modern one of 'tell us what you want, and we will create it for you'.

Consumers experienced these messages in the form of irrelevance, irritation, interruption, and intrusion. So when opportunities to block, skip or bypass messaging by searching for and accessing the information they really want arise, consumers seize them. Whether a TiVo, which allows people to skip commercials in TV programming, spam filters, or a web site like My Yahoo that enables users to assemble their own information mixes, people have increasing ability to let into their space only what they want. They decide on how, whether and when they would interact with advertising. What is amazing about the "new consumer sovereignty" in the Internet age is that factual customer power is primarily determined by individual consumer's motivation and activity, that is, only the active consumer is powerful. Passive consumers do not make use of the increased potential power that the Internet has brought" (Rezabakhsh et al., 2006).

Meanwhile, status quo pillars of market research, advertising, direct marketing, and Public Relations (PR) need to be reinvented to contribute to, rather than contradict, the new environment. "The traditional marketing paradigm needs to be augmented by pull dynamics rather than push" (Marketing Week, April 2006). Unfortunately, the industry did not move as quickly as consumers did, and the 20th century thinking is dealing with the 21st century consumer. Steve Heyer, until recently the CMO at Coca-Cola, claimed that the current models are "all broken and the time for change is now" (Cadell, 2005). Jim Stengel, the CMO of Procter and Gamble, gave the global communication industry a "C minus" in its approach to the marketing trends sweeping

13

the world (Cadell, 2005). Nothing seems to work anymore in the marketing field, there is

a state of turmoil (similar to the atmosphere before any storm). The numbers depicted in

Table 1-1, which are in US figures, are relevant to this discussion.

Table 1-1 Effectiveness of Traditional Marketing Media – In Numbers.

18 %	Proportion of TV advertising campaign generating positive ROI
54	Average return in sales (cents) for every $1 spent on advertising
256 %	The increase in TV advertising costs (CPM) in the past decade
84 %	Proportion of B2B marketing campaign resulting in falling sales
100 %	The increase needed in advertising spending to add 1-2% in sales
14 %	Proportion of people who trust advertising information
90 %	Proportion of people who can skip TV ads who do skip TV ads
80 %	Market share of video recorders with ad skipping technology in 2008
95 %	The failure rate for new product introductions
117	The number of prime time TV spots in 2002 needed to reach 80% of adult
3000	Number of advertising messages people are exposed to per day
56 %	Proportion of people who avoid buying products from companies who they think advertise too much
65 %	Proportion of people who believe that they are constantly bombarded with too much advertising
65 %	Proportion of people interested in technology or devices that would enable them to skip or block advertising

Data source: Kirby and Madsen, 2006

Consequently, marketers have to change something in their way of thinking and

in their Integrated Marketing Mix composition. Interactive business models are likely to

gain in importance in the future. Companies like eBay and Amazon fully understood this

and are between the world's most successful brands. More than that, until last year,

neither of these brands did any advertising. They really 'walk the talk,' allowing their customers to play with their brands, and by doing so, making them their own. While other brands talk about the era of consumer engagement, these companies are living it (Cadell, 2005).

As a side effect of this, customers' legitimate power will continue to increase because of their growing influence on products and prices. As Murphy stated, "we're witnessing the greatest transition of power in history, one that will take power away from the mightiest corporations and social institutions and give it to [...] consumers" (Rezabakhsh et al., 2006).

1.5 Reasons for Writing This Paper

Through the wide exposure of the latest trends in online activities such as blogging and participating in online social communities such as MySpace and Flickr, it is realized that this second "net boom" (Fortune magazine, April 2006) is having a great impact on businesses. Through the freedom and ease of consumers in creating their own content online, they now have significant power in shaping the images of any companies' offerings. As mentioned in the last section, an ongoing shift of control is occurring from the previously all-determining corporation (and marketing department) to consumers literally through their fingers and scroll mouse. A key reason for writing this paper is to provide a deeper understanding of this control revolution, and the significant impact on marketers from this change in consumer behaviour. Limited academic literature on this topic exists at this time, given the 'newness' of this area. This paper attempts to tie discussions in the popular media with current understanding of marketing theories, to shed light on what benefits and challenges should companies expect from shifting partial

control of the marketing function to customers. Generating recommendations that could

potentially modify well-accepted marketing principles so to adapt to this new form of

online media is also a goal of this paper.

This paper attempts to make two key contributions in the area of marketing:

1. Establish a background on the ongoing 'control revolution' as expressed
through the increasing consumer participation in online social
communities

2. Suggest actions on how firms should adapt and use these online social
communities to their advantages

1.6   Scope of the Paper

To develop depth and specific applicability of this investigation, this paper

focuses on industries with "exciting" product categories. The key reason for setting this

scope is due to matching the client profile of our sponsoring company, who is discussed

further in the next section. As a majority of clients who conduct business with our

sponsoring firm is in the "exciting" product industries, bringing in examples specific to

this area will enable better applicability for our sponsor to their business operation. The

question of how online social communities and the resulting consumer generated content

can help companies with "exciting" product offerings is addressed in this paper.

Products which are considered as "exciting" have meanings related to motion,

fun, innovation, and of course, excitement, associated with them. "Exciting" products

and services can also have the functions to satisfy social needs of consumers. That is,

such offerings can provide customers specific reasons to share with others their

experience, as exciting products usually make consumers feel that they are experiencing

something special. As defined by Keller (2003, p. 90), a product that is exciting also give

consumers the feeling of elation, of being cool, and of being energized. In contrast, products that are considered as "sincere" are usually linked with semantics of honesty, consideration, and sincerity in what they do. An example of this will be the greeting cards by Hallmark. Examples of industries that offer "exciting" products which will be discussed in this paper are the travelling industry, the performance automobile industry, and the beer industry.

1.7 Target Audience of This Paper

The investigation of this topic was initially posted by Blast Radius, which is the sponsoring company for this project. It is deemed that this study will provide the company with knowledge in the area of business which it operates in.

Blast Radius is a "customer experience innovation firm," where it "designs, delivers and optimizes innovative, profitable customer experiences for leading global brands" (Blast Radius website, Retrieved March 2006). In a nutshell, the firm is a business to business service provider, with three key stakeholders involved. Blast Radius (Stakeholder #1) aims to create for its client company (Stakeholder #2) an online presence that delivers superior customer experience to the end consumers (Stakeholder #3), who will then purchase from the client company (Stakeholder #2). As an example, Blast Radius had built a website for BMW which includes an online driving lab. This driving lab allows prospective customers of BMW to experience directly online what it feels like to drive a BMW. The ultimate goal of Blast Radius in developing websites and implementing other Internet technology for its client firms is to generate a positive impact on the client company's business value. Following the above example, it is

17

believed that by delivering a superior customer experience through the online driving lab, a positive influence in bottom line value will be realized by BMW.

Blast Radius recognizes that today's consumers have the freedom and ability to direct any company's offerings through the Internet and channels such as online social communities. They seek to understand more about this reversal of control by consumers and the mechanisms that enable this phenomenon, in order to offer their client firms new perspectives in conducting their marketing functions. The insights and recommendations arisen from this project can aid our sponsor in deciding on how it can best implement these online social community initiatives for their client firms. In addition, the findings from this paper can potentially support its business mantra by specifically addressing the question of what is the business value for firms to shift some of their control to consumers online.

Another group of target audience for this paper is the community of marketing specialists. Traditional marketing media such as television, radio, and print ads are decreasing in effectiveness due to a myriad of reasons. For one, it is shown that the general population is spending more time on the Internet. In the United States, those in the age cohort of 18 to 24 year-olds spend about 15.2 days a month online, while those in the 39 – 57 age cohort spend an average of 22.2 days a month online (Paul, 2003). From these statistics, eyeballs are shown to be sticking to computer monitors instead of to traditional media. It is also reasonable to assume that part of this time is spent at online social communities where consumers are creating their own content or reviewing what others have to say about products and services. What can marketers do to capture the attention of these consumers? How should companies react to the reality that they do not

have total control in shaping in customers' minds what their products stand for, given that anyone can now publish anything online? This paper aims to answer these questions and provide marketing managers with insights in this topic.

2 METHODOLOGY

This project was completed through knowledge and information synthesis from secondary research. Extensive literature review had been conducted to find the peer-reviewed articles and studies that support the existing notions in marketing. Book reviews on changing social trends have also been performed to provide insights on the up-rising control revolution. Given that the impact on marketing functions from online social communities and the business value of user-generated content are novel topics of interest at this time, not many studies have been performed in the academic arena specifically on these subjects. A majority of the secondary research is from journal articles found through business journal databases and online sources. This up-to-the-minute information allowed this paper to capture the trends of online social communities as they unfold in this fast-pace age of technology.

In writing this paper, the websites of the companies discussed were thoroughly researched on to derive the information necessary to support our analysis.

Primary research such as the use of survey or focus group was not used for this project. It does not suit the need of this paper as we believe that at this time, consumers are not yet fully aware of the online social community phenomenon and the potentially vast impact for the field of marketing. The approach of secondary research matched the requirement for this analysis. As the topic discussed is related to a new area of marketing, it is believed that the wide variety of information from popular media and other experts will shed insights on this dawning era of marketing to come.

3 LITERATURE REVIEW

3.1 Control Revolution

The Internet is changing everything. A myriad of writers acknowledged the impact of Internet on our lives, from a social, political, or purely business perspective. They associated these complex changes with the term "revolution" (deriving from Latin "*revolvere*"), which means to turn again. Other definitions include "a drastic and far-reaching change in ways of thinking and behaving" and "the overthrow of government by those who are governed" (<http://www.wordreference.com> Reference website, Retrieved May 2006).

This phenomenon is not only about revolutions in technology, communications, information, or digital. It is much more than that: "the real change set in motion by the Internet may be a control revolution - a transformation in who governs information, experience, and resources" (Nonprofit World magazine, 2001).

