

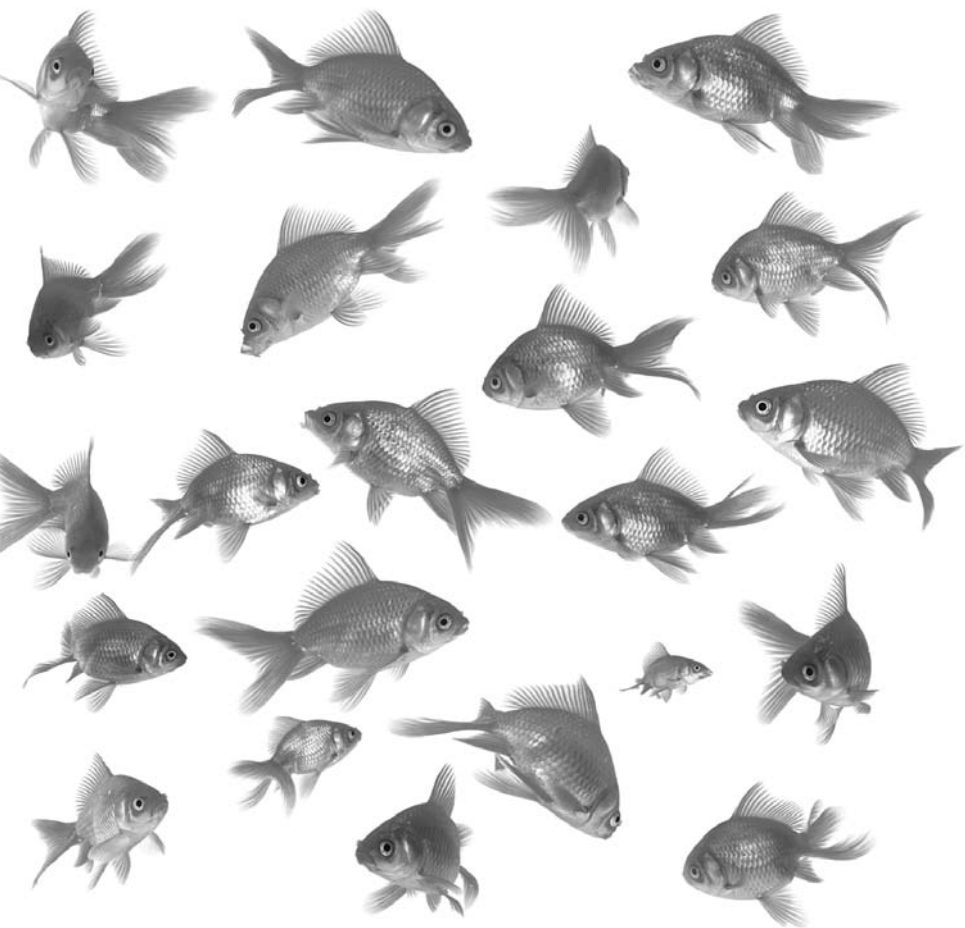
02

Go from R&D to R&We

Back in the Aussie summer of 2002, Liam Mulhall was ready to abandon the high-stress, high-tech business. He had put in his time at the local office of Red Hat, the big U.S.-based provider of open sourcing solutions, and now he and his two buddies had a new Plan A. They wanted to buy a pub in Sydney. The problem was, the price was more than the lads could afford. So they fell back on Plan B, which, in this case, was Plan Brew. With a nothing-to-lose attitude—“It was our money and not a lot of it,” Mulhall allows—they would make beer, but with a twist; they were going to tap the power of community.

Mulhall had stumbled onto the story of PK-35, a Finnish soccer club. The team’s coach invited fans to determine its recruiting, training, and even game tactics by allowing them to vote using their cell phones. The idea put the fizz in Mulhall’s lager. As he would later write, he had found “the best way to run a business—give the customers the reins.”





“Innovation is simply group intelligence having fun.”

—MICHAEL NOLAN

Luckily, Mulhall and his two friends didn't know that the 2002 soccer season would be so disastrous that PK-35 would fire its coach and scrap its fan-driven ways. So they went ahead with their scheme, setting up a Web site, Brewtopia.com.au, and inviting 140 of their friends to describe their ideal beer. Within weeks, the community had built up a head of more than 10,000 people in 20 countries, and their votes determined everything from the beer's style (lager), color (pale amber), and alcohol content (4.5 percent) to the shape of the bottle and the colors printed on the label.

