

Crowdsourcing as an effective e commerce strategy business essay



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ABSTRACT

With the growing trend of social websites and their usage for e-commerce activities, “crowdsourcing” has become an innovative strategy to conduct e-commerce. The paper aims to explore on its effectiveness as an e-commerce strategy, firstly by trying to understand the history of crowdsourcing. Secondly the paper will look at the methodology and definitions of various types of crowdsourcing. Thirdly, the paper will define how crowdsourcing is used in e-commerce. Next, some case studies of business that uses crowdsourcing are discussed, with analysis on its success and failures. Finally, the paper will provide suggestion on how crowdsourcing can be an effective strategy.

1. INTRODUCTION

Introduced by Jeff Howe and Mark Robinson in the June 2006 issue of Wired magazine, the term crowdsourcing describes a process of how new web-based businesses organize labor, by outsourcing tasks, traditionally performed by contractors or employees, to a community (usually online) through what amounts to an open call for proposals. Howe offers the following definition:

“Simply defined, crowdsourcing represents the act of a company or institution taking a function once performed by employees and outsourcing it to an undefined (and generally large) network of people in the form of an open call. This can take the form of peer-production (when the job is performed collaboratively), but is also often undertaken by sole individuals.

The crucial prerequisite is the use of the open call format and the large network of potential laborers.” (Howe, 2006)

Howe further explained that true crowdsourcing involves a company accepting the idea received, processing it and producing for sale; and the idea provider being rewarded, in most cases, monetarily. This is to differentiate crowdsourcing from “open sourcing”, which is a cooperative activity initiated and voluntarily undertaken by members of public.

In other words, crowdsourcing happens when a company posts a problem online, individuals in the community offer solutions to the problem, the winning ideas are awarded some form of a monetary reward, and the company mass produces the idea for its own gain.

In another article, titled “Power of Crowdsourcing”, by Matt H. Evans, he states that “Crowdsourcing taps into the global world of ideas, helping companies work through a rapid design process.”

From both definitions, it can be understood that crowdsourcing needs a channel that is able to reach out to the masses to be effective, and the most obvious choice is the internet. This is further complimented by the rise of Web 2.0 technologies, whereby individuals are able to interact and define the web rather than being passive browsers of the web. This makes crowdsourcing even more attractive as it allows companies to tap into the potential vast collective intelligence of the masses to achieve their business strategy. As such, e-commerce businesses (businesses that uses the internet to handle the buying and selling of products or services) are the most likely adopter of crowdsourcing technique for their e-commerce strategy.
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E-commerce strategy is the plan and courses of action that a company undertakes to offer its products and services on the internet to achieve its business goal. For companies that have existing offline operations, e-commerce strategy will most likely be focused on integrating its offline operations into an online presence. This will include how to best represent the company online, the infrastructure and framework required to do so and the range of activities needed to promote the company's core activities on the World Wide Web.

Another reason that crowdsourcing is gaining popularity is because in today's globalised market, competition in innovation is very fierce and in-house research and development is getting more costly. As mentioned in "The Global Brain", by Nambisan & Sawhney, 2008, "These forces - rapidly decreasing product life cycles, decreasing internal innovation productivity, and global competition - together are creating a Red Queen effect[1] in innovation: Companies have to invest more and more just to maintain their market position." This makes crowdsourcing a viable option, as it allows the tapping into the vast intelligence of the masses, like what former Sun Chief Scientist, Bill Joy says, "Most of the smart people in the world don't work for your company." More importantly, this intelligence can be obtained at relatively low cost.

2. POPULARITY OF CROWDSOURCING

To understand the current popularity of crowdsourcing, this paper has referred to PBworks (<http://crowdsourcingexamples.pbworks.com/>), one of the world's largest provider of hosted collaboration solutions for business and education, which has a wiki that provides a comprehensive list of <https://assignbuster.com/crowdsourcing-as-an-effective-e-commerce-strategy-business-essay/>

companies that uses crowdsourcing. In addition to the wiki, as the list provided by PBworks is purely textual, this paper has also referred to Grant Silverstone's article, "Friday Fact Box – Crowdsourcing" (<http://www.gottaquirk.com/2010/01/29/friday-fact-box-crowdsourcing/>), for graphical representation of the list. Extracted are two graphical breakdowns of industries that use crowdsourcing, one group using purely crowdsourcing as their business strategy, and the other using crowdsourcing as an add-on initiative to their current business, without disrupting their own core business strategy.