The first author who wrote about control revolution was Andrew Shapiro, who defined in 1999 the "control revolution" as "the potentially monumental shift in control from institutions to individuals made possible by new technology such as the Internet," and "the conflict over such change between individuals and powerful entities (governments, corporations, the media) and the unexpected, and not always desirable ways in which such change could reshape our lives" (Shapiro, 1999).

James Beniger (1986) places the origins of control revolution back in 1880s, because of "innovations as typewriters, desk telephones, punch-card data processors,

21

keyboard calculators, and mechanical analogue computers." Since then, it is argued that the revolution had further stages, especially because of the need to find controls at higher levels from the ever-increasing amount of information flow in communication and processing. Consequently, in the 1950s the concept of the information society was created as a result of the control revolution.

Analogies with a decentralized, democratized Eastern Europe between 1989 and 1991 are portrayed: the transition of technology to knowledge and from knowledge to power was similar with the transformation of societies from communism to democracy. Specifically, "the Net and other New Media are not just technologies of freedom, but tools of democracy"(Shapiro, 1999).

The 1995-2000 dot com boom followed by the 2001-2003 doom destroyed reputations, and left a sour taste and shacked the overall trust in the Internet. However, some companies in the industry kept dreaming up new ways to use the revolutionary technology. This new technical wave proves the power and persuasiveness of the Web, which has finally matured to the point where it can fulfil some of the outlandish promises that we heard in the '90s. Some authors even estimated that "the dot-com hype about Internet community was overblown, of course, but mostly because it was premature—not because it was wrong"(Marketing Management magazine, January/February 2006).

Today E-bay, YUB (social networking for discount shopping), Craiglist (finding your dream apartment, furniture and the job to pay it), Google Maps, Youtube (viewing videoclips), Flickr (sharing photos with friends), and MySpace (hip online hangout), are sites that make the Net hot again (Fortune Magazine, April 2006). This is what is called "the second revolution," or "Web 2.0" or "Boom 2.0." People go online, creating direct

and indirect relationships that enhance social integration and provides opportunities for social networking. Maybe the $580 million acquisition of MySpace (65 million users) by the news media mogul Rupert Murdoch (Fortune magazine, April 2006) proves that this is indeed a revolution, not just a fad.

3.1.1   The Psychology of Control

The desire for personal control is not surprising. "Control gives us satisfaction not only because it allows us to achieve gratifying outcomes, but because we are able to minimize anxiety that might be present if we were not in control" (Shapiro, 1999). People are more afraid of flying than are afraid of driving, even though all the statistical data prove that flying is safer. It is all about control; we do not like to give up control, and this psychological aspect is innate (to a higher or lesser extent) in each of us. The battle for control takes place everywhere: in business or social environments, at home, or even in our relationship to nature and spirituality. As Bill Gates correctly pointed out, he was drawn to computers as a child because "here was an enormous, expensive, grown-up machine and we, the kids, could control it; we could give this big machine orders and it would always obey" (Shapiro, 1999). As networks appeared and linked computers (individuals) from different geographical locations, the Net facilitated the transition from controlling a machine to potentially controlling someone else's life. As examples, an online donation can change the destiny of a child in need, and a negative word of mouth placed on a high-traffic opinion site can change the existence of a company. These are examples of individual actions which produced the online revolution.

3.1.2 The Power Concept Model

Based on a previous power concept model developed by French and Raven (1959), Rezabakhsh et al. (2006) created a whole new model, more relevant for the 21st century. Specifically, they propose a concept of power with three different sources: *expert power* (possession of information on quality and prices in markets, a condition which is usually characterized by a lack of transparency and information asymmetry between consumers and companies), *sanction power* (a mean of disciplining the firms' behaviour and thus avoiding the disregard of consumer interests), and *legitimate power* (designating consumers' abilities to directly influence marketing, especially product and price policy). Internet plays an important role for each of these forms of power.

As Hirschman stated in 1970, the consumer can sanction corporate behaviour by applying the positive sanction of "loyalty," and/or the negative sanctions of "exit" which is terminating a business relationship, and "voice," which is complaining or generating negative word-of-mouth (Rezabakhsh et. al., 2006).

Through "exit" (moving to competition) consumers can control corporate decision processes by making the company align its behaviour and products with the consumer's expectations and needs. "Voice" can affect corporate decision processes especially when complaints by consumers reach public attention and damage corporate reputation. In this case, the company is likely to try to meet the consumers' claims and demands. The larger the number of customers who exhibit either "exit" or "voice," the more likely it is to influence company behaviour.

In the old economy, the *expert power* was in the hands of companies. Consumers relied on biased information policy of companies, so they exclusively believed the companies' statements. In the new economy, because market transparency greatly

24

increased, consumers have more power so the company's expert power decreased. There is a condition though: the consumer has to be motivated enough to actively engage in information search, and to perform his own 'screening processes' between correct/incorrect or useful/irrelevant information. Otherwise, the expert power shifts to "intermediaries" (people who help in decision making process, in cases where choice is high and where detailed information is needed before making a decision – for example areas like tourism, financial services, and auto manufacture).

It is more obvious that consumers' *sanction power* have increased, as Internet facilitates both exit and voice. Exit is facilitated by the myriad of alternative companies that consumers are able to find online (the ease of switching), and voice is facilitated by word of mouth, or even word of mouse, where especially negative perception rapidly spread between connected consumers over the Internet. Negative connotations can also reach traditional media channels such as TV, radio, and newspaper, and can indirectly touch passive consumers as well. Figure 3-1 shows the ways people handle unpleasant experience and how they discipline a firm's behaviour when it disregards consumer interests.

Figure 3-1 How People Handle Unpleasant Experiences.

Figure 3-1 How People Handle Unpleasant Experiences.
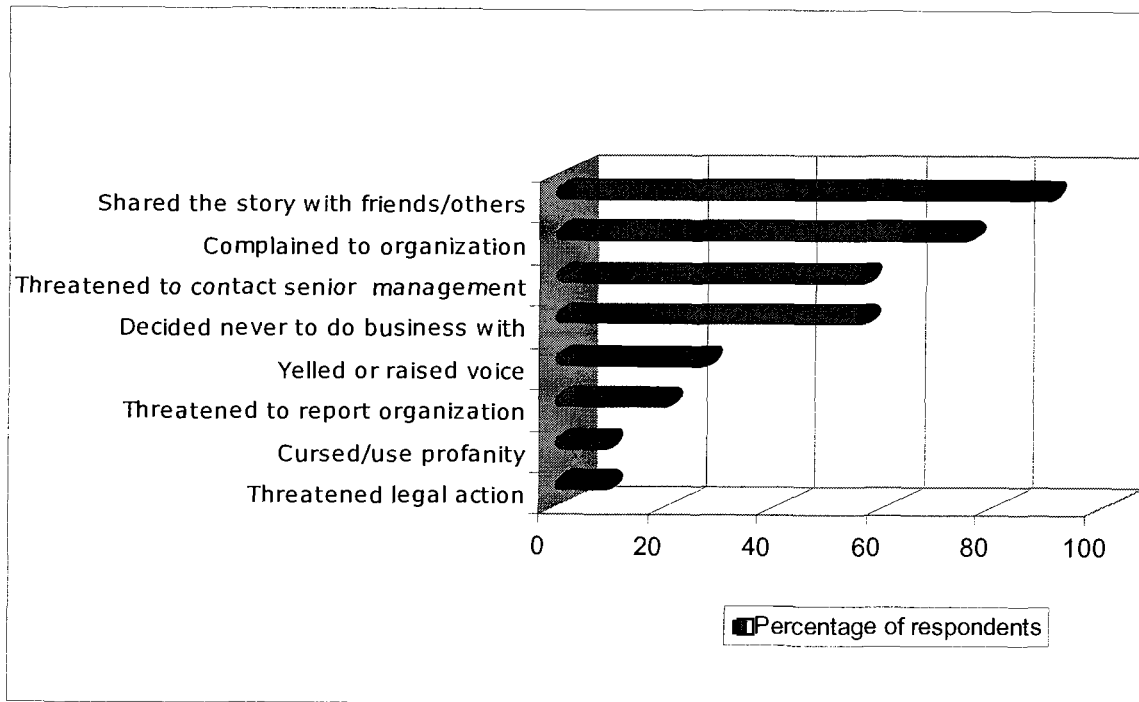
Data source: Consumer Care Alliance's 2003 customer rage research (Marketing Management magazine, November/December 2005)

Finally *legitimate power* for consumers increased as they play a more important role in the value chain, directly influencing product features or prices. Nintendo created a very successful game, based only on the collected information from customers through an online social community. Such activities also decrease the distance between customer needs and specifications of a company's products, which is a long-time goal of all marketers.

3.1.3 Tailoring the Experience

The new technology facilitated another trend: the move from mass production to mass customization. Statements such as "your mortgage and insurance made to fit you," and "we design a car that fits you like a glove", which is from the promotion of Volvo

launching a recent model in the USA with a million consumer options, are increasingly common (Moyanagh and Worseley, 2002).

Companies are trying to give consumers the ability to personalize their experience with the brand because they acknowledged the individuals' desire for control. Sites like MySpace, MyYahoo, MyAOL prove the attempt of companies to give their customer the power of experiencing their products/services/brands in the way they want. News (Newspage), clothes (Levi Strauss), running shoes (NikeID), services, and social spaces can be tailored and redefined for each and every customer.

Employment is changing as more and more people prefer to work remotely from home. As the number of daily hours in front of the computer increases, friendships and acquaintances will be formed online, instead of being structured by physical proximity. One can now spend more time communicating, sharing experiences with others online based on common interests rather than by family ties or geographical areas. An explanation of this online engagement is provided by Shapiro (1999): "because individuals are judged online mostly by what they say, virtual communities would appear to soften social barriers caused by age, race, gender, [...], gay and lesbian teenagers, political dissidents, and the disabled."

