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*Mind the Gap – Building
Profitable Community based
Businesses on the Internet*

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**Mind the Gap - Building Profitable Community Based Businesses on the Internet**

**Bernhard L. Krieger and Philipp S. Müller**

Abstract

Building Internet communities will become a strategic tool both as a stand-alone model and as a supplement to sustain competitive advantage for "normal" businesses. Community based business models aim to profit from the value, which is created when Internet communities solve problems of collective action, by controlling access, aggregating data, or realizing side-payments.

The current literature on community based business models refers to rational choices by individuals to explain why members join and leave Internet communities. However, such an approach cannot sufficiently conceptualize communities because communities are essentially imagined by their members.

We offer metaphors to conceptualize the legitimation and reproduction of communities. In order to profit from the value that is generated by communities' business, strategists must position it in its competitive environment. With the metaphorical approach we develop a framework to build profitable Internet communities.

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*How would you like to live in Looking-glass House, Kitty? I wonder if they'd give you milk in there? Perhaps Looking-glass milk isn't good to drink -- But oh, Kitty! now we come to the passage. You can just see a little PEEP of the passage in Looking-glass House, if you leave the door of our drawing-room wide open: and it's very like our passage as far as you can see, only you know it may be quite different on beyond. Oh, Kitty! how nice it would be if we could only get through into Looking- glass House! I'm sure it's got, oh! such beautiful things in it![1]*

## Introduction

Existing approaches dealing with community based business models on the Internet understand Internet communities as forums with an emphasis on member-generated content.[2] There is not much debate over what defines Internet communities, rather community is set opposed to content, and the concept is used to describe groupings of people who return to a particular locale on the Internet for commercial gain.[3] This sentiment is especially clear in *Net Gain: Expanding Markets through Virtual Communities*, by John Hagel and Arthur Armstrong.

> *Net Gain* gave official sanction to a fervent hope among many CEO's that community would be the next "killer application" on the Web. Build the communities, *Net Gain* argued, and the advertising dollars will follow… *Net Gain* ignored the issue of whether group computer-mediated-communication discussions constituted "communities," focusing instead on creating a generic category that they opposed to content as a way to encourage people to invest in cyberspace locales for profit.[4]

These writings highlight the formal and not the substantial aspects of community, describing communities as special cases of normal commercial exchange relations.[5] Sociological writings, on the other hand, have mainly dealt with the role of virtual environments on our

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[1] Carroll, Lewis Through the Looking Glass, London, Penguin Books, 1994, p.3..

[2] This has been implemented in standard software. E.g. the Buzzpower e-community software is a software development platform that imbeds e-commerce into e-communities. It offers marketing support features, messaging and user interfaces, chat interfaces, calendaring, polling surveying. www.multex.com.

[3] Hagel, John and Armstrong, Arthur G, Net Gain: Expanding Markets through Virtual Communities Harvard, Harvard Business School Press. 1997; Lechner, Ulrike; Schmid, Beat F.; Schubert, Petra; Klose, M.; Miler, Olga, Ein Referenzmodell für Gemeinschaften und Medien - Case Study Amazon.com, in: Englien, M.; Homann, J. (Eds.); Gemeinschaften in Neuen Medien (GeNeMe99), Zuerich, Josef Eul Verlag, 1999.

[4] Senft, Theresa, Baud Girls and Cargo Cults A Story about Celebrity, Community, and Profane Illumination on the Web in The World Wide Web and Contemporary Cultural Theory, London, Routledge, 2000, p. 188.

[5] Theresa Senft describes this confusion; *When originally presented with the idea of a Web community as a moneymaking enterprise, I was confused. How, I wondered, had John Armstrong and Arthur Hagel – NetGain's authors – made the jump from the WELL (a notorious money-loser) to financial success via Web communities?* Senft, Theresa, Baud Girls and Cargo Cults A Story about Celebrity, Community, and Profane Illumination on the Web in The World Wide Web and Contemporary Cultural Theory, London, Routledge, 2000, p. 188.

understanding of our selves.[6] A new literature focusing on applied aspects of community based business models, like the customer retention rate, or the churn rate is developing.[7]

The literature, however, does not ask how entrepreneurs can conceptualize the substantial communities that they want to profit from. In order to fill this need, we apply a multi-disciplinary approach and examine these substantial aspects of Internet communities focusing on legitimacy and reproduction.

Communities are defined by the beliefs of their members; therefore, we look at communities from the inside and propose metaphors as an epistemological tool to describe them. Understanding community based business models, in theory, will become even more important, as the technological preconditions of Internet communities such as peer-to-peer networking and wireless networks mature.

This paper is divided into three parts. In part one, we introduce community based business models, define Internet communities, and differentiate between the logic of behavior that is necessary for actors in markets and communities. Our aim is to push business strategists to think 'out of the box' and to opt for a perspective that enables them to distinguish between their roles as competitors in the market and as entrepreneurs building Internet communities.

In part two we look at literature in political theory, sociology, and anthropology that focuses on legitimation and reproduction of communities. We then sketch a metaphor-based approach. Metaphors expressing the legitimacy and reproduction of communities can bridge the analytical gap that opens when we aim to explain community by referring to rational choices made by individuals.

In part three we operationalize the approach by developing a two-step framework to be used by businesses to profit from the substantial value created by Internet communities.