In the chart (Fig 1. 1), it shows the current industry breakdown of companies using Crowdsourcing as their main business strategy. According to PBworks, out of the listed 141 companies, the majority, or 43% belongs to general business, such as marketing, sales, advertising and finance. This is followed by Design (15%) and then Media (13%), while Tourism makes up the least at 1%.

Fig 1. 1 (Source: Grant Silverstone, Friday Fact Box – Crowdsourcing)

In addition to that, in Fig 1. 2, it shows that of these 141 companies, a huge majority comes from USA (65%), Europe (13%) and UK (6%), while Brazil, Africa and Russia only make up 1% each.

Fig 1. 2 (Source: Grant Silverstone, Friday Fact Box – Crowdsourcing)

From these two charts, it can be derived that majority of companies using crowdsourcing efforts are those in industries that traditionally requires large community networks (such as sales, news and marketing) and creativity

capacity (such as design, advertisement, media). While industries that requires specific skills (such as Education) and are more systematic (such as Science and IT) are less popular with companies to consider using crowdsourcing as a business strategy. Moreover, crowdsourcing is mainly engaged in western countries, which the economy and infrastructure are much more developed. This is an important factor as mentioned earlier that a good networking channel is needed for the success of crowdsourcing.

Next in Fig 1. 3, it shows the industry breakdown of companies that initiated crowdsourcing efforts to complement their current business strategy, with the majority from IT at 33%. It is also interesting to note too that nearly all these companies in the list are big players in the industry, such as Adobe, BMW, Nokia and so on.

Fig 1. 3 (Source: Grant Silverstone, Friday Fact Box – Crowdsourcing)

From the chart and the list, it can be seen that currently, crowdsourcing is still a new idea and not attractive enough to draw companies to venture into it as a complement process to their existing business strategy. However, big companies, with huge resources, do see the potential of crowdsourcing and are able to invest into it. This is also the reason why IT industry is the major contributor to crowdsourcing initiatives, as they have the knowledge and expertise to tap on the internet to maximize crowdsourcing potential.

3. Examples of Business using Crowdsourcing

To understand how crowdsourcing is currently being used in businesses and its effectiveness, it is necessary to look at real cases. The paper will look into

3 companies, each with distinctive methods of engaging crowdsourcing, namely Threadless, Amazon Mechanical Turk and Cambrian House.

Threadless

Threadless is a community-centered online apparel store launched in 2000 by Jake Nickell and Jacob DeHart, with \$1, 000 in seed money after entering and meeting in an Internet t-shirt design contest. They wanted to start their own design competition, but instead of hiring a jury, they decided to let the designers themselves pick the winner.

Source: Threadless: <http://www.threadless.com>

How it works

In the beginning, members of the Threadless community will submit their t-shirt designs online, where the designs are then put to a member vote. The winner would get free T-shirts bearing the winning design, while everyone else would get to buy the shirt.

Currently, Threadless receives on average, one thousand designs in any given week, of which, only ten designs from the voted top hundred to print and sell through an online store. DeHart and Nickell also increased the bounty paid to these winners to \$2, 000 in cash, a \$500 gift certificate (\$200 in cash if they trade in the certificate), as well as an additional \$500 for every reprint. This is because limited batches are printed and sold out shirts will only be re-printed if there is enough demand from customers requesting for a re-print.

On occasion, special contests will run in association with various sponsors. These contests set a theme for designs, with a selection of additional prizes, often related to the sponsor, being awarded to the chosen winner.

How Successful was Threadless

The Threadless community is currently six hundred thousand strong, producing about one thousand designs for voting each week. In 2006, Threadless had managed to generate \$17 million in revenues and it is still growing rapidly.

Threadless boasts, according to Jeffrey Kamikoff (Threadless Chief Creative Officer), “incredible profit margins”. Each shirt that sells for between \$12 to \$25 is produced at a cost of just \$5. Moreover, Threadless need not do any advertising or marketing, as the community itself will self-perform such functions. The designers will persuade friends and community members to view and vote for their work. Threadless will also reward the community for those who submit photos of themselves wearing a Threadless shirt or refers a friend who buys a shirt with store credits (worth \$1.50 and \$3.00 respectively). This crowdsourcing strategy helps Threadless to sell an average of ninety thousand T-shirts a month.