The founders, however, were—and are—solely responsible for the beer's name. For reasons comprehensible only to an Australian (let's just say it has to do with sheep), they called it Blowfly.



Chief executive and “spokesmodel” Mulhall and pals, Greg Bunt and Larry Hedges, contracted with a brewery to make and bottle their concoction. But how to sell it? As the Brewtopia site explains, “In Australia there is a ‘brewing duopoly,’ two major brewers who have contracts with most outlets and bars that restrict the smaller boutique beers. If you don't have the bucks to throw at retailers, you just don't get exposure.” The solution: Blowfly would be sold in direct shipments through the Web site, beginning with the people who helped design the beer, and, thus, would have what Mulhall calls “viral equity” (a.k.a. shares in the company) and a predilection to try the brew. And in line with the company's crowdsourcing origins, the site would enable members of the Blowfly community to customize the label on the bottle, choosing a template from among a dozen offered, typing in their own text, and uploading their own photos or artwork.

Four years later, in 2007, with, as Mulhall would have it, “no brewing experience, no industry experience, no marketing

experience, no money, and no idea what [they] were doing,” Brewtopia had 50,000 customers in 46 nations. Having already branched out to wine and bottled water, soft drinks were on the way, Mulhall told London-based marketing consultant Johnnie Moore. Brewtopia also sells brand-promoting T-shirts and caps.

Mulhall and his buddies give Brewtopia a wisecracking zest that appeals to their young customers, further reinforcing the sense of community. “Some people think this is a cheap publicity stunt,” the Web site proclaims. “Well, there’s nothing cheap about it!” If customers don’t like the beer, the message adds, “you’re in desperate need of a taste bud transplant—but we’d rather not foot the bill for that—instead we’ll gladly refund your money in return for the unused beer as long as you give us your feedback on what didn’t ‘work for you.’”

In his telephone interview with Moore, conducted, fittingly enough, via Skype, Mulhall declared that a business has to constantly keep moving, reinventing itself “like Madonna.” For Brewtopia, which is now flush with cash from its initial public offering on Australia’s National Stock Exchange, the next move is into retail. “Unless you drop your stuff in a shop, people don’t believe you are a real company,” he said. As for Mulhall himself, he just might have a go at the financial industry, specifically community banking, where giving customers a voice in how the business is run could be a differentiating feature with great appeal (more on this topic later in the book).



The Community Is Always Right

For businesses large and small, in Australia and elsewhere, it's no inconsequential decision to let customers dictate what is sold. New product development is among the most important activities any enterprise undertakes. A

business lives or dies on the strength of what it offers, and it's understandable that leaders often resist losing control over the basic nature of the goods they sell.



But there's much to be said for tapping the collective wisdom of a community—customer or otherwise—for product ideas and improvements. In the case of customers, it gives them a vested interest in the results and all but guarantees they will like—and buy—what they've created. You might even be able to skip the whole test-marketing process (but, of course, that's up to you).

Imagine the computers that Acer or Gateway or Hewlett-

Packard could create with input from customers—

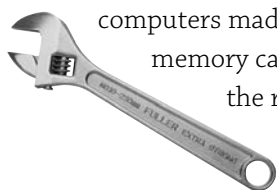
computers made not for geeks who love to install

memory cards and new software, but for

the rest of us, who like to drive cars

without having to know how to

repair the fuel injector.



In the pages that follow are a host of examples of innovative organizations that, like Brewtopia, have pioneered product development by people not on their payroll. These businesses range from food giants to the inventors of a popular virtual world that has confounded skeptics who believed only

nerds would sign on. These organizations' commitment to the collaborative process ranges from cautious to total immersion.

Nikoli

Maki Kaji likes to bet on the ponies, which explains why, when he started a puzzle magazine in 1980, he named it *Nikoli* in honor of a winning racehorse.

The quarterly

magazine, based in

Tokyo, turned out to be a good bet, too. It offers some 30 different types of puzzles with each issue, and a third of them are brand new. They are the handiwork not of the company's employees, but of its readers.