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[6] Markham, Annette N., Life Online: Researching Real Experience in Virtual Space, Walnut Creek, Calif., AltaMira, 1998; Turkle, Sherry, Virtuality and Its Discontents: Searching for Community in Cyberspace, The American Prospect, no. 24, Winter, 1996; Bell, David and Kennedy, Barbara M. (Eds.), The Cybercultures Reader, London, Routledge, 2000.
[7] Walcyuch, Rita et al, Stickiness of Commercial Virtual Communities, in: MERIT-Infonomics Research Memorandum series, 2001

## I. Thinking About Internet Communities

Internet communities can exist on any type of technological matrix of the Internet, such as the World Wide Web, Usenet, IRC, message boards, proprietary MUDs, and MOOs. According to the popular definition of Rheingold,

> virtual communities are social aggregations that emerge from the Net when enough people carry on those public discussions long enough, with sufficient human feeling, to form webs of personal relationships in cyberspace.[8]

This definition is not very useful for strategists who aim to create online communities for profit. Commercial community builders are interested in the profit that can be made from or the value generated by communities. These can be stand-alone communities such as 'I-village.com' or 'the Well,' or supplemental community features adding value to commercial sites, by increasing stickiness, or creating valuable information in forums where customers can share their experience about companies' products. Therefore, we define Internet communities functionally. An Internet community is as an aggregation of individuals who solve problems of collective action online, for a set of issues in a communicative process, by alluding to a set of beliefs.

Why do community members behave as if they act in the collective interest? This question is interesting because by not acting individually rational (as expected by the observer), members generate value in a community. This value that is the basis for potential profits of community builders is, therefore, derived from a blind spot or analytical gap in rational choice approaches. Considering this problem of rational choice approaches as a "gap" draws attention to the aspects of communities that create value from which potential profit can be generated. The simple answer to the question why members behave as if they act collectively rational is that individuals feel they belong to communities and therefore act as if they have a collective consciousness.

An Internet community cannot be understood by assuming individually rational behavior, according to a standard set by an outside observer, because its members conceptualize the community.[9] Communities can only be understood from a subjectivist perspective. Richard Stallman describes this in an interview with Salon.com,

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[8] Rheingold, Howard, The Virtual Community – Homesteading on the Electronic Frontier, Cambridge, MIT Press. 2000, p. 5.

[9] There is a trend to define communities by solely referring to instrumental rational motivations. e. g. Lechner, Ulrike; Schmid, Beat F.; Schubert, Petra; Klose, M.; Miler, Olga, Ein Referenzmodell für Gemeinschaften und Medien - Case Study Amazon.com, in: Englien, M.; Homann, J. (Eds.); Gemeinschaften in Neuen Medien (GeNeMe99. Zuerich, Josef Eul Verlag, 1999. However the term that comes closer to such an understanding of social action is Tönnies' and Weber's term of Gesellschaft. Weber, Max, Wirtschaft und Gesellschaft. Grundriß

The reason I care especially, is that there is a philosophy associated with the GNU project, and this philosophy is actually the reason why there is a system -- and that is that free software is not just convenient and not just reliable ... More important than convenience and reliability is freedom -- the freedom to cooperate. What I'm concerned about is not individual people or companies so much as **the kind of way of life that we have**.[10]

Internet communities are social constructs created intentionally, or the inadvertent outcome of interaction between humans. They are social institutions like nation states, markets, firms, or kindergarten. In order to understand the relevance of community based business models we need to clarify the significance of social institutions. We often think about communities as something broader than markets, because a market can only exist if it is embedded in a social institution.[11] All these are social constructs that have emerged over time.[12] Some of these institutions were developed to solve specific problems at specific points in time, e.g. kindergartens in the 19th century to allow women to work,[13] and some developed gradually, like patents and copyrights in the Venetian Republic, or the concept of the nation state in the late 18th century.[14] Concepts like nation state or market economy have become so entrenched in our culture that we perceive these modern concepts as if they had always been a part of human interaction.[15] They are institutions intentionally or unintentionally constructed by humans.

der Verstehenden Soziologie, Tuebingen, Mohr, 1990, p. 70; Tönnies, Ferdinand, Gemeinschaft und Gesellschaft. Grundbegriffe der reinen Soziologie, Darmstadt, Wissenschaftliche Buchgesellschaft, 1991

[10] Leonard, Andrew, The Saint of Free Software, SALON | Aug. 31, 1998.

[11] E.g. Smith, Adam, The Wealth of Nations, Oxford, Clarendon Press, 1979, **Book V, Chapter i, Part 1-3.**

[12] Their emergence does not have to be intentional or induced by functional necessity. Functionalistic logic rationally reconstructs the appearance of institutions as the result of a necessity (e.g. the flower is sweet to attract the bee, or Napster was created because a need for it existed), see Mitrany, David, A Working Peace System: An Argument for the Functional Development of International Organization, Oxford, Oxford University Press, 1943 This logic is problematic. Theories allowing for multilinear developments argue that random mutations of systems (biological, social) that fit (or are selected by) the environment explain their form, see Maturana, H.R., F.J. Varela, El Arbol del Conocimiento: Las Bases Biologicasdel Conocer Humano, Editorial Universitaria, 1a. Edicion, 1984.

[13] Froebel, F, The Education of Man, Translated by Josephine Jarvis with an introduction by Elizabeth Peabody, New York, A. Lovell and Co., 1885.

[14] For the development of patents in Renaissance Venice see: Ryan, Micheal P., Knowledge Diplomacy: Global Competition and the Politics of Intellectual Property, Washington D.C, Brookings Institute, 1998. For the development of the nation state: Anderson, Benedict, Imagined Communities, revised edition, London, Verso, 1991.

[15] Polanyi describes the maket as socially constructed. Polanyi, Karl, The Great Transformation: The Political and Economic Origins of Our Time, New York, Beacon Press, 1971. Benedict Andersen argues that nation states are imagined communities: *My point of departure is that nationality, or, as one might prefer to put it in view of that word's multiple significations, nation-ness, as well as nationalism, are cultural artifacts of a particular kind. To understand them properly we need to consider carefully how they have come into historical being, in what ways their meanings have changed over time, and why, today, they command such profound emotional legitimacy. I will be trying to argue that the creation of these artifacts towards the end of the eighteenth century was the spontaneous distillation of a complex 'crossing' of discrete historical forces; but that, once created, they became 'modular' capable of being transplanted, with varying degrees of self-consciousness, to a great variety of social terrains, to merge and be merged with a correspondingly wide variety of political and ideological constellations.* Anderson, Benedict, Imagined Communities, revised edition, London, Verso, 1991.