3.2 Implications of Online Social Communities for Firms

The empowerment of customer, as a direct result of the control revolution, has led to increasingly more people to socially interact, trade, establish relationships, or share resources on topics of their interest over the Internet. Online social communities enhance technological, social, and economical advancements. According to Ipsos-Reid's Canadian Internet Panel survey, in 2004 "almost 7 in 10 online Canadians have used the

27

Internet for social interactions like chatting online, playing computer games, or using an online dating service." For those between the ages of 18 to 35, the percentage is 8 in 10. Companies have to consider virtual shops, online distribution channels, or any interactive web presence whenever possible. A simple web page is not enough anymore. As increasingly more people are online, coupled with the mounting number of hours that they spend in front of computers, companies that choose to disregard this media vehicle actually choose to lose the game by not being present. These growing rates of online participation, along with the larger extent where these online social communities can be applied, have significant consequences from a marketer's point of view. As consumers have more sanction power (through exit and voice), their comments affect brand reputation and brand image in positive or negative ways. The raising trust on peer-to-peer information gave higher importance to word of mouth, as advices and recommendations from other consumers are trusted more than advices coming from commercially-interested parties (Blackshaw and Nazzaro, 2004). Companies can choose to adopt a collaborative approach to this shift of control or they can try to build resistance by finding ways to keep their strong habits of push marketing that were acquired from over one hundred years ago.

Another implication of online social communities' proliferation from the marketer's perspective is that markets (communities) are already behaviourally-segmented according to interests, passions, or admired brands. More than that, the customer value is not only about the expected profit from sales to that customer, but it also includes the customer network value, as the expected increase in sales to others (tied

in the same or different online social communities) that results from marketing to that customer.

At the same time, online social communities open a window to new and creative marketing research methods, as companies have now access to what is most valued and appreciated by their customers. An indirect implication is that competitors, too, have access to the same pool of information; so companies have to find methods to open the dialogue with the customers and simultaneously protect the important data from the prying eyes of competitors.

The major opportunity is to create, run, and develop communities in an appropriate and useful way in order to provide win-win solutions to all participants.

3.3 Benefits to Firms from Consumer Engagement in Online Social Communities

As commented by Donaton (2006), the habits of consumers are being changed by the participation in online social communities, and from this, the world of marketing will also be dramatically changed as consumers now define the role of advertising. Marketers are no longer in full control. The power will be relocated to the consumers, and organizations will be the ones forced to reinvent their business models in order to survive (Donaton, 2006). From the previous discussion establishing the control revolution and the impact from consumers being able to effortlessly generate their own content through online social communities, what are the benefits that companies can leverage? In this section, a detailed look at the benefits and advantages to firms from consumers' engagement in online social communities are explored.

One of the first benefits to companies is the online social communities' ability in attracting to the firms their ideal target segment. For example, when a consumer generated his or her own content on car reviews through a blog, others who are interested in the topic might join into the discussion and post their own comments. As awareness of the topic builds, so does the size of the group that participates in the discussion or read the content. If a company knows where its ideal target segment is interacting, it can strategically post advertising to these sites to raise interest in their products or services. Another benefit associated with this is the ability to build loyalty. Nissan, the car manufacturer, monitors a website created by a Nissan owner called Nissanclub.com. The site allows "Nissan buffs" to share information, pictures, and find spare parts for their adored cars. Nissan captures the benefit of identifying a location where Nissan car enthusiasts congregate and runs company advertising on the site (Fass, 2006). This enhances the ability to deliver its communications effectively to the intent target audience. In addition, the site served as a facilitation platform where consumers can talk about their interest, leading to growing intensity of loyalty.

Another benefit that companies should recognize that arises from online social communities is the higher level of trust by consumers on this media vehicle. From a study performed by Forrester/ Intelliseek Research (Blackshaw and Nazzaro, 2004), consumer postings and recommendations from other consumers are seen significantly more trustworthy than messages conveyed over traditional media like television and radio advertisings (as seen in Figure 3-2). Additional studies have shown that the younger generations who know since they are toddlers that marketing have an underlying motive are less willing to listen to advertising through traditional media (Riper, 2005). If

companies can get their message across through established online social communities,

they are deemed as more credible.

Figure 3-2 Perception of Trust over Diverse Forms of Media.
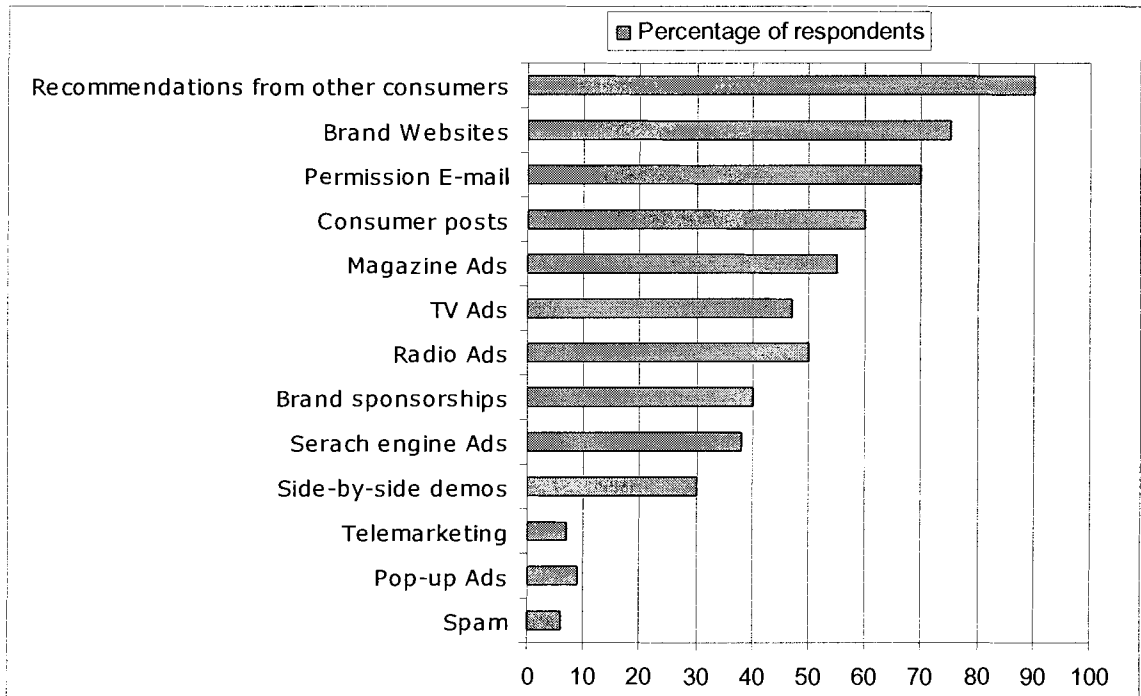
Data source: Blackshaw and Nazzaro, 2004

Encouraging customer engagement is another benefit that online social

communities excel in delivering. Through such widely used connectivity technology,

companies can potentially tap into ideas of thousands of consumers if the company

simply asks. As a reminder, a site such as MySpace.com touts a membership base of 70

million people. Not only can companies cost-effectively engage a large number of

consumers simultaneously, feedback generated from the consumers can potentially lead

to innovations of products and services. Consumers are good candidates as 'product

developers,' as they are the ones who ultimately purchase and consume the products. By

tailoring offerings that meet specifically the requirements of customers, the acceptance and purchase of these offerings will be increased.

Another obvious benefit is the ability to increase awareness and recognition of the firm through propagation of positive word of mouth through the community. A story goes as follow for a comic named Dane Cook who made himself famous by the use of MySpace.com. Started in late 2003, he avidly began posting his music and video appearances on MySpace.com. Successively, he built a network of about one million 'friends' and his music career spring boarded. Dane Cook later appeared on "Saturday Night Live" and produced a hit album (Levy and Stone, 2006). Through MySpace.com, he established a fan base even before any album is published and was made famous principally through word of mouth generated at the site. A company should attempt to translate this example into a business model for them to utilize online social communities in building their reputation.

Just like a weather forecaster, online social communities can provide companies with the foresight on the opportunities or threats to come. Sites such as Flickr.com are called "the eyes of the world" (Levy and Stone, 2006). Incidents have occurred that after a major news break, the first photos about the event were not sent to news agency, but posts on Flickr.com (Levy and Stone, 2006). It is possible that information on competitive offerings or shift in consumer tastes are also 'blogged' on to these sites. By observing consumer's postings of content as part of marketing research, companies might be able to identify information imperative to business operation and hence response with a quicker reaction time.

A concern that marketers might have from giving up control to consumers is the loss of containment of negative word of mouth should it occur in online social communities. However, such sites have shown the ability to cushion the firms by the self-correcting power of the masses. Carnival Cruise Line used the concept of social networking and launched a website that allows customers to share with others their experience on-board Carnival cruises. As stated by the director of Internet and database marketing at the cruise company, she feels nervous that people can voice anything they want without the firm having any control in what they say. In fact, one customer did post a comment along the line of "the cruise from hell" on its website (Fass, 2006). The self-correcting power of the masses was demonstrated, however, as other customers made on behalf of the company counterargument to this posting. "It kind of works itself out," as later commented by the director of Internet at Carnival Cruise Line (Fass, 2006).

