

Business Applications of Virtual Communities

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INTRODUCTION

In studying the broad spectrum of business-focused virtual communities in operation on the Internet today, there are two categorizations that are readily observed by researchers. First, business-focused virtual communities are directly sponsored and/or managed by a firm or they are privately managed by individuals interested in a specific business topic, product/service line, or industry. Second, business-focused virtual communities involve interactions directly between multiple businesses (B2B), interactions between businesses and individual consumers (B2C), or interactions between individual consumers (C2C) on topics of business interest. Understanding where a given business-focused virtual community fits within both categorizations can identify the purposes (mission and vision) that it seeks to fulfill and the specific target audience that it seeks to draw and serve. While neither categorization is fully accurate or appropriate in all cases, the fact that a broad variety of different permutations of business-focused virtual communities exist serves to underscore the importance of virtual communities as a whole to businesses in today's global marketplace.

BACKGROUND

Beginning with widespread acceptance and use of the Internet in the latter two decades of the 20th Century, business-focused virtual communities began to emerge for a wide range of purposes and in a varied range of configurations. Boczkowski (1999) examined the existence of hardware platforms, software packages, and users' practices that serve to form a "national virtual community" if and/or when the circumstances are right. Using as examples the networks that foreign nationals often establish to communicate with others from their home countries, Boczkowski defended the concept that a nation's electronic infrastructure can actually bind computer users into a loose national virtual community that operates according to its own norms and standards.

Many businesses operate virtual communities from a national or international perspective of audience reach, rather than from a local perspective. The goal, whether

stated explicitly or implicitly, is to cast a very broad net in order to attract new customers at the lowest possible cost per customer. As a result, more competition will increase the need for differentiation among virtual communities as businesses seek to build their customer bases online. Ultimately, differentiation in business-focused virtual communities will be the key to success or failure.

Hawkins, Mansell and Steinmueller (1999) analyzed the linkages between suppliers and users of commercial products/services and concluded that a supplier-sponsored virtual community could function efficiently and effectively as a value-added intermediary between the two in today's B2B online marketplace. Using the term "digital intermediation," the authors stated that a supplier could set up and manage a virtual community as a way of informally providing key information and other resources to existing and potential customers. In order for the virtual community to be efficient and effective, however, a supplier must offer legitimate information that is truly helpful to customers. This may require a supplier to be more unbiased in thought and word than is comfortable from time to time, but if the goal is to build long-term relationships with customers, Hawkins and co-authors noted that an important boost in terms of customer loyalty will be realized.

Balasubramanian and Mahajan (2001) examined the economic leverage created by business-focused virtual communities. The authors differentiated between need-based business decisions that are driven by traditional marketing research methods and virtual community-based business decisions that are established on understanding the interactions that occur between groups of customers who typically use the products and/or services sold by the business. This is a fine-line distinction that requires further clarification. When the authors referred to traditional marketing research methods, they meant marketing research techniques such as surveys, focus groups, mystery shoppers, and other similar means for observing what customers are most likely to need and/or want. When referring to virtual community-based research methods, they meant observing how customers interact when left entirely to themselves to discuss products and/or services of common interest. Much of the authors' research relied heavily on C2C interactions—again establishing how individual customers can influence business-fo-

cused virtual communities. The conclusion reached by Balasubramanian and Mahajan was that economic [business] decisions that are associated with information gained from virtual communities must not only be consistent in how the virtual communities operate, but also, must be totally embedded into the social, as well as, economic norms and values of the participants in order to be successful. The research carried out by Balasubramanian and Mahajan serves to help understand the category of virtual communities that are not directly affiliated with a business or its owner/manager structure.

Lechner and Hummel (2002) contend that the importance of business-focused virtual communities to business enterprises has increased dramatically as virtual communities have transitioned from a sociological phenomenon to peer-to-peer architectures. These authors noted that the earliest Internet transactions in business were unidirectional, with producers of products/services and their intermediaries communicating with consumers (B2C) to make them aware of what was available and how to make a purchase. Little two-way communication occurred, except for the correspondence associated with placing and receiving orders. From this simple base, business transactions quickly evolved into an interactive state where the process of mass customization in terms of communications and in terms of product/service offerings became not only feasible, but also expected by consumers, and thus, the tremendous growth of B2B and B2C virtual communities.

BUSINESS SPONSORSHIP EXAMPLES

The number of practical applications of business-focused virtual communities is staggering, with numerous innovative new applications appearing yearly. Three specific examples; one taken from the music industry, one taken from the Internet search engine industry, and the other related to the discount pricing industry are discussed in this article. Taken as a group and/or looked at separately, these three practical applications of business-focused virtual communities illustrate the breadth and the scope of current activity in this field.

The Music Industry

Moving music and music sales to the Internet creates a different dynamic than selling to customers via a traditional retail outlet or even as an online source of sales for prerecorded music. Lechner and Hummel observed that the simplest case of a business-focused virtual community serving the music industry is MP3.com. MP3's value

chain is a short one, but it does encompass the production of content (the music files), marketing, and distribution. MP3 virtual community members only interact during the marketing stage of the process—largely by supplying reviews for artists' music files that can be downloaded and played as trial copies. Interaction between members can "make or break" an artist who may be trying to launch a CD using the MP3.com Web site. As the sponsor, MP3 generates revenue by having the broadest product selection of artists available and by offering services to assist their virtual community members with an opportunity to configure and purchase CDs that are "burned" and sent to them by mail and/or online.

The Internet Search Engine Industry

Lechner and Hummel divide Internet search engines into three categories depending on their degree of similarity to a virtual community business model. Least like a virtual community are conventional search engines such as *Yahoo*, *AltaVista*, and *Lycos*. Falling in the middle are search engines with limited virtual community interactions such as *Direct Hit*. Most like a virtual community are highly-interactive search engines such as *Google*. As the similarity to a virtual community increases, so does the ability of the search engine to deliver value-added results on difficult Internet queries.

In conventional search engines, software programs are used to gather and process information, rank it, and store it. When a user calls up the search engine and types in a request for information, search routines sort through the database, rank items retrieved, and present them to the user. No feedback from the user to the search engine is collected, except that search engines that are known to consistently provide helpful and useful information will, over time, receive more numeric "hits" than less helpful search engines. Although conventional search engines are popular, there are disadvantages to their use. Searches can yield too many or too few results to be helpful since full-text searching is used to provide the results that are supplied. This approach can fail to detect semantics issues and other subtle characteristics of Internet information that can influence the utility of search engine results.

Moving to search engines that rely on greater involvement of the user base, *Direct Hit* tracks the specific search results that users follow based on their request. More usage of a given link indicates greater relevance to the user's needs and/or wants. Using a software algorithm to track users' behaviors and record their knowledge of "good" links, *Direct Hit* transfers the responsibility for ranking results to the user base. *Direct Hit* users form a virtual community that provides essential feedback to the

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