If we want to explain the profitability of social institutions such as Internet communities, we need to analyze how they manage problems of collective action.[16]

At this point the strategy of rational choice approaches is to conceptualize such behavior as non-economic, i.e., irrational, meaning not explainable. This gap can be bridged by thinking about how people conceptualize the communities they are part of.

### a. Community Based Business Models

Business models in electronic information dissemination were until recently mostly based on one-to-many relations, as in radio and television. With advances in information technology many-to-many transactions have become a possibility. Business models trying to harness these new developments have to deal with new complexities. Customers are being integrated into design, workflow, and improvement processes.[17] They are being referred to as prosumers and conducers, both consumers with great influence over the design and production process.[18] However, many-to-many relations cannot only be used to signal preferences and needs in a competitive exchange relation. They are the formal precondition of communities. Only since these technological preconditions have been developed has it become possible to think about electronic community based business models.

In recent years business models have been thought up that aim to build Internet communities in order to generate profit. Profit can be generated by either controlling access, aggregating content, or by profiting from side payments such as the good will of a community, or an increased customer retention rate and advertising revenues.[19]

The content generated by a community can be primary, e.g. the aggregated product reviews written by community members,[20] or secondary, e. g. personal data community members enter to sign up that can then be used for target-specific marketing, or tertiary, the attention of community members.

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[16] The communities we focus on do not have the legitimate monopoly of force that a sovereign in a nation state can resort to in order to solve problems of collective action. In such a case the management of problems of collective action is (in theory) unproblematic. Weber, Max, Wirtschaft und Gesellschaft. Grundriß der Verstehenden Soziologie, Tuebingen, Mohr, 1990 p. 91.

[17] Champy, James, Reengineering the Corporation: A Manifesto for Business Revolution, London, Nicholas Brealey, 1993; Champy, James, Reengineering Management: The Mandate for New Leadership, New York, HarperCollins Publishers, 1995; Black, Andrew et al., In Search of Shareholder Excellence – Managing the Drivers of Performance, London, Pitman 1998.

[18] Tapscott, D., The Digital Economy: Promise and Peril in the Age of Networked Intelligence, New York, McGraw-Hill, 1996.

[19] Hagel, John and Armstrong, Arthur G, Net Gain: Expanding Markets through Virtual Communities, Harvard, Harvard Business School Press. 1997.

[20] E.g. the amazon.com book reviews by readers, www.napster.com's file-trading system, www.i-village.com and its baby-areas,www.opensource.org, www.firsttuesday.com.

Studies have shown that community members are better customers. Community may increase the two most important levers for electronic commerce businesses – conversion and visit frequency. Anecdotal evidence suggests community has value to sales and support sites, intranets/extranets, and B2B marketplaces. It is an intriguing idea that businesses create communities in order to profit from the value generated by them. Or as Howard Rheingold puts it ...*it is an unusual business where your customers also create the value you sell them.*[21]

The possibilities and challenges of Internet communities will have great impact on the economy in the 21st century.[22] Communities generate value by managing problems of collective action for members. If a business has created such a community it can, if the competitive dynamic of its environment allows this, capture a part of this value in the form of profit. If it can then scale the community this profit can grow disproportionately.[23] If community based businesses achieve critical size, potential entrants should be dissuaded from setting up competing communities.[24]

## b. Different Logic of Markets and Communities

Both markets and communities are social institutions dealing with problems of collective action. In problems of collective action we observe a divergence from what we assume is rational for an individual and a collective.[25] We often express these problems formally by rational choice theory and substantially as dilemmas.

It is important to recognize that such descriptions are epistemological concepts used by an observer to describe a situation. Situations can be described differently, depending on the standpoint of the observer. A well-functioning market can be described as the solution to a collective action problem, i.e. Adam Smith's invisible hand. But it can also be conceptualized as a multi-player prisoners' dilemma if one takes the perspective of a firm. In the prisoners'

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[21] Rheingold, Howard, The Virtual Community – Homesteading on the Electronic Frontier, Cambridge, MIT Press. 2000, p. 273.

[22] Hagel, John and Armstrong, Arthur G, Net Gain: Expanding Markets through Virtual Communities, Harvard, Harvard Business School Press. 1997.

[23] Hagel, John and Armstrong, Arthur G, Net Gain: Expanding Markets through Virtual Communities, Harvard, Harvard Business School Press. 1997, p.xi

[24] For an extensive review of the impact of positive network externalities on internet business propositions see: Kelly, Kevin, New Rules for the New Economy : 10 Ways the Network Economy is Changing Everything, London, Penguin Books, 1999; Ebay biggest in Europe after its trip to the iBazar, The Industry Standard, March 1, 2001 24.

[25] Olson, Mancur, The Logic of Collective Action, Cambridge, Harvard University Press, 1965.

dilemma it is individually rational to defect, even though collectively, it is preferable to cooperate.[26]

As social institutions, communities and markets offer different solutions to problems of collective action. Community builders have to take into account when they act as market participants and when they act as communal entrepreneurs.

- Markets are structured in such a way that the individually rational behavior of businesses and consumers leads to the collectively best outcome. Businesses and consumers interact on the market (no gap between individual and collective rationality).[27]

- Communities are structured in such a way that problems of collective action for a set of issues are solved, by alluding to beliefs in a communicative process (gap between individual and collective rationality closed by belief).[28]

Markets are structured so that individual rational behavior leads to collective rational outcomes in a realm structured by exogenous restraints (i.e. competition and anti-collusion norms), while community achieves collectively rational outcomes in a process in which individuals are persuaded to endogenize the collectively rational preference structure.

To distinguish between the two, we use the Prisoners Dilemma as a backdrop to tell the story of a market, where non-cooperation by the sellers is the collectively best outcome, because the collective is the society that has instituted the market in order to allocate resources efficiently. When we talk about community we use the Prisoners Dilemma to describe a group of individuals who must be persuaded by a communal entrepreneur to change their individual preference structures by endogenizing a belief that corresponds to the collectively rational. The collective in this case is the members.