Kaji is the world's most prolific pencil-and-paper puzzle creator, and he publishes them by the hundreds in *Nikoli* and in all sorts of books and other puzzle magazines. But he relies on others to do the creating. In the case of Sudoku, for example, which Kaji promoted around the globe, the inventor was an American. For the rest, he looks to his tens of thousands of subscribers.

They submit their ideas for new kinds of puzzles, a staff of 20 goes through them, and the most promising appear in the next issue of *Nikoli*. Readers then send in their reactions and critiques. Out of that process, Kaji has winnowed some 250 new kinds of puzzles, which get printed in his books.

In the case of Sudoku, he trademarked the game in Japan but nowhere else, so he receives no royalties from the huge sales of the game around the world. He claims to be unfazed, and he has no intention of trademarking other new games. “This openness is more in keeping with *Nikoli*’s open culture,” he told the *New York Times*. “We’re prolific because we do it for the love of the games, not the money.” He prides himself on never having advertised *Nikoli*, letting the Japanese love of mathematics and games do the selling.

Working a puzzle is like being at the track, he explains: “Not just the fun of solving it, but the excitement before, even if you don’t solve it. It’s that excitement before the finish line when the horses are roaring down the stretch and you’re cheering them on.”

The logo for Nikoli, featuring the word "nikoli" in a bold, lowercase, sans-serif font. The letters are black and have a slightly irregular, hand-drawn feel.

Nikoli first published a complicated version of Sudoku in 1984. Its readers offered their modifications and corrections until Kaji had a puzzle he thought was a winner, and it caught on in Japan. But it wasn’t until the *London Times* picked it up 20 years later that Sudoku took off. And that put Kaji and his company in the spotlight as puzzle promoters. Lately, another community-provided numbers puzzle from *Nikoli*, called Kakuro, has been taking the world by storm.



WHAT YOU CAN DO

❖ **The medium is not the message.**

Before the Internet and e-mail invaded our lives, Maki Kaji was tapping the talent of his magazine community by snail mail. A company's goal is to convince us, as the necessary "we," to take part; the means of communication, important though it be, is secondary.



- ❖ **Know your neighbors.** Because Kaji identified with his readers and understood them so well, he knew he could count on them to join the game-invention game.



Procter & Gamble

For generations, the research and development (R&D) team at Procter & Gamble, 9,000-strong, had been the stuff of business legend, cranking out dozens of high-profile, high-profit new products year after year. But in 2000, A. G. Lafley, the company's newly arrived chairman and chief executive officer, stunned his prideful researchers. They were not, he announced, producing winners





A WORD FROM WE

“One of the main reasons that people get involved as a community participant for a company is because of the pain they experience with the product or the service. In the pain-solving process, the company learns so much about how to make their products better.”

—DENISE HOWELL, BLOGGER

big enough or fast enough to significantly boost corporate revenues. His solution was drastic: By the end of the decade, fully half of all new P&G products and technologies would have to come from outside the company.

The object, Lafley insisted, was not to supplant the mighty in-house R&D effort, but to supplement it. That turned out to be a vastly difficult venture, though, and no wonder, given the company's size and complexity. For one thing, the internal communication systems had to be reinvented to make it possible for all parts of the company to exchange data and brainstorm. Then that information had to be made available to noncompany entities, including suppliers and distributors.

Another stumbling block was the resistance of many of P&G's key researchers. Some complained that the proposed changes in their way of doing things would stifle creativity. Others feared a loss of power and prestige if their information and work had to be shared.

Lafley persevered. His most drastic move was a giant step into crowdsourcing. P&G put together a global community made up of high-tech entrepreneurs and open networks such as NineSigma, and including the retired scientists and engineers of YourEncore and the marketplace for intellectual property exchange called Yet2.com. P&G has also gone to Innocentive, a network of 120,000 self-selected technical people from more than 175 countries who receive cash awards if their ideas prove out.

P&G

In seeking help from its extended community, P&G submits so-called “science problems” for solutions. Sometimes the problems come from in-house R&D, representing blind alleys those researchers have come up against. Sometimes the company asks its online partners for help in adapting a feature of a competitor’s product to one of its own. The right answers have greatly benefited P&G. In the case of Innocentive, for example, a third of the dozens of problems posed have been solved. One crisp example of an early crowdsourcing triumph: When the company was stymied for a way to print messages on its Pringles potato chips, the development community found a bakery in Italy with a little-publicized process that could do the job.