Not only can user-generated content sites be of use for companies to acknowledge the thoughts and feedbacks from their consumers, sites like these can also facilitate communication within the organizations. Firms as they realize the value of listening to the voices of consumers have begun to implement similar initiatives internally. Corporate blogging are becoming popular for firms to capture comments from their own internal workforce. As most would agree, employees are not only agents for their companies, but are also consumers of the products and services offered by these companies. Employees due to their added dual perspectives can likely be the source of constructive feedbacks that can be highly beneficial in providing insights to a firm's overall strategy and operation. From an article by Baker (2006), "corporations are using (the method of blogging) to improve internal communications, reach out to suppliers, and

remake corporate Intranets." As an iconic example, McDonald's is realizing the potential

of corporate blogging and is running a pilot project testing the idea (McNamara, 2006).

Depending on the result, McDonald's might expand the use of blogs (that is, user-

generated content) by the 50 million customers it serves each day. As said by Robin

Hopper, CEO of iUpload which offers blogging technology for internal corporate

communication, "(such initiatives is) a tactic to empower a whole new level of authors in

or outside (of the) company" (McNamara, 2006).

Leading from the above discussion, some questions related to business value

naturally arise: what ultimate values are leading from these benefits? At the end of the

day, do customers purchase from these companies who utilize online social communities?

Does involvement in this media vehicle eventually increase sales or profit? Investing

online, the Return On Investment (ROI) can be exponentially increased, because of the

viral potential to spread information over the Internet. When a network is aimed at

broadcasting something of value to individuals, like a television network, its impact on

ROI is a linear function. When the network enables transaction between the individual

nodes, the impact on ROI is a squared function. When the same network includes ways

for the individuals to form groups, the impact on ROI is exponential (Rheingold, 2002).

Three company case examples are discussed in details in a subsequent section to

demonstrate the business values derived from online social communities. Before that, the

next section elaborates on the challenges and drawbacks for companies to implement

online social communities.

3.4 Challenges to Firms from Consumer Engagement in Online Social Communities

Are the impacts from online social communities as positive as they sound? Despite of the many benefits stated, a dark side also exists where companies should beware. First of all, people might not know exactly what they want, as many are likely not the experts in the subject. Hence, if companies straight-forwardly follow what the consumers post on these online social communities, they might be misled into creating something that is actually not to the best interest for both the company and the end consumers.

Negative impacts on companies could also arise if firms do not take caution when associating themselves to particular sites or blogs. Given the "unpredictable nature of user generated content" (Economist, 2006), a posting that starts off as a glowing reference for a company could turn negative in any instance. If a firm decides to fix its advertising to a particular blog category, it would mean damage to a firm's brand image and reputation should the conversation becomes harmful or attacks the firm. It is suggested by David Cohen, the executive VP at the ad agency firm Universal McCann, that firms should negotiate with the online social community sites for the ability to pull down ads quickly should any wrong turn in the user content occur (Economist, 2006).

In the area of research and development, one side of the camp argues that consumers are the best people in creating what they want. Another side of the argument states that any competitive advantage from the R&D process will be lost as competitors can now easily access the consumer feedbacks for particular companies over the publicly available online social communities.

Along with the above argument about exclusively using consumer feedback and content in the R&D process, relationships within the firm's employees could be soured. If a company believes that full control now belongs to the hands of consumers, what is the purpose for engineers and market researchers? These are the employees that used to have power in leading the course of the company and can demand resources to their departments. As more power is shifted to the consumers, less power is available for internal employees. Firms should recognize this potential challenge and fosters an organization culture that values highly both consumer feedback and employee advice.

Another drawback for companies on reliance of online social communities is the loss of control on negative word of mouth. The key source that makes this media vehicle so wildly popular is also the stem of problems for organizations. Users can post and discuss anything they want on these online social communities. Currently, not many of such sites actively screen through the content posted to prevent inappropriate material from appearing to the public. Particularly for firms that attempt to initiate their own online social communities, they should be highly aware of the available mechanisms that help them manage the site well. As an example on how immense this potential drawback is, the TV network ABC, has suggested without formal evidence that MySpace.com was a facilitation ground for terrorism as the al-Qaeda may have used it to communicate (Economist, 2006). To uphold the safety of use at MySpace.com, the company recently hired a chief security officer to prevent inappropriate use of the site by inappropriate parties (Calburn, 2006).

Involving with online social communities can be a double edged sword. The precise benefits of allowing consumers to contribute any thoughts and feedbacks to the

company can in fact become an open invitation to damaging acts by ill-intended

consumers. General Motors had launched an online contest that "invited consumers to

make their own (Chevy) Tahoe commercials" (Donaton, 2006). What was intended to

generate interest and engagement in prospective and existing Chevy customers became

an opportunity for people to protest their dislikes. Many short videos which mock the

huge gas consumption of the Chevy were posted on the site. "Several of the

advertisements attacked the sport utility vehicle as a gas guzzler, a contributor to global

warming and a warmonger" (Oser, 2006). Firms who implement their own online social

communities should realize the potential magnitude of these risks, and be anticipated to

receive negative comments that arise from such two-way communication.

Companies who decided to create their own online social community might claim

that users will be fully empowered to share their thoughts, photos, video, and the like to

others. However, if this is only an illusion of control and consumers discovered,

retaliation might occur. If companies try to touch up on the negative comments made by

consumers, or as said by the director of interactive marketing for Nissan North America,

Stephen Kerho, if companies try to "corporatize these consumer-generated content sites,"

the sites will not be seen as credible (Fass, 2006).

Last but not least, controversies are starting to heat up regarding the use of this

media. Some consumers are beginning to be concerned with their loss of privacy over

these online social communities. The U.S. Justice Department states that "anything

posted online is in the public domain" (Romano, 2006). With new ways for police to

conduct investigations on crimes, such as screening through the blogs at these social

communities, concerns are being raised from alarmed privacy advocates. They worry

that information on 'suspects' will be collected even before any wrong-doing has been committed (Romano, 2006). This implies a 'big brother' approach in that a certain group of people will have full knowledge of any person in the United States. Leading from these controversies, companies' level of integrity might be jeopardized if their online social communities are viewed by consumers as sites with little protection of privacy.

In the next section, we investigated three companies who have implemented their own online social communities. How these companies magnified the benefits associated with this media and some of the challenges they faced are to be demonstrated.

4 COMPANY CASE EXAMPLES

Through the literature review, the ongoing control revolution has been

established. Many of the benefits and challenges discussed were specifically applicable

to firms in the "exciting" industry, such as Nissan (performance vehicle as expressed by

the familiar commercial slogan 'zoom zoom'), Carnival Cruise Line (travelling and

leisure tour operator), and McDonald's (leader in the fast food industry). In this section,

company case examples are presented which belong to three "exciting" industries:

travelling, performance automobile, and beer. Once again, the "exciting" industry is the

focus of this paper as most of the clients of our sponsor's company are businesses

operating in the "exciting" industries. By selecting examples that closely match the client

profile of Blast Radius, this paper will enable our sponsor to better apply the knowledge

from these real-life cases to work with its clients.

4.1 Carnival Cruise Lines

The travelling industry can be considered as one of the most 'exciting' industries

around. Exploring far off places, realizing a dream to visit an exotic location, or enjoying

an experience of a life time, are the many promises projected by companies who operate

in this industry. Specifically, indication has shown that as more baby boomers approach

their retirement and have more free time on their hands, the travelling industry will

continue to grow in the upcoming years (Moschis et. al., 2000, p. 9). Travel agencies,

hotels, popular travel transportations such as airlines, tour buses, and cruises, will all

benefit from this anticipated surge in the demand to travel. It is projected that as this industry expands, competitions will increase as companies attempt to enter the market to gain a share in this lucrative industry. How should a particular company differentiate itself from existing competitors and new entries in attracting this baby boomer segment? Those who succeed and capture the attention of a large portion of the market will enjoy growing this segment into a loyal customer base. Others who fail in raising their awareness might see a high turnover of customers and eventual dwindling of sales figure.

Looking to differentiate online is a feasible strategy for any travelling-related companies to consider, especially those who target the baby boomer segment. It is found that an increasing number of boomers are going online to research for travel information and actually to book trips online. Interestingly enough, the reason for this might be to avoid the stereotypical treatment of being at a travel agency being treated as seniors and reading brochures that are targeted to senior people (Dennis, 2003). When online, they can be more at ease and not necessarily have their travelling preference be defined by age. A study conducted in the United Kingdom found that of those age 50 and over surveyed, only 24% book their trips through a travel agent, while a majority book through online. Seventy-nine percent of those surveyed also indicated that they take two or more holidays a year (Dennis, 2003). Given these findings, they translate to mean that a huge amount of business transactions for this industry are increasingly being conducted over the Internet.

Carnival Cruise Lines is one of the first cruise ship companies that recognize the trend of increasing consumer interaction online. It is capturing the opportunity of the growing travelling industry by utilizing the mechanism of an online social community.

The company created the website <www.CarnivalConnections.com> at the beginning of 2006 "to make it easy for cruise fans to encourage others to set out to sea" (Fass, 2006). Cruise fans first register themselves on the site. They then have the ability to plan group trips and send email invitations out to their networks of family and friends. These invitations also have the potential to snowball as they can be forwarded to others parties. A customer of Carnival Cruise Lines commented that she is using the site to invite twenty of her friends to join her on a seven-day cruise to Mexico, and it is proving to be an effective way to organize such group cruise as already 24 people signed up. In addition to the ability to send out invitations to a network of people, consumers can read notes on travel plans posted by other users and also to share their insights. On the CarnivalConnections.com website, consumers can create cruise trip invitations with a help of the tutorial page.

What are the bottom line figures for Carnival Cruise Lines in initiating this online social community? Of the 13,000 users who registered, over 15% have planned trips on the twenty-two ships owned by the company for the next 18-month period (Fass, 2006). The company expects to reap revenue of about US$1.6 million from this channel alone. Although the figure seems small, the yield from investment is sound. The marketing cost in setting up this online social community is estimated at about US $300,000. It has almost been six months since the introduction of this site, and the company did not yet have to spend any money on promotion (Fass, 2006). As a benchmark, recent figures by Kirby and Madsen (2006) found that the average return in sales for every US $1 spent on advertising is only US $0.54, and that only 18% of television advertising campaigns in

fact generated positive ROI (Please refer to Table 1-1). Compared to these statistics, the achievement by Carnival Cruise Lines is respectable.