Businesses interacting in a market with competitors and customers have to follow very different strategic considerations than communal entrepreneurs. Building and sustaining an Internet community is a political and social project.

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[26] Axelrod, Robert, The Evolution of Co-operation, London, Penguin Books, 1990.

[27] *…by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effactually than when he really intends to promote it.* Smith, Adam, The Wealth of Nations, Oxford, Clarendon Press, 1979, Book IV, Chapter ii, Part9, p. 456. The reason why a market that can be looked upon as a prisoners' dilemma by changing the perspective of the observer to that of the sellers is seen as a solution to problems of collective actions, is that the collective is made up of the whole society (the group that has institutionalized the market), while in the case of communities, the collective is made up only of the participants in the interaction (the analogy in a market would be an oligopoly). Therefore, the normative position of positing collective rationality depends on the standpoint of the observer.

[28] For the seminal definition see: Weber, Max, Wirtschaft und Gesellschaft. Grundriß der Verstehenden Soziologie, Tuebingen, Mohr, 1990 p. 70.

Only few companies have been able to effectively balance the social institutions of markets and communities as a successful business proposition. EBay is such a best practice case. Everywhere in eBay there is ubiquitous connectivity to community and it seamlessly melds community into commerce by building a whole new system of trust and peer-to-peer control, like the member-rating system, the café, the Barbie forum, etc.[29]

Understanding this logic of communities will be responsible for the success or failure of Internet communities. Bridging the analytical gap by focusing on the metaphors that legitimize and reproduce communities will enable us to foster an understanding of this logic. Business models that aim to create Internet communities in order to generate profits have to focus internally on the legitimacy and the reproduction of the community, and externally on withstanding the competitive dynamic of the communities' environment.

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[29] http://pages.ebay.com/community/

## II. Bridging the Gap with Metaphors

The existence of an Internet community must be explained by referring to the conscious and unconscious beliefs of community members that lead to the legitimation and reproduction of communities. These beliefs can be expressed in metaphors.[30] These metaphors have a double function: to explain the community to its members and thereby legitimize it and to describe the belief of community members to outsiders, in order to operationalize it for communal entrepreneurs.

A metaphor is a figure of speech that implies comparison between two unlike entities, as distinguished from simile, an explicit comparison signaled by the words "like" or "as". The metaphor makes a qualitative leap from the reasonable, to an identification or fusion of two objects, to make one new entity partaking of the characteristics of both.

> Our conceptual networks are intricately structured by analogical and metaphorical mappings, which play a key role in the synchronic construction of meaning in its diachronic evolution. Parts of such mappings are so entrenched in everyday thought and language that we do not consciously notice them; other parts strike us as novel and creative. The term metaphor is often applied to the latter, highlighting the literary and poetic aspects of the phenomenon. But the general cognitive principles at work are the same, and they play a key role in thought and language at all levels.[31]

Metaphors permeate our thinking. By focusing on the role of metaphors to describe and legitimate communities, we can conceptualize the beliefs of community members.

Communities cannot be understood as real. They are always imagined reifications, as Bendict Andersen argues in *Imagined Communities*,

> All communities larger than primordial villages of face-to-face contact (and perhaps even these) are imagined. Communities are to be distinguished, not by their falsity or genuineness, but by the style in which they are imagined.[32]

How it is imagined can be expressed by metaphors that differ from community to community. However, there are archetypical metaphors many communities refer to. The pre-modern metaphor legitimating community is the body. A newer metaphor is the contract. Such base metaphors are relatively stable over time.

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[30] *Ihre Wahrheit ist, in einem sehr weiten Verstande, pragmatisch. Ihr Gehalt bestimmt als Anhalt von Orientierungen ein Verhalten, sie geben einer Welt Struktur, repräsentieren das nie erfahrbare, nie übersehbare Ganze der Realität. Dem historisch verstehenden Blick indizieren sie also die fundamentalen, tragenden Gewissheiten, Vermutungen, Wertungen, aus denen sich die Haltungen, Erwartungen, Tätigkeiten und Untätigkeiten, Sehnsüchte und Enttäuschungen, Interessen und Gleichgültigkeiten einer Epoche regulierten.* Blumenberg, Hans, Paradigmen zu einer Metaphorologie, Frankfurt a. M., Suhrkamp Verlag, 1999, p.25.
[31] Fauconner, Gilles, Mappings in Thought and Language, Cambridge, Cambridge University Press, 1997.
[32] Anderson, Benedict, Imagined Communities, revised edition, London, Verso, 1991, p. 6.

The metaphor of society as a body permeated European thinking from antiquity to the 17th century. The contract metaphor has shaped the debate since then. The reproduction of communities is explained and prescribed by metaphors dealing with interaction; we will look at the ritual and the gift. We will show the relevance of metaphors as a tool to legitimize and reproduce Internet communities.

## a. Legitimizing Communities

In order to be able to categorize Internet communities it is helpful to see what metaphors people refer to when describing and legitimizing communities.[33] In order to enable a categorization in the following we will focus on classical ideal types legitimating communities. If we look at European history, until the enlightenment the standard metaphor was that of the body politic. Every class, or person had a specific role and function to fulfill in society. The gap between interests of individuals and interests of the collective, conceptually, did not exist.