P&G is closing in on Lafley’s goal. As of 2006, the company was deriving 35 percent of its ideas from outsiders. Meanwhile, R&D productivity has soared 60 percent. A whopping 80 percent of its product launches are successful, compared to 30 percent for the consumer-products industry as a whole. And it spends 3.1 percent, or about \$2.1 billion, of its more than \$68 billion in annual worldwide revenue on research and development, much more than others in the industry.





WHAT YOU CAN DO

- ❖ **Tread firmly but carefully.** Seeking the help of outsiders, even when they're part of some amorphous, unseen community, can be threatening to in-house staff. They will resist. Make your intentions clear, as P&G's Lafley did, and stick to them. Meanwhile, do everything possible to accommodate the concerns of the resisters. For example, P&G allowed researchers to type up their notes in Microsoft Word or continue to rely on an older system that was modified to make it compatible with the new pilot technology.



- ❖ **Thank you for sharing.** Ironically, some of the same companies that have seen the crowdsourcing light and reached outside their walls have overlooked the wealth of intelligence and experience in the nontechnical side of their operations. The days of kissing off employees' ideas with a couple of suggestion boxes is long past. No business can afford to ignore the ideas and inside knowledge brewing in the minds of its accountants and lawyers, production line, and sales crew, just waiting for management to provide an incentive to join in.



Linden Lab

General Motors has created a whole complex where you can go to a drive-in theater or a tune-up shop and, oh yes, check out the Pontiac Solstice. Dell has a factory where you can customize your PC and have it shipped to your door. Reuters has set up a newsroom to help you keep up with what's going on in the world. And you can enjoy it all without moving an inch from your office desk or your easy chair.

You're in Second Life, the online virtual universe. Some people are still calling it a game, but they don't include GM, Dell, Reuters, and dozens of other corporations. They see this ultimate example of crowdsourcing as strictly business.

The handiwork of Linden Lab, a San Francisco-based 3D entertainment company, Second Life has been and is being shaped entirely by its five million or so members. They are represented by cartoonlike avatars who can go to casinos, sex clubs, and shopping malls; attend concerts (Suzanne Vega and Duran Duran have performed there); design furniture; invent weapons; and drive cars. They can also devise alternate lifestyles, make new friends, start new careers, and adopt a new personality.

Second Lifers can also get their virtual flu shots from a virtual employee of the Centers for Disease Control and Prevention; bump into House Speaker Nancy Pelosi and other political types on Capitol Hill island; and attend college-level lectures in virtual classrooms provided by the likes of Harvard, Ohio University, the Australian Film TV and Radio School, and New York University.



All sorts of companies have joined the crowd—for all sorts of reasons. Some are pitching or testing products. Starwood Hotels plans to open its new prototype, The Aloft, in 2008, and has built a virtual version in Second Life to get members' feedback on its design and features. It has sponsored concerts there to bring in visitors, most recently featuring Ben Folds, formerly the lead singer of the now-defunct Ben Folds Five.

Other companies are using Second Life as a meeting place where employees and managers from around the country or the world can gather away from the office while still sitting at their desks. At one virtual IBM session, avatars representing researchers in Australia, Florida, India, and Ireland hashed over supercomputing problems, instant messages bouncing back and forth. Thousands of IBM employees now have routine meetings on the site.

Advanced Micro Devices prides itself on being “a leading global provider of innovative processing solutions in the computing, graphics, and consumer electronics markets.” In other words, it lives or dies by software developers. So it has created a pavilion in Second Life where developers, new and old, can network and attend lectures and training courses. It's located on the Second Life Developer Archipelago, and it includes an exhibition hall with interactive booths, scripted banners, and streaming videos.

Meanwhile, Linden Lab is not slowing down. In addition to instant messaging, the company now offers members the option of actually speaking to each other, using computer headsets. Not content with having established a virtual world built by the crowd, Linden has taken its crowdsourcing a step further.





WHAT YOU CAN DO

- ❖ **Get serious about the crowd.** When open sourcing first appeared, it was greeted mostly as a curiosity, certainly nothing that had a practical dollars-and-cents significance. When Second Life opened for business, hard-headed businesspeople had pretty much the same reaction. No longer. The notion that the Internet crowds represent an important potential value beyond their role as customers has finally penetrated many corporate heads. How about yours?