Some of the benefits realized by Carnival Cruise Lines through this online initiative are:

- Increased awareness of the company through word-of-mouth effect from email invitations

- Increased involvement of customers by giving them the ability to plan their trips and share their experience with others on the site

- Strengthen relationship between the customer and the company through their online interaction

- Gave the company the ability to project sales up to the next cruise ship season (the next 18 months)

- Enabled the company to better allocate resources and logistics of cruise ship with the advance information on popularity of selected cruise line and location

- Gave the company the ability to capture information on consumer wants and needs, leading to better customization and improvements to its offering

- Potentially increased the confidence of investors in this publicly traded company, given the ability to project earnings several quarters into the future which demonstrates stability in the operation of the firm

Some of the potential drawbacks and limitations from this initiative are presented as follows.

- Despite of the use of software that replaces certain hot-button words that appear in online exchanges, intentional typos of words, or something even more serious such as defamatory remarks, could appear on the site (Fass, 2006).

- Consumers are empowered to say it as it is, with no control of the company. One customer posted a comment on the site about her recent cruise experience that reads "truly the cruise from hell" (Fass, 2006).

- Online registration and responses from invitations might not be accurate indicators of the actual number of paying cruise ship customers. A discount on the conversion rate from online registrant to trip planner to respondent to actual paying customer should be taken when interpreting these values.

4.2 Audi AG

Audi AG is a very well known car manufacturer, with loyal enthusiasts and admirers all over the world. Web pages, clubs, newsgroups, blogs, and other virtual automobile-related communities exist for customers and are created by customers. Audi is a good example of an 'exciting' product to explain one of the main benefits of online social communities: involving customers in product development process.

To benefit from savvy automobile consumers with know-how and high-interest in automobile, Audi AG used the Community Based Innovation (CBI) method to develop the Infotainment system for its vehicles. "These systems integrate state of the art communication and entertainment technologies in the domains of audio, video, navigation, telematics, and user interfaces to an Infotainment system in the car" (Fuller et al., 2004). This method can successfully be applied elsewhere, as customer-oriented products are a "sine qua non" (Latin for "without which it could not be") condition in competitive markets.

Audi's brand perceptions are innovation, quality, and reliability. These characteristics make R&D, design, and product specification important components of the company's strategy. However, in the automobile market, with so many product introductions even within the same manufacturer, it is getting increasingly difficult to distinguish from competitors. Seizing the existing trend of sharing experiences online, Audi wanted to collect information about customers and their expectations through a

cheaper and more innovative approach compared to surveys, focus groups, and other traditional methods. The company further recognizes that dialogue with customers is also useful for finding information about competition, trends, insights, and consumer acceptance. Consequently, they created a Virtual Lab meant to provide a wonderful 50 minutes customer experience. Please see Figure 4-1 for the display of the virtual lab.

Figure 4-1 The Virtual Lab to Integrate Infotainment Users in NPD.
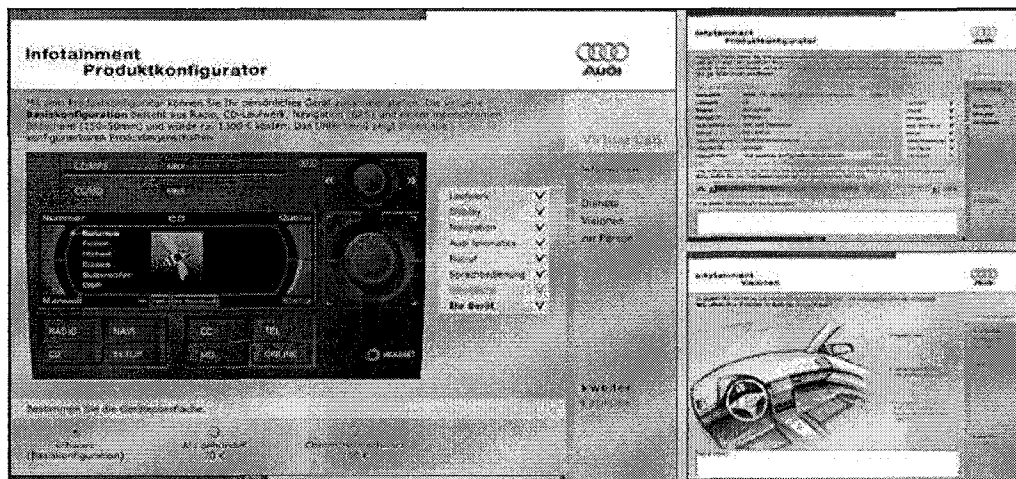
Source: © 2004 Fuller et. al., by permission.

Different consumer groups with different degrees of innovativeness were taken into account for this experiment. During a period of three weeks, each fifteenth visitor of Audi's web page was invited to participate through a very interactive pop-up window. Subscribers of the "Product and Technology" newsletter were recruited at the same time to be considered as the second pool of participants for the experiment. A control group formed by general Audi car owners was also put into place to determine whether there are any effects from use of the different recruiting methods.

The contribution of each consumer was carefully analyzed and compared with characteristics and attributes previously determined as related to different user groups.

At the end of the experiment, 9.4% of participants are identified as early adopters, 73.3% as routine users, and 15.3% as highly innovative insiders (Fuller et al., 2004).

Based on the community innovation system model, the steps depicted in Figure 4-2 were taken.

Figure 4-2 Steps in Community Innovation System Model.
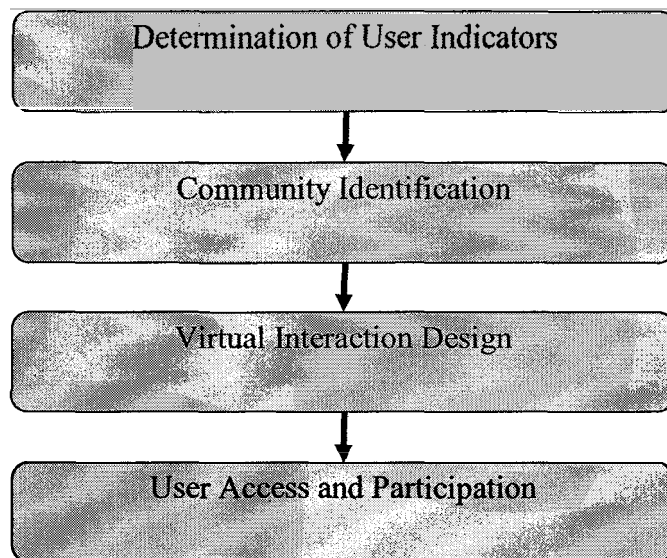
Data source: Fuller et. al., 2004

Step 1 – Determination of user indicators: Consumer groups with different levels of innovative skills were considered as collaborators when developing the Infotainment system. *Highly innovative insiders* were intended to provide valuable inspiration. *Early adopters* of high-end infotainment systems including functionalities like navigation, telematics, and voice control were intended to give input for creating variations on virtual product concepts and evaluating recently launched telematics offerings. *Frequent users* in the low-end segment would give insights into the weaknesses of current product performance as a starting point for improvements to the next generation of systems. Thus

45

the Virtual Lab included different development tasks emphasising different attributes of online consumer groups (Fuller et al., 2004).

Step 2 – Community identification: Next, online social communities with the required consumers had to be found. The Audi homepage was used as an online setting where all the various consumer types mentioned in the previous step could be solicited. Additionally, the Audi newsletter was used for the identification of potential participants. During the identification phase, a large number of external websites were also scouted. Car enthusiasts frequent sites such as <www.autobild.de>, <www.autospiegel.com>, and <www.auto-motor-und-sport.de>. Audi fans in particular meet at <www.tt-owners-club.de>, <rec.autos.vw>, <alt.autos.audi>, <www.audiworld.com> and <www.autoguide.net/clubs/audiclubs.html>. In the field of advanced electronics sites, like <www.zdnet.de>, <www.heise.de> and <www.chip-online.de> turned out to be meeting places for other interested consumers (Fuller et al, 2004).

Step 3 - Virtual interaction design: The pleasant experience offered to participants included: exclusive information provided on Infotainment systems, presentation of upcoming entirely new designs as well as multimedia experience facilitated by Flash programs. No money or other incentives were offered to participants. An introductory text welcomed participants, with the message that they are all co-creators of the new Infotainment system. All participants were encouraged to create the prototype for the Infotainment system, no matter how bizarre the outcome was. Then they evaluated previously launched and further considered Audi telematics services presented in varying usage situations.

Step 4 – User access and participation: Every fifteenth visitor on the Audi homepage was invited to participate, through a pop-up. The Newsletter subscribers were recruited separately. An easily visible invitation to take part in the Virtual Lab was placed in the header of the monthly edition. The message for both approaches was "Participate and Design Your Own Telematic System." A controlled group consisting in Audi car buyers who picked up their car directly at the Audi Customer Center in Ingolstadt was used to measure the potential of different recruiting methods.

Results: A total of 1,662 consumers (average age of 33 years old, 96% males, 4% females), participated in the Virtual Lab. Participants designed their own individual Infotainment consoles, thereby supporting the development team in the selection of the most preferred product configurations. In addition, they ranked the already designated telematic services and gave indications about created consumer value and application frequency. The participants expressed 219 service ideas, gave 261 comments on the console, and contributed 728 visions of future cars. The cost of this project was considerably lower than the cost of a focus group, which usually runs between $5,000 and $10,000. From a consumer perspective, the interaction was also perceived a success, as approximately 80% of participants wanted to take part in future virtual development projects not restricted to infotainment systems (Fuller et al., 2004).

