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by Matt Anderson, Henning Hagen, and Gregor Harter

The short history of the Internet can be summed up in a few words: *Attracting a crowd is relatively easy. Monetizing that crowd? Not so much.*

Earlier it was (the now nearly forgotten) Netscape and (the barely memorable) Friendster that drew the big audiences. Then, MySpace surged in popularity. Now this distinction belongs to Facebook and YouTube, with their billions of active visitors. But despite the extraordinary numbers of enthusiasts they can claim, many of today's Web giants are confronted with the same problem: no clear path to profits. Google, Amazon, eBay, and to some degree Facebook are the rare exceptions among a sea of unprofitable websites.

Still, the emergence of vastly popular community-driven sites offers a glimpse into a new business model for smart retailers and consumer goods companies that bygone Internet ventures didn't offer: an approach we call social apponomics. By enhancing the sheer magnetic power of social media with community-based marketing and tailored applications, social apponomics affords companies a pathway for breaking down the barriers to profitably commercializing online activities, not just for individual transactions but as part of an ongoing customer relationship.

Three elements of social apponomics are critical to success. The first is social media. These interactive sites, where people can congregate to share information, ideas, and things that they've discovered (mundane and newsworthy) or that they have in common, are replacing broadcast channels as the primary way many people learn about products and services. It's a perfect Internet format for companies that want to attract a "sticky" audience, particularly when Web mobility is exploited. For one thing, consumers themselves can be used to generate content and interest in products and services, as occurs with Foursquare, a smartphone application that lets people automatically alert friends to their location with GPS technology and win rewards — discounts, T-shirts, and other prizes — for recommending products and stores to their circle of online acquaintances. Retailers can best take advantage of Foursquare by offering coupons and other promotions for purchases and by providing special offers to the most loyal customers. Consumer goods companies can tap into social media in equally intriguing ways. For example, product placement in online games like the hugely popular FarmVille on Facebook, where some simulated fields have been planted to resemble McDonald's golden arches and a zeppelin advertising Farmers Insurance Group was recently seen gliding across the screen. As a follow-up to their successful venture, FarmVille's creator — a gaming innovator named Zynga Game Network Inc. — has just released CityVille, which may attract advertising from more urban companies such as Starbucks or major hotel chains. (Zynga

Product placement in FarmVille

has an additional revenue stream: the sale of add-ons that enhance the experience of playing the game.)

The second element, community-based marketing, is driven by keen insight into customer behavior on retailer-created social media sites. This insight is generated not just by surveys and studies of customers, but by analysis of how consumers engage with products and services online, as well as their Web connections to other individuals. Customized offers and campaigns, supported by sophisticated data mining and customer relationship management (CRM) analytics, ensure that site visitors receive advertisements or messages of interest to them and thus are more likely to click through to a sale; this is one of the most promising sources of revenue.

Finally, tailored applications attract people by offering easy-to-use online environments that speak directly to individuals according to their interests and needs — either on websites or, increasingly, via customizable applications for smartphones, netbooks, and tablets such as the Apple iPad. Support and advice, including product reviews and recommendations, can be generated by experts on a site, but they more often (and less expensively) come from customers themselves.

Overlaying these elements is trust, without which any company will quickly lose its connection to its customers. By living up to promises, offering generous return policies, avoiding scams and bad-faith encounters, and eliminating exploitive behavior (including the actions of other customers), companies can build consumer confidence and loyalty. The most important factor in creating trust is transparency: Sites such as financial information aggregator Mint.com, the *New York Times,* and Amazon are diligent about explaining policies they have instituted (such as when and why they remove offensive comments and how they use personal information).

The most profitable online retailers have deftly combined the disparate aspects of social apponomics, applying those elements to the unique needs of their business models and customers. For example, Netflix, a US$1.3 billion online movie rental service with more than 15 million subscribers, offers a fully personalized social site where individual recommendations are offered in a wholly transparent way — for example, by showing the logic underlying the choices ("because you enjoyed [a related movie]") or by displaying ratings of the "members' average" versus Netflix's "best guess for you." In addition, there is a substantial focus on community: Advice is drawn from tens of thousands of customer reviews and top 10 lists. And Netflix subscribers can filter through movie opinions by finding other customers similar to them. Technologically, Netflix takes advantage of the Web's multimedia and multichannel capabilities by allowing subscribers to watch movies online and on demand and to manage their movie lists through smartphones and other devices. In addition, individuals who learn about films through other online media — such as RottenTomatoes.com (the review site) or the *New York Times* online movie reviews — can add them directly to their Netflix queues via those other sites.

Amazon is the global e-tail leader, with more than $31 billion in sales in the 12 months ended October 2010. The key to its success lies in its personalized customer experiences — a constant flurry of recommendations, related items, and new product ideas — driven by Amazon's proprietary CRM system that enables cross-selling and upselling based on real-time sales data and consumer browsing activities. Features include a large and active community that provides trusted customer reviews and a vast marketplace that seamlessly integrates thousands of third-party sellers. Amazon's wish list feature (allowing users to add products found anywhere on the Web), prime membership (providing unlimited two-day shipping for a yearly fee), and one-click checkout offer maximum ease of use, and mobile access is provid-

Image courtesy of Zynga

Social apponomics companies report higher sales conversion rates and higher repeat purchase rates.

ed through iPhone and BlackBerry apps as well as through the company's own Kindle handheld electronic reader.