- ❖ **Ask the right question.** If ever there was an example of the need to innovate these days, it has to be Second Life. The activities that some companies have undertaken are fascinating and make it clear that leaders have to find a way to expand their view of the possible. There are so many ways you haven't thought of to leverage your online community. One approach is to expand the universe of people you're depending upon for new ideas. Include everyone in the company, or all of your stakeholders (including investors), or all of your customers. One of your competitors might be taking those steps at this very moment. The question no longer is "What will they think of next?", but rather "How much time do we have before they think of it?"



It has released the code of its viewer application so that the online community of developers can improve it or add new features. No doubt, Second Life will be unrecognizable within another year or two.



A WORD FROM WE

“Feedback from stakeholders can create the innovation required to enter new markets or take over a larger market share.”

—PETER TARHANIDIS

SugarCRM

This start-up in Cupertino, California, uses the power of community to create and continuously improve its open-source customer relationship management (CRM) software. Founder and CEO John Roberts describes it as “the collective work of bright CRM engineers around the world.”

Before Roberts came along, open-source product development was limited to the infrastructure side of the IT market. Betting that a growing number of individual users and IT managers were fed up with having to pay big licensing fees for proprietary applications designed to help manage sales and keep tabs on customers, Roberts and his company offered customers free software, but with real people and their cache of knowledge standing by for support.

More than one million companies or individuals have downloaded the software since the company released its first version in April 2004, and any one of them can pitch in



to patch holes, fix errors, provide more elegant programming, or build third-party extensions. The open-source product refinements and extensions take place in what the company calls the SugarForge. Here interested parties can see what kind of functionality Sugar has

to offer at any given time. Sugar earns revenue by providing technical support and customized versions of its software.

Some critics say Sugar's business model is confusing and failure prone because it offers both an on-demand subscription version of its software and the option of having the program installed on in-house networks; either option allows for customer modifications. Others scoff at the notion that a significant number of corporate software buyers will take a flyer on unknown open-source CRM applications.

But fans of Sugar counter that it is precisely the business customers who are clamoring for less expensive choices that can be customized to their particular needs and wants. And even if the purchasing executives themselves aren't savvy about open sourcing, their IT departments certainly are. Good reviews for Sugar will filter up, they say.



Given that paying customers have migrated to Sugar over the past three years—all without any big and expensive corporate marketing campaigns—the proponents of the sweeter view seem to have the edge.



WHAT YOU CAN DO

- ❖ **Make sure everyone benefits.** It can be hard to get your business head around the idea that is so basic to crowdsourcing: Many members of the Internet community are happy to help you for free if you can create a situation that will satisfy their needs or desires. SugarCRM has succeeded by doing just that, effectively turning over its software to the CRM community, urging its members to keep making the software better for their own sake, and then providing services built around the improved version. It's a righteous circle.



Virgin Mobile USA

The cell phone company uses 2,000 carefully selected online customers—“Insiders,” as Virgin calls them—to keep it abreast of trends and promising opportunities. Virgin describes the group as “a team of elite,

Sir Richard Branson, founder and chairman of the Virgin Group, shows one of the first cell phones available from the leading U.S. wireless youth network Virgin Mobile USA.

young, and active customers,” and it rewards them with free calling minutes and phone upgrades.



A joint venture of Richard Branson’s Virgin Group and Sprint Nextel, the company goes to its Insider community—think: very hip focus group—for help on everything from designing phones to coming up with names for service plans. As one officer of the company put it, “Ultimately, what we want to do is put young consumers backstage.”

But this is not high school, and being accepted as part of the in-crowd is not the only way to be heard and earn rewards at Virgin Mobile USA. The company, whose pay-as-you-go, no-contract service has attracted 4.6 million phone users, offers all of its mostly young Chatty Cathys and Texter Thomases the chance to earn free phone minutes simply by paying attention and giving feedback on a corporate sponsor’s advertisement. Any Virgin Mobile customer who watches 30-second commercials on his or her computer screen, reads text messages on a cell phone, or fills out brand survey questionnaires can earn up to 75 minutes a month of free airtime. Called Sugar Mama, the program gives a notoriously voluble group the chance to stay one step ahead of a dead cell phone by voicing their opinions.