The benefits of Community Based Innovation (CBI) method for Audi are as follows.

- Reduced failure rate of new product introductions
- Lowered expenses on marketing research (i.e. on focus groups and surveys)

- Sped up the innovation process, along with making it more interactive and approachable by customers

- Provided ways to find out about trends and information about competitors

- Improved the relationship with customers, and provided a deeper customer understanding

- Created buzz for the new product in the target market

Some limitations experienced by Audi through implementation of this method are as follows.

- The requirement to carefully select the participants, as some knowledge and skills are necessary.

- Consumer contributions may differ from the target customer's needs or can be higher than the company's current capabilities.

- Potentially provided information to competition as competitors can now easily become one of the 'participants' on these online social communities and gather ideas on what the firm is implementing with its R&D.

- Some customers can be frustrated when their recommendations are not followed.

4.3 Guinness Beer

The most popular Irish stout is Guinness, with a market share of 80% of the global stout market). The company employs 12,400 employees, brews the beer in more than 50 countries, and sells it in more than 150 countries (Guinness Website, Retrieved May 2006 from <www.guinntiques.com/guinness_today>).

However, with the fragmented media and the tough competition on the beer market, maintaining the position is not easy. Trying to market its products to the much disputed gay and lesbian market, which has an estimated value of $515 billion, Guinness produced a TV spot that targeted these communities. Even before the airing, the

commercial created a scandal especially in the UK mass-media. Pubs and consumers as

well were shocked that the traditional brand would create a gay ad. Fearing greater

backlash by straight consumers, the TV spot was ultimately dropped by Guinness (The

V7 Network Web page, Retrieved May 2006 from <www.v7n.com/gay.php>). To add to

this ordeal, Guinness lost money with the banning of many of its TV ads around the

world due to tightened alcohol regulations. Furthermore, Guinness' revenue arises not

only from beer distribution but also from sales of promotional products like T-shirts,

bottle openers, glasses, and key rings. Although Guinness consumers are spread all over

the world, establishing a chain of retail stores would be challenging to implement with

the difficulties in reaching agreements with different resellers around the globe. Hence,

deemed as the most suitable distribution channel, this is why sales of Guinness

promotional products are usually linked to sports and other event sponsorships. The

resulting revenues from sales of promotional products were unsatisfactory due mainly to

this limited channel.

Despite these incidents, however, the company proved that it understood the

power of online consumers by shifting its marketing tactics to develop an online social

community. As a brand, Guinness enjoys positive, highly emotional customer

perceptions. This has produced a mass of enthusiastic admirers and loyal customers.

Guinness has created for these consumers an online social community where they can

share their overall experience with the brand, talk about previous visits to the brewery in

Dublin, or discuss about traditions such as the ritual of needing to serve the product in a

particular way, in a specific glass, and with the perfect level of foam (Flavian and

Guinaliu, 2005). The company had also implemented a virtual store front

49

<www.guinness-webstore.com> to sell its promotional products in addition to designing

a web site for the most loyal customers of the brand <www.guinnteques.com>.

Through this strategy, Guinness matched its promotional products with a much

targeted customer base. It facilitated the meeting between loyal consumers and the

products they needed. More than that, the site is a meeting point for diverse customers, a

good medium to exchange products, and a platform where the members can access

banned advertising spots or read about Guinness news.

Results and benefits of this online initiative are as follows.

- The brand is closer to its customers, showing them that Guinness understands their needs (increased emotional link).

- Increased brand commitment and distribution channel differentiation

- Facilitated market segmentation with low promotional costs

- Resulted in higher sales for Guinness articles as they can not be found distributed from outside the Internet

- Created a community and a sense of belonging for customers

- Generated cross-selling opportunities, giving the loyal customers the possibility to acquire a larger palette of Guinness products

- Increased brand image, brand awareness, and significantly lower costs

- Matched the right market segment (loyal customers) with their needed products (Guinness T-shirts, open bottlers, etc)

- Generate future possible income from advertising in Guinness' virtual communities by other entities, such as a football club or a car manufacturer, who especially hold similar brand perceptions as Guinness beer.

- Created an information source to develop new products and craft strategic decisions based on customer input

- Increased security and trust, as communities create a climate of security based on reputation

Limitations of this online initiative are as follows.

- Members of online social communities may be not as receptive to advertising from other brands.

- The trust for brand communities (those created by corporations for commercial purposes) is lower than the trust for third party online social communities which are created 100% by consumers

5 RECOMMENDATIONS

The growth in consumer power has social, psychological, and even political implications. Specifically, we will place emphasis on what marketers should do in reaction to this control revolution and how they can maximize the benefits that result from implementing these online social communities. One of the major recommendations that derived from this paper is for marketers to take action and to encourage the implementations of online social communities. These recommendations are not only made for Blast Radius and its new and existing clients, but also for companies who decide to implement a proactive instead of reactive marketing strategy.

Instead of defending the old notion of corporations having power and control, marketers can have a more co-operative approach and try to build up trust with customers. The negative comments posted by customers should not be taken as attacks, but as useful feedback. Companies should listen to the voice of consumers in order to create better products and services and therefore entice consumer purchase.

Connected and experiential marketing have to be on the agenda of any savvy marketing professional today, as building reputation online is a more trustworthy way of increasing brand recognition, brand awareness, and consequently brand loyalty. Connected marketing is an umbrella term for all viral, buzz, and word of mouth marketing techniques that a company uses, to harness connectivity between consumers and employees, tapping into that powerful media to drive demand and business growth (Kirby and Mardsen, 2006). Experiential marketing refers to actual consumer

experiences with a brand/product/company to drive sales and increase brand awareness

(Lenderman, 2006). Both marketing techniques base their effectiveness on the rise of

peer-to-peer trust.

In the first place, companies have to invest in creating the technological

infrastructure for an open dialogue with the online customers. When people of all ages

spend more and more hours online, companies can not risk not being there. Data mining

techniques and efficient software programs should be explored, in order to better filter

and monitor user-generated content posted online. For example, it will be highly useful if

companies can identify through specific online social communities that X% of customers

were in favour of a new brand, Y% were against, and Z% did not have any opinion.

From this, companies will have fresh information about their products, about their

competitor's products, and about their customers' needs.

Companies can begin with a communication forum or a blog added to their

website, which will initiate customer interaction, and will give consumers the opportunity

to build a community at their own pace. It is projected that in a few years companies will

better understand this shift in control phenomenon and will gain expertise in managing

word of mouth marketing, along with gaining early mover advantage over those who

adapte too late. When companies do not know how to deal with negative word of mouth,

they can destroy in days what they built in years with traditional marketing. However,

when companies understand the management of negative word of mouth over online

social communities sooner, it is easier for them to mitigate such situations before

anything negative starts to propagate. This is why companies who have implemented

online social communities are deemed closer to customers and can make decisions more quickly.

When using online social communities to market products, marketers should find the customers with the highest network value, such as e-fluentials, influential gate-keepers, and diffusers of information inside online social communities. People are more likely to open and read company, brand, or product information when it was forwarded by someone they trust. Because of the networking effect, advertising to one customer can be the same as advertising to 10,000 individual customers. When using online social communities as sources of information for product innovation, companies have to know which specific type of customer to seek input from when deciding on different aspect of product development. That is, know who are the 'experts,' know which segment with their skills will be better suited at providing insights for which area of product development (such as in the Audi example with differentiation between participants in the lower-end segment versus early adopters who are considered as inspiration leaders). In addition to the above recommendations, companies have to find ways to keep private information away from competitors.

Furthermore to using customer's feedback as information resources, employees from both within and outside the R&D department are also great pools of innovation if they are given the autonomy to contribute their input over a set up of online social community. From this, marketers can potentially find answers that reflect both perspectives on any given situations. This will increase the likelihood for launching successful offerings instead of throwing money on new product failures.

Companies should use advertising to attract people to online social communities. However, the messages have to emphasise that the customer is in control in order to gain credibility: "control your movie experience with video on demand" - says a Shaw commercial. The overall advertising expenditures and marketing research techniques have to be reconsidered, as online social communities represent a more realistic sample of a company's target market.

We highlighted in this paper the importance of online social communities for companies with "exciting" products. However, as progressively more people participate in online social communities, in a few years all companies have to take this step. We do not advice marketers to cut all the advertising and PR budgets and invest solely in online social community initiatives. What we suggest is to change the percentage allocated to each component of the marketing mix, and gradually increase the focus on building online social communities. McDonald's, a company that heavily uses traditional marketing channels such as TV, radio, and billboards, is reconsidering its marketing mix and its approach by exploring the use of blogs, forums and other consumer-generated content.

Brand managers should exercise the benefits of online social communities for rejuvenation techniques or to realign the brand associations with the new needs of consumers. Sometimes consumers tend to think of a brand in very narrow ways, such as the possibility of people thinking that chewing gum is only good for refreshing breath. Through online social communities, marketers can establish dialogue with customers to communicate about new ways of expanding the usages of their brand and product. For example, Wrigley can expand the usage of its chewing gum starting with the catch phrase

of "Wrigley's chewing gum not only refreshes your breath, but it can also be a substitute for smoking." When the company advertises this on a 'how to quit smoking' online social community, the positive influence in sales is almost certain. Another example would be an orange juice brand which used to target older consumers by highlighting its high vitamin C content. This company can consider rejuvenating its image by creating an online videogame contest for teenagers to compete with each other, which can add the "cool" factor to the existing brand associations of orange juice. Bolstering fading associations, neutralizing negative associations, and creating new associations are all revitalization brand strategies (Keller, 2003) and can be exercised using online social communities.