Livius recounts that Menenius Agrippa was sent by the Senate to the Plebeians as a negotiator, and that he appeased them and brought them back into the City by telling them the fable of The Belly and the Limbs:

> Back in the days when the various parts of the body did not necessarily all agree with each other, as they do now, but each had its own ideas and its own voice, some of the parts began to think that it was unfair that they should have to worry and toil to provide everything for the belly, while the belly just sat there in their midst with nothing to do but to enjoy the bounty they brought to it. They therefore conspired together, and agreed that the hands would no longer carry no food to the mouth, the mouth would no longer open for food, and the jaws and teeth would no longer grind up what they received. The belly growled and tossed about in protest; but the limbs remained steadfast in their angry resolve to starve the belly into submission. Soon though, they began to feel weak. Their fatigue grew worse and worse, until they, the belly and the entire body nearly perished from starvation. Thus, it had become clear that even the seemingly idle belly had its own task to perform, and returned as much as it received; by digesting the food brought to it and returning nourishment to the limbs via the blood.[34]

The legitimation of institutions in a discourse that conceptualizes aggregate communities as unitary actors depends on the success of the metaphor that binds the individuals. The collective is foundational for the individual, similar to the whole body being foundational for

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[33]Ghosh, Rishab A., Cooking pot markets: an economic model for the trade in free goods and services on the Internet, in: First Monday, Vol. 3, No. 3, 1998; Rheingold, Howard, The Virtual Community – Homesteading on the Electronic Frontier, Cambridge, MIT Press. 2000.

[34] Livius, Titus, Livy in Fourteen Volumes, translated by B.O. Foster, Cambridge, Harvard University Press, 1967 (Book II, xxxii)

the limb. Therefore, there is no tension between individuals and the collective interests. If an Internet community builder is able to persuade the community members of such a legitimatising concept, the gap between what should be individually rational and how members will behave will be great. In its most extreme form it is viable only for very close communities. However, the reification of communities as a body is an important subconscious motive for action even in modern communities.

Contract theory introduces the idea that individuals form the basis of a society, and thereby any state has to further the well-being and freedom of individuals. In a purely libertarian society that is based on an understanding of communities as aggregation of atomistic self-sufficient actors, only institutions that coordinate interactions between these actors can be legitimate. They derive their legitimacy by guaranteeing individuals the greatest possible freedom. Therefore, collective rights can only exist when they further every individual's rights.

In Hobbes' "Leviathan", the social contract is the basis of communal life. Preceding the contract there are no shared rules or standards.[35] The contract functions as a justification of how persons come to share social norms. The contract metaphor superseded the body politic image very quickly and has been foundational for all modern states and the discourse on community ever since.[36] Internet communities like 'The River' base their legitimacy on open contracts as a foundation of community.[37] This type of legitimation has become background knowledge that is normally not questioned.[38]

Rousseau is a contractualist, but the contract itself plays a comparatively minor role in his theory. His solution to the problem is the metaphor of the general will. Rousseau aims to combine both a respect for individual autonomy with sensitivity to the collectivity. Rousseau rejects the ahistorical conception of human nature associated with Hobbes in favor of a new social conception of selfhood. He poses the problem of the tension between individuals and communities in the following way,

> To find a form of association that defends and protects the person and possessions of
> each associate with all the common strength, and by means of which each person,

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[35] Hobbes, Thomas, Leviathan, edited by C.B. Macpherson, London, Penguin Books, 1981.

[36] The internal inconsistency of the contract metaphor – there cannot be a contract before a system of rules has been established that enables enforcement, however this is postulated – has not kept it from becoming very successful. See MacIntyre, Alasdair, A Short History of Ethics, New York, Macmillan, 1966.

[37] www.river.org   Rheingold, Howard, The Virtual Community – Homesteading on the Electronic Frontier, Cambridge, MIT Press. 2000, p. 332.

[38] Adorno, Theodor W. und Horkheimer, Max, Dialektik der Aufklärung. Philosophische Fragmente, Frankfurtn a.M.,Taschenbuch Fischer-TB.-Vlg, 1969.

joining forces with all, nevertheless obeys only himself and remains as free as before.[39]

Rousseau's answer to this challenge is his theoretical figure of the general will. Rousseau argues that people have two distinct sort of basic needs: natural and social. When humans are in their most primitive state they care only for their physical survival. They experience hunger, thirst, cold etc. We, however, also have other basic requirements for our well-being. We live in a world not simply composed of physical objects and resources but also of other people.

Whereas the glue that holds the Hobbesian commonwealth together is, at bottom, the instrumental reason of asocial individuals, the citizens of a Rousseauian republic have an enriched and socialized idea of themselves as a result of their association, and in participating in the life of the community they best realize and express their deepest needs.

This type of legitimatory belief of the individual with communal interest is more common in Internet communities than one could expect, assuming the Internet is mainly North American and the North American self-understanding is closer to the philosophy of Hobbes, Locke, Paine than to that of Rousseau. A Rousseau-esque description of communal behavior can be applied to explain why AOL message board managers invest great amounts of their private time to foster their communities.[40]

The general will is both what people would will if they considered themselves to be members of the relevant collective and put its collective interest to the forefront (and had all relevant information at their disposal), and also what people do will insofar as they actually do consider themselves to be members and derive a constitutive sense of what they are from the collective.

Many parallels can be drawn to the open source software community as it is understood by the Open Source Initiative.

> The basic idea behind open source is very simple. When programmers can read, redistribute, and modify the source code for a piece of software, the software evolves. People improve it, people adapt it, people fix bugs. And this can happen at a speed that, if one is used to the slow pace of conventional software development, seems astonishing. We in the open source community have learned that this rapid evolutionary process produces better software than the traditional closed model, in

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[39] Rousseau, Jean-Jacques, The Social Contract and Discourses, Translated with Introduction by G.D.H. Cole, London, Everyman's Library, 1913 p. x.