But more to the point, Sugar Mama enables sponsoring partners to tap into the thoughts and opinions of a coveted marketing segment, and they’re happy to pay for the privilege. As one corporate media director pointed out, knowing that the kids don’t get paid unless they watch an ad and answer questions helps assure advertisers that they are getting honest feedback.



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Catering to the crowd has also delivered an unexpected benefit to Virgin Mobile: buzz marketing. The kids are talking about the company, even those who use another network. When the company kicked off a clever text-messaging marketing program called Adopt-A-Mime that featured silent mimics in whiteface, the word spread fast, both in and out of the Virgin Mobile network. The buzz caused a notable number of non-Virgin customers to inquire about adopting a mime.



WHAT YOU CAN DO

❖ **Choose your partner.**

In this chapter, we have been talking mostly about online communities numbering in the thousands or millions. But when you're looking for help in creating a new product or service, it could be more efficient and convenient to limit your reach to a portion of your potential community. That was the route Virgin Mobile took, narrowing its resource pool to just 2,000 of its best, brightest, and youngest.





WHAT YOU CAN DO

- ❖ **Spread the joy.** While concentrating on its Insider group, Virgin Mobile had the good sense not to deprive its other customers of a way to earn a reward. Had it not designed the Sugar Mama program for the masses, the bulk of its customers might have become resentful, thereby negating the Insider group's impact on product development. As it is, satisfaction surveys, such as those conducted by J. D. Power and Associates among wireless pre-paid customers and those conducted by Virgin Mobile USA among its own customers, put Virgin Mobile at the top of the heap.
- ❖ **Think almost free.** Sometimes you might actually want to pay the members of your community—not because they would otherwise refuse to help, but because it's a way to make them more committed to your cause. Free minutes and phone upgrades will not dent Virgin Mobile's bottom line, but they work wonders in convincing the company's young customers to go "backstage." Of course, you need to be careful not to insult sophisticated volunteer members of your community with trinkets.



Idea Crossing

Fresh strategic ideas from fresh-faced MBA students—that's the product marketed by Idea Crossing, a Los Angeles start-up. Each year it runs the Innovation Challenge, a contest that tosses corporate problems into the laps of 3,000 of the brightest minds on college campuses around the world. Organizations ranging from the U.S. Postal Service to Hilton Hotels and Whirlpool pay \$50,000 and up to sponsor the brain-bending competitions among school teams.

Founded in 2002 by Anil Rathi, then a gifted innovator himself at the Thunderbird School of Global Management, Idea Crossing initially hoped to link consumers who had come up with great product ideas to the companies that could bring the ideas to market. The competition started as something of an incidental experiment. But when the brainiacs leaped at the chance to tackle real-world problems and the companies swooned over the solutions these young outsiders came up with, the "experiment" graduated into the annual Innovation Challenge.



In the 2006 competition, a team from the Desautels Faculty of Management at McGill University in Montreal beat out 439 other teams of graduate students from 88 universities for top honors and a \$20,000 prize. Its winning ideas centered on growth-enhancing partnerships for Hilton Hotels and ways to connect Chrysler with baby boomers. The strategic details are not for public consumption; they now become the intellectual property of the competition's sponsors.



The Bronfman Building, home of the Desautels Faculty of Management.



WHAT YOU CAN DO

- ❖ **Decide who does what.** The scenario is familiar. Your company recognizes a promising new business idea, which you adopt and develop. Then along come the entrepreneurs who have sniffed out a new market. They develop a different spin on the idea, which they offer to share with you for a fee. Fair enough. But the danger is that, before you know it, you're relying entirely on the entrepreneurs for new takes on the idea—and you're starting to lose your company's innovative chops for lack of practice.



Business has only begun to tap the infinite potential of online communities as arbiters and creators of new designs and products. Variations on Second Life are popping up all over, for example, offering untold opportunities for companies to interact with creative consumers in new and different ways.



But the contributions of crowdsourcing to the bottom line are by no means limited to product development. In the next chapter, we describe how companies are using communities to handle their customer service needs—and the risks and rewards of that approach. We also explore the reasons so many customers are so happy to help each other, for free.