6 LIMITATIONS AND CONSIDERATIONS FOR FURTHER RESEARCH

This paper attempted to shed insights on the rising control revolution, increasing popularity of online social communities, and the benefits and challenges companies should be aware of with this new form of marketing media. The value that can be derived from the use of online social communities for companies offering "exciting" product categories have been established through three company case examples. From knowledge generated from the literature review and case examples, recommendations specific to our sponsoring firm and to marketing specialists are provided on how they should approach the implementation of online social communities. In this section, the limitations of our project are discussed, along with ideas and rationale for future research that can address each of the limitations within this paper. The organization of this section is by topic of limitation, followed by ideas on what future research can be conducted, and the supports on why such research will be effective in addressing the stated limitation.

The first limitation of this project is that the types of user-generated content over online social communities are not differentiated in this paper. We have treated all content from these communities as equivalent in value. However, it could be possible that different types of content have varying levels of impact on firms. Further investigations on the specific types of content that prove to be more valuable to a company should be conducted. In addition, exploration into developing more advanced technical and data mining methods in scanning, monitoring, and deciphering contents

from online social communities should also be considered to derive the maximum value from the most worthy content.

The second limitation of this paper is that it focuses on the past evolution, current trend of the changing consumer behaviour, and online social communities. It does not speculate on what is to come in the future. As beginner Internet surfers use e-mail, chat, dating, and other simpler functions, and experts use more sophisticated functions such as subject-oriented user generated content sites (such as specific to health, business, or educational topics), further research should anticipate the gradual development on the usage of online social communities. Only by staying close to evolving customer needs will a company be able to provide cross-selling opportunities using online social communities. An example of this gradual usage development and a proof for the need to engage in such research topic can be demonstrated through Shaw Cable. Shaw's online social community can potentially migrate from cable, broadband, to video on demand topics. The company should recognize this development and proactively provide detailed information about VOIP telephony for market education purposes, or a 24/7 customer service system to provide answers to any questions on this new technology.

The third limitation is that this project has not explicitly stated the monetary gain in value for firms who engage in online social communities initiatives. This is due to the newness of this topic and that not many experimental studies have been conducted to study the dollar value generated on these implementations. Through the investigation of this project, however, insights have been generated to post two further questions that should be addressed by future research:

1. What is the probability of successful increase in business values for companies who engage in online social communities?

2. At exactly what level should companies expect to see the impact on bottom line financial performance and return on investment from involvement in online social communities?

Once again, as companies and respectively marketers are just realizing the power of shifting some control to consumers and the resulting exponential gain (as discussed in the 'Benefits' section), not enough empirical data is available to directly address the above questions. At this time, the business value for companies who gave control to consumers by getting involved in user-generated content sites is implied through other business benefits. What is the value of an increase in awareness and recognition? Something like this is hard to put a number on, and in fact is still one of the most widely debated topics in marketing. Benefits that arisen from lowered costs in research and development due to involvement of consumers through online social communities can be more easily defined given that this factor is measurable. It is recommended that, to find the answers to the above two questions, future research should consider the following.

- Design a project that is wide in scope, and collect information on at least 30 companies who have implemented their own online social communities or are involved in any initiatives with user-generated content sites.

- Determine the percentage of companies who are experiencing a positive gain in business value. This will provide a preliminary estimate on the probability of companies who will experience an increase in their value through use of online social communities.

- Segment these companies based on their market capitalizations or annual revenue figures. In each segment, determine the return on investment from implementation of online social communities. This can be accomplished by first performing a benefit and cost analysis on the implementation, then comparing the resulting positive in tangible benefit or negative in expenses to another marketing campaign that the company conducted in the past. Assuming that performance of existing marketing campaigns were tracked and that the returns on investment on them were measured, this comparison with the online social community initiatives will provide an indirect measure of its return on investment for the firm.

- Once the returns on investment from implementation of online social communities were calculated for all companies that belong to each of the segmented group (which is based on market capitalization or annual revenue figures), an average ROI for each segment can be calculated. This can provide a benchmark, or a relative guideline, for companies to determine the impact on bottom line financial performance from involvement in online social communities

Another research that can be considered in the future to address the question of online social communities' value to a firm's bottom line financials can be explored through an experiment. It would be most fascinating if the business value of user-generated content sites can be proven empirically through a controlled implementation of a new online social community. A company who have decided to create its own community should first document and track its financial performance indicators (may it be revenue, net profit, or others) over a period of time depending on its reporting cycle (quarterly or semi-annually). Once development of online social community takes place, all tangible and intangible costs incurred along the process should be documented. When the community is launched, accurately measure the active effort in managing or promoting the site. This way any change in subsequent financial performance can be attributed to certain activities taken. Track the company's financial performance indicators over a period of time, and evaluate these against the initial measures before the implementation of the online social communities. As it is aware that all activities should be controlled and accounted for which occurred between the initial measure and after the launch of the site at the end of the measurement period, the company can empirically evaluate any changes in financial performance. The change in financial performance is the business value derived from the implementation of an online social community.

A final significant limitation in this paper is limiting the scope of this project to focus only on companies with "exciting" product categories. Future project should

conduct a similar secondary research on the impact of involvement in user-generated

content sites for companies with other product categories. For example, do the benefits

and challenges mentioned in this project equally apply to companies who offer "sincere"

product categories? Is it possible that consumers behave differently when purchasing

"sincere" products, such as Hallmark cards, than when they consume "exciting" products,

hence a difference in the type of content, if at all, they generated on these communities?

Further research in this area will complete the whole circle on establishing the impact of

online social communities across different industries.

7 SUMMARY

With the speedily increasing popularity of online social communities, companies

are in a tough position to learn quickly about new changes in consumer behaviour and to

ensure sustainability of operation through adaptation. The four key objectives of this

project were to:

- Establish the existence of the "control revolution"

- Investigate the advantages and challenges of online social communities

- Provide recommendations for marketers to respond and maximize the benefits
  from consumer's involvement in online social communities through three case
  examples that specifically apply to industries with "exciting" product categories

- Recommend further research in the realm of online social communities

A detailed investigation on this topic resulted in findings that satisfied the above

objectives. Ultimately, businesses in industries that offer "exciting" product categories

are shown to generate value by 'losing control' on their marketing approach. Consumers

who can now create their own versions of what those companies stand for are deemed as

beneficial for business operation. Nevertheless, such gains can only be realized if firms

understand the challenges involved with the use of online social communities. This paper

has provided recommendations on how companies can turn these challenges into

opportunities. Recommendations on further research have also been presented to chart

the exploration of future development in the use of online social communities for

businesses. A brief summary of this project's findings is as follows.

Online social communities:

- Online social communities are defined as those user-generated content sites that allow users to actively interact with each other and be involved in discussing and sharing thoughts and information related to products and services. Evidence has shown through the increasing number of membership on such sites that it will have a dramatic impact on businesses.

Control revolution:

- Control Revolution, "the potentially monumental shift in control from institutions to individuals made possible by new technology such as the Internet" (Shapiro, 1999) is being exhibited through the expanding use of online social communities.

- Several reasons which fuel the rise of the control revolution are human's innate desire for personal control, and the need to exercise expert power, sanction power, and legitimate power. The nature of the Internet plays an important role in fulfilling these basic human needs. Online social communities are ideal places for the exercising of these needs.

- Implications of online social communities for firms include influences on the level of firm's presence online (is a website enough?), effects on word of mouth, heighten consideration on a customer's network value as oppose to one-time expected profit, and finally, generation of innovative marketing research methods.

Benefits to firms from proliferation of online social communities:

- Ability for companies to effectively attract their ideal target segments

- Higher level of trust exhibited by consumers on this media vehicle than other traditional marketing channels

- Ability to easily encourage customer engagement, and potentially lead to innovations of products and services

- Increased awareness and recognition of the firm through propagation of positive word of mouth through the community

- Generate foresights on the opportunities or threats to come

- Ability for online social communities to cushion the firms by the self-correcting power of the masses

- Facilitate communication within the organizations

- Generate exponential value from networks such as online social communities that include ways for individual to form groups

- Reduce costs of marketing research, as the results from surveys, focus groups, and in-depth interviews can be now similarly obtained by monitoring online social communities

Challenges to firms from proliferation of online social communities:

- Unpredictable nature of user generated content raise caution for firms to associate themselves to particular sites or blogs

- Competitive advantage from the R&D process will be lost as competitors can easily access consumer feedbacks for particular companies over the publicly available online social communities

- Negative impact on relationship between the firm and its internal workforce

- Complete loss of control on negative word of mouth

- Open invitation for people with intentions to do harm to the company

- 'Illusion of control' which could lead to retaliation by consumers

Company case examples:

- Carnival Cruise Lines implemented an online social community which costs about US$300,000. The resulting revenue generated that was attributed to this channel was US$1.6 million.

- Audi AG involved its customers in the product development process through the use of an online social community. The cost of the project was significantly lower compared with other marketing research techniques, and at least 1,000 new ideas were generated for the company.

- Guinness Beer, through its implementation of an online social community, tapped into a new market and increased sales and distribution of its promotional goods to levels that other channels can not match.