[40] For a discussion of the role of community leaders (AOL has more than 10,000 such unpaid volunteers) see AOL volunteers claim labor violations, Sandeep Junnarkar, CNET News.com April 14, 1999 at http://news.cnet.com/news/0-1005-200-341173.html or Yahoo tangles with GeoCities volunteer community leaders Jim Hu Staff Writer, CNET News.com December 17, 1999 http://news.cnet.com/news/0-1005-200-1500069.html

which only a very few programmers can see the source and everybody else must blindly use an opaque block of bits.[41]

The general will is arrived at through the figure of the contract. Rousseau parallels the Hobbesian strategy of having everyone alienate his or her rights to the sovereign, but then allows the sovereign to consist of everyone. Everyone alienates their original right to all things in favor of themselves. While this might be thought to imply the tyranny of the collective over the individual, Rousseau believes that membership in the collective will lead to an individual's sense of self that does not see the general will as an external imposition by an alien body but rather as expressive of the individual personality. Through their recognition as citizens, the self-respect of each is assured. This is in spirit echoed in Howard Rheingold's concept of Virtual Community.[42]

## b. Reproducing Community

Belief in the community is reproduced in metaphorical acts reassuring members of their commitment to the community. The term ritual conceptualizes these acts. Durkheim defines rituals as *determined modes of action*.[43] He and most social scientists until the first half of the last century analyzed rituals purely in a religious context.[44] Since then the perspective of rituals have been extended to a secular setting.[45]

Of special interests are the rites of passage. Arnold van Gennep defines them in *Les rites de passage* as rites which *accompany every change of place, state, social position and age*.[46] Theses rites structure and control the social life of the community. The fact that place, rules, social position and age within Internet communities are conceptualized differently does not mean that the transitions fall away. The function of these rites stays the same.

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[41] http://www.opensource.org/

[42] Rheingold, Howard, The Virtual Community – Homesteading on the Electronic Frontier, Cambridge, MIT Press. 2000, 49.

[43] Durkheim, Émile, The Elementary Forms of the Religious Life, translated by Joseph Ward Swain, London, George Allen & Unwin Ltd., 1915. p. 51.

[44] See for instance Malinowski: *Every culture can be divided into two distinguishable domains: the domain of magic and religion and the domain of science; the sacred and the profane. Ritual belongs to the sacred domain and is ipso facto an action grounded in faith rather that in reason* Malinowski, Bronislaw, Magic, science and religion and other essays, London, Glencoe Ill: The free press of Glencoe, 1948.

[45] Nadel, S.F., *Nupe Religion, London*, Routledge and Kegan Paul, 1954; Leach, Edmound, "Ritual" In: Sills DL (ed.):International Encyclopedia of the Social Sciences, New York, The Macmillan Company & The Free Press, 1968 520-526. Katz even uses it to interpret medical care methods. Katz, Pearl, Ritual in the Operating Room, in: *Ethnology*, Vol. 20, Nr. 4, 1981, p. 335 –350.

[46] Van Gennep, Arnold, The Rites of Passage, Chicago, University of Chicago Press, 1960, quoted in Turner, Victor, The Forest of Symbols: Aspects of Ndembu Ritual. Ithaca, Cornell University Press, 1969, p. 94.

Accessing the Internet is sometimes described as a "rite de passage".[47] Members of Internet communities themselves very often use the term "rite de passage" in order to define who is in and who is out. Hacker_Code describes the observable behavior of a hacker while performing the "rite de passage":

> In the hacker/geek circle, this "rite of passage" was RTFMing, spending hours in the dark behind a glowing monitor, tweaking code, and intellectually grasping the system so that at the time you are considered "passed", you are in truth already a /part/ of the system.[48]

By clarifying the steps a new member has to go through, so that he or she becomes worthy to the community and by helping him or her along the way, community builders can reduce the deterrent effect of very close Internet communities.

A second concept reproducing interpersonal ties and community is the gift. This has been described for Internet communities where gift-giving is offered as an alternative to a money-based economic system.[49] However, this is not the only and maybe not the most important aspect of the concept. It is important to focus on the significance of the gift in order to understand not only how it reproduces interpersonal relationships in general, but also to comprehend the kinds of relationships and their consequences for the legitimation of communities.[50] Therefore, we concentrate on the stratifying aspect of gift-giving.

Marcel Mauss analyzes non-industrialized societies and describes the gift as a non-economic form of exchange. He determines that gifts establish inequalities between the exchanging individuals and thereby infers that the production of these inequalities stratify a community. He analyzes agonistic gift-giving.

Agonistic gifts achieve inequality by introducing a time lag in a connected exchange system.[51] One party invites the others. In order to increase its fame, the party that gives has to offer more than the last party had given away at their celebration. Every time one party is giving, the others are receiving. Through the constant inequality between giving and receiving, the next gift-giving interaction is assured. The competitive aspect of the system is

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[47] Tomas, David, Old rituals for new space: rites de passage and William Gibson's cultural model of cyberspace in Michael Benedikt, (ed.), Cyberspace: first steps (pp.31-48). Cambridge, MIT Press, 1991

[48] http://slashdot.org/articles/99/09/22/1028249.shtml

[49] Barbrook, Richard, The Hi-Tech Gift Economy, First Monday, volume 3, number 12 (December), 1998; Bays, Hillary and Mowbray, Miranda, Cookies, Gift-Giving, and the Internet, volume 4, number 11 (November), 1999.

[50] The gift is not an altruistic act. See therefore Berking, Helmuth, Schenken. Zur Anthropologie des Gebens, Frankfurt a. M., Campus-Verlag 1996; Godelier, Maurice, L' énigme du don, Paris, Fayard, 1996; Godelier, Maurice, La production des grands homes: pouvoir et domination masculine chez les Baruya de Nouvelle-Guinée, Paris, Fayard, 1982.

[51] The most famous example is the Kula circle in Trobriand Islands described by Malinowski, Bronislaw, Argonauts of the Western Pacific, London, Routledge, 1978 But there are a lot more ethnographically documented cases in other regions like the Potlatch system in north-west America.

foundational for the distribution of status and power. The gained status is not stable, however, because theoretically every participant (as a subgroup member) of the society can and will perform a gift-giving event and therefore challenge the others. This ongoing competitive process reproduces the social structure of the community. It is a duty to take part in the gift exchange. Doing the contrary provokes social intervention up to exclusion, as this would mean a direct threat to reproducibility and therefore for the society itself.[52]

This competitive dynamic of agonistics gift-giving is found online in distributed computing projects such as SETI@Home, where the members are ranked for contribution of CPU time. The highest ranking member on March 27th, 2001 had contributed 728.280 years in CPU time.[53] In our context agonistic gift-giving becomes very important, since as a "side effect" of this interaction a huge amount of value will be generated.

