

The Wisdom Report

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Web 2.0 Abundance: Everybody Wins

Revenue from Where?

How does Google index the world's knowledge for free and still earn \$10 billion per year? Why does a web marketing consultant give free web site evaluations to 650,000 visitors? How does a business make money when nobody appears to be paying for anything?

The fact: People are paying, and some of the ways we pay are more valuable than money.

Website.Grader.com

Visit <http://website.grader.com> and enter the URL for your web site. This online tool will examine your site and email you a report with ideas for improvement. Cost to you: Zero.

Why would HubSpot, the makers of Website Grader, provide such valuable information for free? Because each free user is also providing valuable information to HubSpot. Over 650,000 sites have been graded by the tool. The company now has a database of web site behavior that they can leverage as they develop strategies for their search engine optimization (SEO) business.

What would it cost HubSpot to gather this information without the online tool? Six figures at least. But by offering a free web site evaluation, HubSpot gathers information that is valuable in other areas of the company. Zero cost, huge ROI.

Everybody wins in the HubSpot arrangement. Free visitors win because they get ideas they need to improve their web sites. HubSpot wins because they get data they need to serve their clients more effectively. And HubSpot's paying clients win when their consultant



A well-executed Web 2.0 strategy yields abundance for all parties: Customers, suppliers, and service providers. Everybody wins.

creates web strategies based on a rich set of real data, not empty theories.

GMail Leverages Users

GMail is the free email service offered by Google. One of its most compelling features: The best antispam engine on the planet.

GMail leverages its users to improve the antispam engine every day. How? Users who encounter spam are encouraged to click on the "report spam" button within GMail. Two immediate results:

- The offending message is removed from the user's inbox.
- GMail's antispam software learns to recognize spam based on the types of messages rejected.

WisdomGroup has evaluated antispam software from many companies. Our conclusion: GMail's free antispam software is better than other packages that cost thousands of dollars per year. GMail's system is taught by the best teachers around: Real people. Millions of people instruct the antispam engine every day (at no cost to Google) by clicking "report spam."

In GMail, Google has created a system with multiple winners. Users get less spam and free email. GMail gets an outstanding antispam engine with free "instructors." And Google gets millions of potential customers for their advertising business, their real cash cow.

Not Easy. Just Different.

How much does it cost to acquire a customer in the non-online world? Depending on the business, you may have to figure in the cost of advertising, cold calls, and face-to-face sales calls.

But when dealing online, the cost of acquiring a customer approaches zero in a well-designed business system.

Of course, your competitors also enjoy low customer acquisition costs, so the pace of competition has increased. The game is not easier. Just different.

Freemium Business Model

The term freemium was coined by a venture capitalist in 2006. Freemium combines free with premium in this manner: Provide a basic service for free, and offer a premium version for those customers who value an upscale version of the service.

When the marginal cost of providing a service approaches zero, you can

afford to give it away if it enhances other areas of your business. Freemium in two steps:

- Attract a large number of stakeholders by offering something of value for free.
- Attract a second group of stakeholders & charge them for access to the first group.

Of course, freemium is just a new name for something that television broadcasters have done for years.

- Attract millions of viewers who pay nothing to view the content.
- Charge advertisers who want access to the millions of viewers.

Note that the freemium model only works if the cost of acquiring customers is extremely low. In the case of television broadcasters, it costs nothing to acquire another customer because the signal is being broadcast anyway. In the case of Web 2.0, customer acquisition costs are driven lower by the downward spiral in the cost of hardware, software, and bandwidth.

Wikipedia

Wikipedia is an online encyclopedia that seems counterintuitive on the surface. Wikipedia allows updates from any user who wants to log on. Yet if you put 10,000 Wikipedia users in a room, only 100 of them could say that they've ever updated an article. Further investigation shows that a tiny group (18 of the 10,000) are responsible for 72% of the articles. How does Wikipedia work with just a tiny fraction of contributors?

Enthusiasts Driven By Passion

Wikipedia is controlled and updated by enthusiasts driven by passion. Everybody is driven by something. The authors of Wikipedia articles tend to be passionate experts on their subjects. Debates (scholarly and otherwise) erupt in the same way that they do in the non-online world. The difference: Debates are conducted online where interested parties can view both sides of the argument.

Wikipedia is a not-for-profit organization. The founders launched the online encyclopedia as an experiment and it has grown beyond their expectations.

Wikipedia: So What?

Why do we care about Wikipedia if they don't make money? We care because of what they managed to do to revenue-generating competitors like Britannica and World Book. What would happen to your business if a competitor reduced their price to zero? What steps would you take to compete?

Web 2.0 is not just about doing things for free. If you give something away, do it in a way that expands your business.

What About Twitter?

Twitter, the 140-character micro-blogging service, is the latest Web 2.0 poster child. As of this writing, rumors of a Google acquisition are flying around. Twitter is a Web 2.0 company that has yet to make money. They've cracked the first part of the freemium business model - they now have millions of users. Now, how will Twitter make money? Advertising is almost a cliché. Will Twitter offer other services?

Conclusion

Web 2.0 is not about technology. It's about enabling large groups of people to work together in a manner that benefits all parties. Some benefits are financial, other benefits come in the form of services and/or information.

For those running Web 2.0 businesses, not every stream is independently profitable. But this is fine if an unprofitable stream stimulates purchases in profitable areas. Everybody wins.

Suggested Reading

Web 2.0: A Strategy Guide, by Amy Shuen. The author took a great deal of risk in writing this book because Web 2.0 is difficult to define and it changes daily. Yet the book remains relevant

because it focuses on concepts that remain constant such as power laws and the freemium model.

About the Author

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