Amazon is particularly active in developing new capabilities through acquisition of other companies, often buying out emerging social apponomics competitors before they threaten Amazon's own offerings. In 2009, for example, Amazon purchased Zappos.com Inc., a footwear and apparel e-tailer whose outsized consumer loyalty is a result of its personalized customer experience, its trustworthiness, and transparency built on social media and excellent customer service. Almost 500 Zappos employees, including CEO Tony Hsieh, are active on Twitter, ensuring an ongoing conversation with customers. In addition, Zappos uses existing multimedia sites such as YouTube to facilitate word-of-mouth marketing, and it has created an active internal community with extensive use of blogs, including one on which its senior executives post. (See "At Zappos, Culture Pays," Dick Richards, *s+b*, Autumn 2010.)

Intuit, a $3 billion developer of financial and tax preparation software (such as Quicken, TurboTax, and QuickBooks) and related services for small businesses, accountants, and individuals, has built trust through its social domain Intuitlabs.com, where customers can experiment with early versions of new products and services at no cost. This use of the "wisdom of crowds" gives large amounts of real-time feedback directly to developers, enabling rapid improvement of products and services. Intuit has also fostered an active and growing online community through its Leaderboards, which recognize the top 10 current and top 10 all-time contributors, and through Meetup.com, where Intuit brings together local small business and entrepreneur groups. In addition, the Intuit website features specialized information tailored to accountants, women, and educators; a wiki on taxes written and moderated by financial experts; and classified ads.

These and other social apponomics companies enjoy benefits that elude many other businesses. They report higher sales conversion rates, reflecting the impact of customized offers, peer recommendations, and crowd-voting, as well as higher repeat purchase rates and larger average sales, the result of sophisticated database marketing and up-selling driven by personalized applications. For example, Target's online-only consumers — many of whom use the retailer's smartphone app that offers daily deals, store-specific promotions, and ways to share wish lists and product reviews with friends — spend on average one-and-a-half times as much as their physical store–only counterparts. Multichannel consumers using both online and offline channels spend twice as much.

In addition, customer acquisition costs are lower in the social apponomics environment, as are customer care expenses. Word-of-mouth from the online community continuously attracts new consumers, whose participation at the site elevates its best features, expanding the number of reviews, recommendations, and conversations and providing a surfeit of consumer data for the marketing machines. Meanwhile, users take over onsite troubleshooting and respond to general product questions.

Social apponomics is in its infancy. The companies that are succeeding at this approach are few and

CityVille: your logo here

far between, and are especially innovative and forward thinking. Many of the most creative social apponomics strategies have yet to be fully developed. But even at this early stage, seven useful lessons from initial social apponomics adopters have emerged.

1. Focus on partners, not competitors. Winners should not compete with social giants like Facebook or Twitter, but rather ally with existing social media whenever possible.

2. Think local. Online solutions should be location-specific to leverage the benefits of the mobile Web, using location-based services to at-

Image courtesy of Zynga

tract customers in the vicinity of stores where products are sold or services are offered.

3. Target each customer in multiple segments. Consumers are complex; they have identities, preferences, product histories, and social data that generate broad "cloud profiles," and they increasingly use the same mobile devices in both their personal and business lives. Armed with the rich data available from consumers' Web activities, companies must deftly separate the masses of information that they collect about individuals and target offers and enticements to match the specific persona that a consumer inhabits at any given time.

4. Transform pricing into a dynamic conversation. The obvious examples are sites such as Priceline .com and Kayak.com, which offer people travel deals based in part on how much they are willing to pay. But other, e-tail–oriented sites are taking this approach in more creative directions. Groupon.com offers local discount coupons determined by retailers and consumer-goods companies, among others, that go into effect only after a specific number of people have agreed to buy the product. In this way, companies can base how much they charge on a minimum sales volume, normally an unknown quantity. As a result, an e-tailer might decide to cut the price of an item by 20 percent or more, certain that the company will sell five times as many at that price as at the regular price and will improve its margins.

5. Make use of the wisdom of crowds to build more compelling Web apps and to improve customer service. Enlist users to share feedback on beta versions of applications and to be active on self-help and message boards, providing purchasing recommendations and solutions to product problems. Offer preferential rewards and status to the most involved users.

6. Humanize your company "virtually." Allow employees to be frequent posters on social media websites in an effort to decentralize the company's message so that it increasingly comes from the rank and file rather than only from the executive suite. Avoid giving the impression of being a command-and-control company, which is anathema to the loose-knit, unstructured, ad hoc nature of the Internet.

7. Develop forms of online credentialing of your goods and services. Your own company's expert guidance is good and employee voices are better, but your customers' recommendations are best. +

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