The ritual and the gift are metaphors describing the reproduction of communities. Community builders need to focus on them in order to sustain their Internet community.

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[52] *To refuse to give, to fail to invite, just as to accept, is tantamount to declaring war; it is to reject the bond of alliance and commonality.* Mauss, Marcel, The Gift. The Form and Reason for Exchange in Archaic Societies, Translated by W.D. Halls, London, W.W. Norton, 1990, p. 13.
[53] http://setiathome.ssl.berkeley.edu/stats/users.html

## III. Metaphors as Business Tools

In part two we analyzed the legitimating and reproducing foundation of communities. Communities are explained from the inside and can be described by a metaphorical approach. How can this be operationalized? What does it mean for entrepreneurs building Internet communities?

Successful community based businesses have to achieve these objectives, to generate value and capture profit. Value is generated when communities solve problems of collective action. By controlling access, aggregating content, or realizing side payments, community builders can capture profit. An Internet community can be both, a stand-alone proposition, like 'The Well' or supplemental and integrated, offering for example chat room functionality for CNN.

### a. Generating Value

In order to construct sustainable community, builders have to legitimate and reproduce their community. This is achieved by reinforcing the metaphors that the community spirit of members is based upon. Therefore, the first step is to identify possible legitimating and reproducing metaphors for a community. Surveying potential members can do this. The metaphor of a specific community will always be a combination of the ideal-typical forms we have described; however, it is important for community builders to communicate them.

> The eBay community is made up of individual buyers and sellers who come to the site to do more than just buy or sell—they have fun, shop around, and get to know each other, for example, by chatting at the eBay Cafe. Through the bulletin boards, users meet and get to know each other, discuss topics of mutual interest, and petition one another for information. These bulletin boards are public forums that encourage open communication between users. eBay becomes a part of users' lifestyles. Many users have created second businesses, or quit day jobs altogether, by selling items on eBay. For hundreds of thousands of others, eBay is the place to share a passion for items that are special. The community is also self-policing, and users frequently form "neighborhood watch" groups to help guard against misuse or violations of site etiquette. [54]

In order to achieve the belief in the legitimacy of a community, the members must be persuaded. Persuasion is a political act. So what we need are community builders who take up the role of political entrepreneurs, conferring legitimacy on the community. Referring to their

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[54] Ebay community statement at: http://pages.ebay.com/community/aboutebay/community/

community, as a body like Menenius Aggripinna in his speech to the Plebeians, a contract, or a general will, can do this. The Keynote speeches of Steve Jobs at the MacWorld Expos in the last years have played an important role in reinforcing the Macintosh community spirit.[55]

To ensure the success of an Internet community and to guarantee the sustained belief of its members in it, businesses have to take care of the reproduction of this belief. They can do this by instituting interchanges like offering personalized homepages, rating transactions, or by operating with gift-giving like Amazon gift certificates.[56]

Businesses building Internet communities need to take up the role of institutional designers, igniting and maintaining interpersonal exchange as well as stabilizing community by institutionalizing reproductive dynamics. Thus they need to institute reproductive metaphors such as the gift and the ritual.

The aim of a community builder is to generate valuable communities. The value of a community is the contribution of individual members beyond what seems individually rational, multiplied by the number of community members. Therefore, the size of the gap and scalability are the precondition of possibility to generate profit. Should community designers focus their efforts on increasing the size of the community or the size of the gap?

This raises the question of access to the community. Closed communities, like the Linux Kernel development team, can much more easily motivate members, but do not have the ability to grow as an open community like Napster.[57] So while in a closed community the individual gap can be bigger, in an open community the individual gap will be smaller but membership greater.

**Chart 4: Optimize the Gap**

Individual gap



Value

Scalability

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[55] http://www.apple.com/quicktime/qtv/mwsf01/

[56] http://pages.ebay.com/services/forum/feedback.html; http://www.amazon.com/
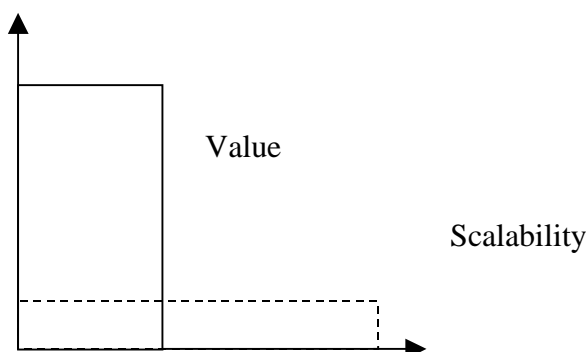
[57] for information on the Linux Kernel: http://www.kernel.org/ For Napster see: http://www.napster.com/pressroom/

The graph represents the relationship between the gap and the size of the community. Depending on the environment of the community, the number of potential members, their susceptibility to act according to the community spirit, community designers should aim to invest more resources in either increasing the gap or increasing membership.

## b. Capturing Profit

All these ideas that generate value are of no importance, as long as it accrues only to the members and not to the builders of Internet communities. If businesses have managed to set up a thriving Internet community, they have created value. Very often the value is distributed to the members and cannot be captured as profit for the builder.[58] The following taxonomy categorizes Internet communities into community type and strategy to capture profit.

**Chart 5: Profit Strategies**

| Type\Strategy | Control Access | Aggregate Data | Side Payments |
|---|---|---|---|
| **Stand-Alone** | The Well, The River, Compuserve | Dooyoo.com, Ciao.com | Ivillage.com, Ecrush.com |
| **Supplemental** | Wall Street Journal online | Amazon (book reviews) | AOL (parenting group), CNN (chat board) |

Which strategy to pursue depends on the competitive dynamic and the size limitations of the environment the community is created in.[59] Therefore, scalability and value capture have to coincide.

During the New Economy IPO bubble only the value generated by communities was focused upon when evaluating the viability of a business model. Even when these businesses were able to generate value to the members, they were not able to capture this value in the

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[58] see for instance the community created by www.geocities.com, www.hotmail.com, or www.thestreet.com, www.motleyfool.com, etc.