However, Threadless had also suffered by their own success. Their spring sale in March 2008 resulted in serious server downtime, resulting in the offer of \$50 vouchers to inconvenienced customers and the promise “...to never ever let this happen again forever ever.” Eighteen months later, a special one day sale to tie into the 09/09/09 date saw Threadless pummeled again by insane amounts of traffic, with users reporting inability to access the site

for extended periods - some never getting through. The customer experience was impacted by such a lack of planning of traffic which was to be expected from a company dealing with such huge social community. It was only from these experiences that Threadless had begun to look into better managing their wildly fluctuating levels of traffic in their infrastructure.

Amazon Mechanical Turk

Amazon Mechanical Turk is a service launched on November 2, 2005 by Amazon.com, which was initially invented for in-house use by Peter Cohen as a service to find duplicates among its web pages describing products.

As of 2010, though still in beta, Mechanical Turk has grown to be a crowdsourcing internet marketplace for work where businesses (known as Requesters) publish tasks (known as Human Intelligence Tasks or HITS), and workers (known as Providers) complete them for a monetary payment that was set by the Requesters. Amazon Mechanical Turk gives businesses immediate access to a diverse, global, on-demand, scalable workforce and gives Workers a selection of thousands of tasks to complete whenever and wherever it's convenient.

Source: Amazon Mechanical Turk: <https://www.mturk.com>

How it works

Amazon Mechanical Turk, as mentioned is a market place for tasks that computer and machines cannot do, or cannot do it precise enough. These

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tasks can only be done by human intelligence, such as writing reviews or detecting specific objects in images.

The process of Mechanical Turk is firstly, companies will post jobs (HITS) at MTurk (Amazon Mechanical Turk Market Place), then deposit the HITS payout amount into their MTurk account. Next, workers, who are registered members of MTurks, will look for tasks that they feel that they can perform. Once they take up the task, they will be assigned to it, but there will not be any contract. These HITS are tasks that are fairly easy and quick to execute, with most of them being able to be completed under 20 to 30 seconds or less and payout at about 10 to 50 cents. After the HIT is completed and submitted, Amazon Mechanical Turk will automatically transfer the money from the Requester's prepaid HIT balance to the worker's Amazon gift certificate account. With the payout, workers can choose to either transfer the money to their bank account or to their amazon. com gift certificate balance. For every task performed, Amazon will take a cut. In addition, Requesters can also give bonus to workers whom they like the task done.

Besides the Official MTurk website, there is another website, Turker Nation (<http://www.turkernation.com>), a forum for workers and requestors to meet and discuss the work at hand. Issues with Hits are discussed here. The site is independent from Amazon, and is not related to Amazon in any way.

How Successful was Mechanical Turk

Since its launch in 2005, the number of worker members in Amazon Mechanical Turk had grown in numbers. By March 2007, there were reportedly more than 100, 000 workers in over 100 countries. MTurk is

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popular with companies as they find that HITS are a very affordable way to outsource large groups of similar tasks that are very simple to complete. Companies find the MT “ task auction” model attractive because it reduces payroll costs of having to employ normal workers to perform such tasks.

However, while Companies or Requesters find the cost of engaging MTurk to complete HITS attractive, there are many criticisms. As HITS are typically simple, repetitive tasks and users are paid often only a few cents to complete them, many have criticized Mechanical Turk as a market place for “ slaves”. Moreover, workers are paid as contractors rather than employees, requesters enjoy tax advantages and low cost, and they also avoid laws regarding minimum wage, overtime, and workers compensation. Workers, on the other hand, must report their income as self-employment income. In addition, some requesters have taken advantage of workers by having them do the tasks, then rejecting their submission in order to avoid paying. Amazon. com does not monitor the service and refers all complaints to the poster of the HIT.

Nevertheless, in view of such criticism, MTurk is still attracting workers, especially those living in second and third-world economies, because the impact of earning those few extra dollars will be magnified many times over.

Cambrian House

Launched in 2006, Cambrian House started as a crowdsourcing community that pioneered the idea of harnessing the power of the crowd to create ideas for websites and software products. Its mantra is “” You think it; crowds test it; crowds build it; you sell it; you profit”.