Recommendations on how firms should leverage the power of online social communities:

- Accept that the control revolution has occurred, and establish a more co-operative approach to build up trust with its consumers by accepting their candidness on user-generated content sites

- Get involved in online social communities as part of a company's connected and experiential marketing strategies to increase brand awareness and recognition

- Create the technological infrastructure for an open dialogue with the customers

- Involvement in online social communities by company representatives, not with the objective to block voice, but to provide constructive answers to customer concerns

- Identify the customers with the greatest network value when marketing products and services through the vehicle of online social communities

- Understand what types of consumers can provide knowledgeable feedback on product innovation and solicit those that can provide genuine and well-suited insights to the firm

- Explore ways to keep private information away from competitors despite of the seemingly open access of information over online social communities

- Tap into internal pool of employees as additional source of creative ideas and innovation to devise product offerings

- When first promoting a company-established online social community, the message should focus on consumers having the control. Such approach will build credibility of its site in the eyes of consumers

- Marketers should not cut all advertising and PR budgets to invest in online social communities, but instead reallocate the budget across each component of the marketing mix to gradually increase the focus on building online social communities

- Use segmented online social communities for brand rejuvenation techniques or to realign the brand associations with the new needs of the customers

Limitations and considerations for further research:

- Conduct further research on the specific types of content that prove to be more valuable to a company, and the improvements in technical and analytical methods to effectively scan and monitor online social communities

- Study the gradual development of participants and how they use online social communities for companies to anticipate future consumer needs

- Design a project that is wide in scope to address and find the answer to the tangible value for firms from involvement in online social communities. To take a further step, conduct an experiment with a controlled implementation of a new online social community to empirically prove the impact on bottom line business value.

- Perform a secondary research similar to this on the impact of involvement in user-generated content sites for companies with other product categories

The consumers have spoken. It is now the marketers who are being pushed with accepting the message. This project delivered insights on the arising new age of marketing, and the future research imperative in guiding marketers forward in the years to come. "It is those who are persistent, and willing to study things deeply, who will achieve the Master work" (Coelho, 1993). In this sense, the alchemy of marketing has evolved to the stage of online social communities.

REFERENCE LIST

"Insight-Trust barometer: In peer power we trust" (2006). *Marketing Week*, February 16.
London: Centaur Communications Ltd. and licensors.

"Market research: Through the looking glass"(2006). *Marketing Week*, March 16.
London: Centaur Communications Ltd. and licensors.

"Marketing: We must reinvent marketing for empowered consumers" (2006). *Marketing Week*, April 6. London: Centaur Communications Ltd. and licensors.

"Murdoch's space"(2006). *Economist*, Vol. 378, Iss. 8471, 67.

"From 'Surfing' to 'Chatting', Canadians are Socializing Online"(2004). *Ipsos Techno Files*, January/February ed. (1), Vol. 19, 44-48.

Anonymous Word Reference Webpage. [cited May 10, 2006]. Available from
www.wordreference.com/definition/revolution.

Aggarwal, Pankaj (2004), "The Effects of Brand Relationship Norms on Consumer
Attitudes and Behaviour". *Journal of Consumer Research*, Vol. 31, Iss. 1, 87-101.

Baker, Stephen (2006), "The Inside Story on Company Blogs". *Business Week Online*,
(February 15), 12.

Beniger, James (1986). "The control revolution: technological and economic origins of
the information society". *Cambridge, Massachusetts, Harvard University Press*.

Blackshaw, Pete, and Hart, Christopher (2005). "Can you compete in the consumer
generated media dialogue revolution?" *Marketing Management*,
November/December ed., American Marketing Association, 24-30.

Blackshaw, Pete, and Nazzaro, Mike (2004). "Consumer-Generated Media (CGM) 101:
Word-of-Mouth in the Age of the Web-Fortified Consumer". Available from
http://uk.builder.com/whitepapers/0,39026692,60095773p-39000988q,00.htm.

Blast Radius. Home Page (2006) [cited March 1, 2006]. Available from
www.blastradius.com.

Cadell, Charles (2005). "The customer is in control". *Business Times*, Kuala Lumpur
(July 16), 9.

67

Claburn, Thomas (2006). "MySpace Calls In An Expert". *Information Week,* (April 17), Iss. 1085, 20.

Coelho, Paolo (1993). "The Alchemist". 10th Anniversary Edition. San Francisco: HarperSanFrancisco.

Dennis, Juliet. "Going for the grey market".www.travelweekly.com ed.

Dholakia, Utpal, Bagozzi, Richard, and Klein, Lisa Pearo (2004). "A social influence model of consumer participation in network and small-based-formed virtual communities". *International Journal of Research in Marketing* 21, 241-263.

Donaton, Scott (2006). "Beware Revolution Rock--it's no place for your brand, or for ours". *Advertising Age.* Midwest region edition, (March 6), Vol. 77, Iss. 10, 18.

Donaton, Scott (2006). "How to thrive in new world of user-created content: Let go". *Advertising Age.* Midwest region edition, (May 1), Vol. 77, Iss. 18, 38.

Evans, Martin, Gamini, Wedande, Ralston, Lisa, and van 't Hul, Selma (2001). "Consumer interaction in the virtual era: Some qualitative insights". *Qualitative Market Research,* Vol. 4, Iss. 3, 150-159.

Fass, Allison (2006). "TheirSpace.com". *Forbes,* (May 8), Vol. 177, Iss. 10, 122-124.

Flavia'n, Carlos, and Guinali'u, Miguel (2005). "The influence of virtual communities on distribution strategies in the Internet". *International Journal of Retail and Distribution Management,* Vol. 33, Iss. 6, 405-425.

Füller, Johann, Bartl, Michael, Holger, Ernst, and Mühlbacher, Hans (2004). "Community Based Innovation: How to Integrate Members of Virtual Communities into New Product Development". *Electronic Commerce Research,* Vol. 6, Iss. 1, 57-73.

Guinness.com. "Guinness Today" (2006). [cited April 28, 2006]. Available from www.guinntiques.com/guinness_today

Keller, Kevin L. (2003). *Strategic Brand Management: Building, Measuring, and Managing Brand Equity*, Second Edition ed. Upper Saddle River, New Jersey: Prentice Hall.

Kirby, Justin, and Mardsen, Paul (2006). *Connected marketing – the viral, buzz and word of mouth revolution.* Butterworth-Heinemann.

Lashinsky, Adam, Burke, Doris, Levenson, Eugenia, Birger, Jon, and Oliver Ryan (2006), "The Boom is Back," *Fortune,* Vol. 153, Iss. 8, 70-87.

Lea, Bih-Ru, Yu, Wen-Bin, and Maguluru, Nisha (2006). "Enhancing business networks using social network based virtual communities". *Industrial Management and Data System,* Vol. 106, Iss. 1, 121-138.

Lee, Gomes. (2006). "What Will It Take For a Web Hang Site To Be the Next No. 1?". *Wall Street Journal (Eastern edition)* B, B1.

Lenderman, Max. February (2006). "Are you experiential?". *Marketing,* Vol. 111, Iss. 5, 11-14.

Levy, Steven, and Brad Stone (2006)."The New Wisdom of The Web: Why is everyone so happy in Silicon Valley again? A new wave of start-ups are cashing in on the next stage of the Internet". *Newsweek,* (April 3), Vol. 147, Iss. 15, 46-53.

Markillie, Paul (2005). "Survey: Consumer power, Crowned at last". *The Economist,* March 31.

McNamara, Paul (2005). "Blogging not all blah-blah-blah". *www.networkworld.com,* October 31, 66.

Moschis, George, P., Euehun Lee, Anil Mathur, and Jennifer Strautman (2000), *The Maturing Marketplace: Buying Habits of Baby Boomers and their Parents,* London: Quorum Books.

Moynagh, Michael, and Richard Worsley. February (2002). "Tomorrow's consumer - the shifting balance of power". *Journal of Consumer Behaviour,* Vol. 1, Iss. 3, 293-302.

Muehrcke, Jill. (2001). "Welcome to the revolution". *Nonprofit World,* Vol. 19, Society for Nonprofit Organization.

MySpace.com. "Membership Sign Up". 2006 [cited April/2 2006]. Available from www.myspace.com.

Oser, Kris. (2006). "Chevy hands ad reins to consumers and gets Tahoe tangled in the Web". *Automotive News,* (April 17), Vol. 80, Iss. 6198, 64.

Pamela, Paul (2003). "Targeting Boomers". *American Demographic,* Ithaca, (March 3), Vol. 25, Iss. 2, 24-27.

Poulson, Jennifer (2006). "Edelman 2006 Trust Barometer Ranks Japan Number One in Trust of Business; Japanese Trust in Internet, US Companies on the Rise". *Japan Corporate News Network,* (February 7), 1.

Rezabakhsh, Behrang, Daniel Bornemann, Ursula Hansen, and Ulf Schrader (2006). "Consumer Power: A Comparison of the Old Economy and the Internet Economy". *Journal of Consumer Policy,* Vol. 29, Iss. 3, 3-36.

Rheingold, Howard (2002). "Smart Mobs - The next social revolution". Perseus Books Group.

Riper, Tom Van (2005). "How To Play: The Upcoming Boomer Boom". [cited April/2 2006]. Available from http://www.forbes.com/personalfinance/strategies/2005/11/01/retiring-aging-investing-cx_tvr_1102boomers.html?partner=rss.

Romano, Andrew (2006). "Walking a New Beat". *Newsweek*, (April 24), Vol. 147, Iss. 18, 48.

Rosenbush, Steve (2006). "Hey, Come to This Site Often?" *Business Week*, (June 13), Iss. 3937, 66-67.

Shapiro, Andrew (1999). "The control revolution". *First ed. Published Affairs*.

Smith, J. Walker (2006) "A Marketplace of social engagement". *Marketing Management*, Vol. 15, Iss. 1 (January/February), 52.

Solomon, Michael (2005). "Transfer of Power". *Marketing Research*, Vol. 17, Iss. 1, 26-32.

Szmigin, Isabelle, Canning, Louise, and Reppel, Alexander (2005). "Online community: enhancing the relationship marketing concept through customer bonding". *International Journal of Service Industry Management*, Vol. 16, Iss. 5, 480-496.

Tapp, Alan (2002). "Proactive or reactive marketing? The influence of the Internet on direct marketing, Paper 3". *Journal of Database Marketing*, Vol. 9, Iss. 3, 238-247.

The V7 Network, Web Development Community. Home Page. (2006). "Marketing to the gay community" [cited May 3, 2006]. Available from www.v7n.com/gay.php.