[59] Porter, Michael E., Competitive Advantage: Creating and sustaining superior performance, New York, NY: Free Press/MacMillan, 1985.

form of profits.[60] Today, venture capital will fund new endeavors only if they can argue that they will at some point generate profits, capturing the value generated by communities.

The dominant driving economic forces for Internet community based business propositions are positive network externalities. A network externality is the cost or benefit the user of a community derives for an additional person becoming a member. The network externality is positive when the additional person represents a benefit to users while the network externality is negative when the additional person represents a cost.[61]

The following matrix makes it possible to evaluate environments for communities.

**Chart 6: Value Capture and Scalability**

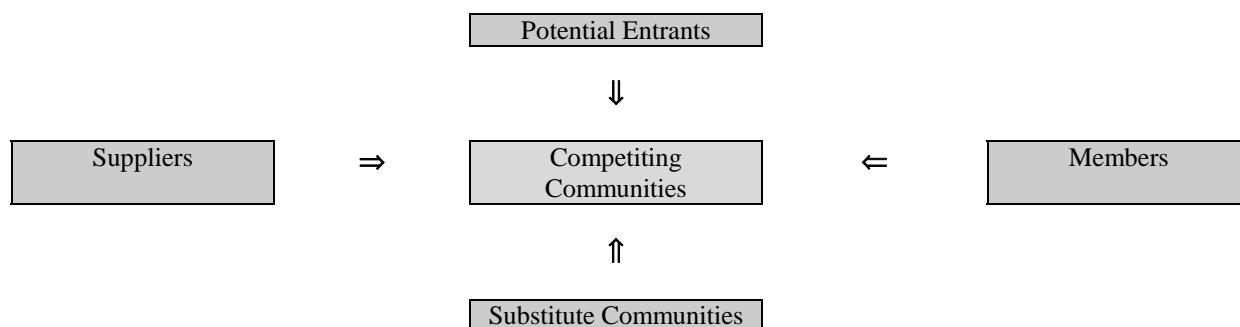| | | Low Scalability | High Scalability |
|---|---|---|---|
| **Value Capture** | High | High profit, linear growth | High profit, exponential growth |
| | Low | Low profit, linear growth | Low profit, exponential growth |

Scalability

In order to understand the matrix we have to drill down and explain how we understand the concepts of value capture and scalability. For us, value capture is the ability to resist the competitive dynamic of the businesses environment. The environment consists of **competitors** (How many, who? How can they be warded off? Does size matter? Positive network externalities), **potential entrants** (What are the barriers of entrance/exit? Who has the competence to enter? Who is planning to enter?), **substitutes** (other products, the brick-and-mortar-world), **suppliers/network providers** (relationship to providers, necessity of being on a portal, costs/revenues?), **community members** (willing to pay for service? Willing to give marketable information?).[62] The following framework that is based on Porter's five forces shows the competitive dynamics community builders have to face.

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[60] Porter, Michael, Strategy and the Internet, Harvard Business Review, March 2001, 62-78.
[61] Kelly, Kevin, New Rules for New Economy: 10 Ways the Network is Changing Everything, London, Penguin Books, 1999.
[62] Porter, Michael E., Competitive Advantage: Creating and sustaining superior performance, New York, NY: Free Press/MacMillan, 1985.

**Chart 7: Competitive Dynamic**

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                        ┌─────────────────────┐
                        │  Potential Entrants │
                        └─────────────────────┘
                                  ⇓
┌──────────────────┐      ┌─────────────────────┐      ┌──────────────────┐
│    Suppliers     │  ⇒   │     Competing       │  ⇐   │     Members      │
│                  │      │    Communities      │      │                  │
└──────────────────┘      └─────────────────────┘      └──────────────────┘
                                  ⇑
                        ┌─────────────────────┐
                        │ Substitute Communities │
                        └─────────────────────┘
```

Scalability is a measure for the **decreasing costs per unit** (What is the ratio between fixed and variable costs? Learning curve?), the **market size** (how many people use the Internet today?), the **market growth potential** (How will this change?), and the **impact of the community on market size** (will people buy a computer in order to become member of the community?).

> Today, the eBay community includes 18.9 million registered users, and is the number one most popular shopping site on the Internet when measured by total user minutes according to the Media Metrix September 2000 web report.[63]

We have described a two-step framework focusing on value creation and value capture utilizing metaphors to create disproportionate profits from community based endeavors.

## Conclusion

This paper has shown that strategists developing business models to capture the value created by communities need a new approach. Community based business models aim to profit from the value which is created when Internet communities solve problems of collective action, by controlling access, aggregating data, or realizing side-payments. Internet communities as a business proposition will become a strategic tool both as a stand-alone model and as a supplement to sustain competitive advantage for "normal" businesses by increasing customer retention rate, building trust, etc.

Software vendors offer platforms for Internet communities with such features as Message Boards, Discussions, Chats, Forums, Postings, Polling, and Surveys. However, the substantial

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[63] http://pages.ebay.com/community/aboutebay/overview/index.html

aspect of profitable Internet communities are not well understood. The current literature on community based business models resorts to individual motivations, to explain why members join and leave Internet communities. However, such an approach cannot sufficiently conceptualize communities because communities are essentially imagined by their members. Therefore, communities can only be understood from the viewpoint of their members, and we need an inside-out perspective to be able to explain why members act as if they follow collective rational or community interests. Otherwise, the analytical gap between the presumption of individual rational behavior and collective rational outcomes that describe a community is lost.

In order to bridge this gap, we focused on the beliefs of community members. We offered metaphors as tools to conceptualize the legitimation and reproduction of communities. These metaphors have a double function: to make the community graspable to its members and thereby legitimize it and to describe the belief of community members to outsiders, to make it operationalizable. In order to profit from the value generated by communities' business, strategists must position it in its competitive environment. With the metaphorical approach we can offer strategists building blocks for profitable Internet communities.

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