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Source: Cambrian House: <http://www.cambrianhouse.com>

How it works

Cambrian House calls itself “ a community of people with broad talents and interests to create web-based products that the world wants, markets those products, and shares in the profits.” They cater to people with no time to pursue new ideas or anyone with a vision and motivated to submit ideas.

The way Cambrian House works is, firstly, Individuals register and create a profile of their capabilities in its website. They can then participate within the community by initiating ideas. The community will then test these ideas and give the approval on those that are feasible. Next, Cambrian House staff will create a “ brochure site” to test the winner’s popularity and usability within the community. If the idea survives, the contributor will then seek people with passion and skills in the community to construct or co-develop the commercial version of the idea, by awarding them with Royalty Points (the amount you receive for coming up with an original idea) or Cambro (Cambrian House’s currency, 1 Cambro = \$1 USD). Cambrian House will fund the project and if needed, they can also seek additional funding from the community. Once the product is created, the project champions can then seek marketers, business development professionals, and or SEO (Search Engine Optimization) experts in the Cambrian House community to deal with the promoting, selling and delivery of the product. Finally, once the product starts to sell, every member that contributed will earn Royalty Points or Cambro that had been negotiated with the business champion.

In short, every member in the Cambrian House community can participate by not just giving ideas but also in bringing members' ideas to life. There are no limits to number of projects members can join. During every development stage, everyone involved will also participate as peer-reviewers at select "decision gates" along the way to measure the individual's contribution.

Although Cambrian House crowdsources the conception and creation of its products, ideas are subject to editorial review by a core team and actual production is subject to a set of quality guidelines. In the case of conflicting code or design contributions, the community decides which the best is.

An example of how Cambrian House involves in every project is its first product (a video game) which was emerged from the community forums and seemed popular, so it risked \$8,000CAD on a preliminary website to promote the game. It sailed through the "market test" selling hundreds of pre-orders at half-price (\$9.95CAD) in a single weekend. That response encouraged Cambrian House to invest more for the next development stage.

Cambrian House's eventual goal is to turn each project into a separate, independently funded firm, but only after it has been market-validated.

How Successful was Cambrian House

The original Cambrian House community was deemed successful as it managed to achieve the most important component of crowdsourcing by attracting 50,000 plus members and more than 7000 ideas from the crowd.

However, Cambrian House did not realized that although the crowd was great at thinking and testing, it was less interested when it came to the

building element of Cambrian House's model. Moreover, there are weaknesses in the idea-community model which include the challenge of convincing users to study and vote a rapidly growing pool of ideas, of which some are of relatively low quality, the management difficulty of distributed development, and the large number of duplicate submissions.

After unsuccessfully trying to raise a new round of capital, in May 2008, Cambrian House announced the sale of much of its assets to the New York-based venture capital company Spencer Trask. While Cambrian House will carry on as a vendor of Crowdsourcing software, its existence as a crowdsourcing community had come to a close.

In reflection, Cambrian House CEO Michael Sikorsky states in a letter (excerpt):

" Indeed, our model failed. In short: we became a destination people loved to bookmark more than they loved to actively visit. The limiting reagent in the startup equation is not ideas, but amazing founding teams.

A key assumption for us, which proved out NOT true: given a great idea with great community support and great market test data, we would be able to find (crowdsource) a team willing to execute it OR we could execute it ourselves. We needed amazing founding teams for each of the ideas - this is where our model fell short.

What we learned: it would have been better to back great teams with horrible ideas because most of the heavy lifting kept falling back on us, or a few select community members. A vicious cycle was created leading all of us to get more and more diffuse.

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Hence: the wisdom of crowds worked well in the model, but it was our participation of crowds aspect which broke down. Trying to find people willing or capable to take on the offspring (our outputs) of the Cambrian House model was hard and/or incredibly time consuming." (Michael Sikorsky, 2008)

The lesson from Cambrian House is that the crowd only is not enough as it needs to be managed and needs an inspiring leader to guide it.

6. How can Crowdsourcing be an Effective E-Commerce Strategy?

After looking at the definition and cases of crowdsourcing, it is understood that crowdsourcing has the potential to help e-commerce businesses gain competitive advantage, but like all business strategies, it does not guarantee success. Nevertheless, crowdsourcing can be effective as an e-commerce strategy by helping companies in 5 ways.

Crowdsourcing, firstly, can help companies to do market prediction by using the crowd to understand market desires. Companies can use the crowd to test the appeal of any new business ideas. Besides that, companies can derive from the crowd, emerging market desires and trends.

Secondly, in addition to the knowledge of market desire, companies can draw information from crowdsourcing for product and business innovation. Based on information drawn from the crowd, companies can prioritize new business ideas, conduct product tests, rank next best enhancements with existing products and uncover methods to reduce costs and improve service.

Thirdly, as mentioned, the knowledge of the crowd is very powerful. As such, crowdsourcing is a good option to solve problems that are difficult to solve internally with the companies' current resources, by inviting answers or solutions from the crowd. Companies can also collaborate with the crowd to find new scientific discovery.

Fourthly, besides solving internal problems, crowdsourcing can also help to tackle external issues, such as marketing. Companies can invite crowd to help in the creation of campaigns.

Lastly, crowdsourcing is relatively much cheaper than hiring workforce for doing similar jobs. As companies only need to reward those who had contributed in the crowd, and it is usually not of huge amount, crowdsourcing is able to help companies to cut cost.

With the above in mind, crowdsourcing effectiveness depends on how and under what environment it is used. Based on all the information gathered, the paper has come up with a few key points to effective crowdsourcing.

Firstly, the crowd that crowdsourcing wants to tap into must be of substantial size. For example, if Threadless has only a member base of 100, and maintains its process of choosing ten winning designs every week, it will come a time whereby members might lose interest or doubt the integrity of these winning designs. Moreover, one of the characteristics of crowdsourcing is that the crowd is to represent the market, as such, the larger the community or crowd, the better the representation it will be.

Secondly, companies must understand the crowd. When companies use crowdsourcing, they are usually targeting a specific community, which is <https://assignbuster.com/crowdsourcing-as-an-effective-e-commerce-strategy-business-essay/>

formed by a common interest. Therefore, if companies want to crowdsource, they will need to know the community strengths and weaknesses. For example, if Threadless decides to request its community to submit computer programming works, it might not get anything or the works might be of inferior qualities.

Thirdly, companies need to know what they want and need from the crowd. This is one important factor that determines the effectiveness of crowdsourcing. For example, in Amazon Mechanical Turk, if requesters post HITs with ambiguous requirements, the workers might have difficulty understanding what is needed of them and provide works that are irrelevant or not to the intended requirements. This will cause many rejected tasks, which is a waste of time of the companies and crowd, thus causing inefficiency.

Next, companies need to recognize the contributions of crowd. Monetary reward is a way to acknowledge the crowd's contribution, but usually crowd works mainly not for monetary reason. Participants of crowdsourcing are often leisure users, whose main motivation to participate is to be recognized and feel they are part of the community. The more affiliated they feel towards the community, the more willing they will be in providing help in tasks presented.

Lastly, companies need to have adequate resources to manage the crowd and support the output from the crowd. This is one mistake that many companies make when they do crowdsourcing, as they thought the crowd will be able to contribute in every part of their business plan. This is

generally not the case, as experienced by Cambrian House. As mentioned in the previous point, the crowd is usually made up of leisure participants, as such, they will be more willing to engage in task that requires less effort like providing ideas and suggestions, as compared to more tedious task like building the actual product which will be avoided.

7. Conclusion

The above discussion has shown that crowdsourcing, when used correctly can be highly effective as an ecommerce strategy. It is able to tap into the power of the crowd for knowledge which is virtually unlimited at very low cost. Just like Threadless, by keeping the crowd motivated, business will grow as knowledge from crowd grows.

However, it is important to note that there are situations where crowdsourcing is not possible or impractical. First of all, jobs that are confidential in nature, such as lawyers and accountants, and high level jobs, like business process planning, are not possible to be crowdsourced.

As shown by Cambrian House, the crowd needs to be monitored by the company and provide resources when needed for successful manifestation of ideas. As such, it is not possible to fully crowdsource a business process to the crowd. Internal workforce is still needed as the crowd might not fully understand the companies' business models and goals and these internal employees are able to monitor and ensure the crowds contributions are within the companies' guidelines and process. Moreover, too much reliance on the crowd could be construed as unethical and open the company up to criticism about the true nature of its social mission. By using Amazon

Mechanical Turk, many companies have been seen as operating “ virtual sweat shops”. As such, physical workforce is needed to balance the image of the company.