

Business Model Analysis for Online Social Shopping Companies Case Study: RunToShop Oy

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ABSTRACT

Online social shopping is a new business model emerging in E-Commerce world and becoming quite popular in recent years. Online social-shopping website is where people can recommend their favorite products for others to discover and purchase online. Online social shopping combines Business-to-Business, Business-to-Consumers and Consumers-to-Consumers services together and blends two powerful elements of real-world shopping otherwise lost for online consumers: word-of-mouth recommendations from trusted sources and the ability to browse products in the way that naturally leads to discovery. Attracted by the market perspective of online social shopping, many start-ups have entered in the market in recent years. In addition, some large Internet media companies have seen the potential in the market and tend to take a share of the market, such as Amazon's aStore.

The goal of this study is to analyze the business model of the case company and compare its business model with its selected main competitors' (namely YELP, Kaboodle, and Zlio) in order to find out the success factors for an online social shopping company in the fiercer competition. The research framework is adapted from Osterwalder's business model framework. Qualitative research methods, e.g. case study and interviews, are applied in this research. RunToShop Oy, the first Finnish social shopping company is the case company of this study.

According to the business models analysis, YELP's unique business model which emphasizes on providing localized reviews in USA has achieved great success in the USA market. Kaboodle's business model which focuses on facilitating online shopping for consumers makes it very popular among young females so that it is acquired by Hearst as an online marketing channel in May 2008. Zlio's business model which aims at building the largest sales forces in the world with high commissions rewards seems not to be accepted in the market. Its aggressive money making business model causes problems in trust from consumers and conflicts with its business partners. RunToShop's business model would like to bring personality and trust which are missing in online shopping. At the beginning of the business development, the biggest challenge for RunToShop is how to attract more users in order to build up an active and loyal online community. Based on the lessons learnt from the selected International competitors, some managerial recommendations are made to RunToShop's management team. It is important to propose a unique value proposition according to the actual needs of consumers. Startups should consider focusing on niche market in order to gain competitive advantages over International competitors. It is critical to focus on developing an active local community and encouraging the loyalty and trust. Maintaining good relationship with business partners is a key to success. The revenue model should be carefully designed to get as many revenue streams as possible in order to make good profits. Fast International expansion does not always guarantee success so it should be considered only after the business model is accepted in the local market.

Keywords: Online Social Shopping, Business Models, and E-Commerce
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1 INTRODUCTION

1.1 Background

Electronic Commerce (E-Commerce) can be defined loosely as ‘doing business electronically’ (European Commission 1997). E-Commerce includes electronic trading of physical good and of intangibles such as information. This encompasses all the trading steps, such as online marketing, ordering, payment, and support for delivery. E-Commerce is also a convenient channel to provide services, such as after sales support or online legal advice, etc. Furthermore, E-Commerce also includes electronic support for collaboration between companies, such as collaborative design.

An explosive development in Electronic Commerce can be seen during last 20 years. Internet and the World Wide Web make E-Commerce much more accessible, easily usable and lower cost. Thus, E-Commerce on the basis of the Internet is set to become a very important way of doing business (Paul Timmer, 1998). The emergency of E-Commerce re-constructs the traditional value chain and brings companies various innovative choices of business models.

A 2007 Pew Internet and American Life Project report¹ found that of 2,400 internet users surveyed, 30 percent have felt overwhelmed by the amount of information they have found while shopping or researching online, while 43 percent have been frustrated by the lack of information. It indicates a large potential market that could make use of more advanced shopping assistance sites. Thus, online social shopping websites are emergent by bringing the values of recommendations from consumers’ online social network in order to facilitate online shopping.

Online Social-Shopping Website is where people can recommend their favorite products for others to discover and purchase online. Social shopping websites are bridging the continents of offline media, brand advertising and e-commerce by building a media platform that supports the marketing lifecycle -- awareness, consideration, trial and consumption. Online social shopping blends two powerful elements of real-world shopping otherwise lost for online consumers: word-of-mouth recommendations from trusted sources and the ability to browse products in the way that naturally leads to discovery.

¹ <http://www.entrepreneur.com/magazine/entrepreneur/2008/july/194428.html>

Online social shopping has becoming popular. There are many players in the market already, such as Yelp, Kaboodle, and Zlio etc. Attracted by the market perspective of online social shopping, many start-ups have entered in the market in recent years. In addition, some large Internet media companies have seen the potential in the market and tend to take a share of the market, such as Amazon's aStore. As the competition become fiercer, it is significantly important to investigate the movements of the competitors and changes in market trends in order to differentiate from the competitors and outperform in the competition.

RunToShop, launched in September 2008, is the first online social shopping company in Finland. RunToShop provides service for consumers to find the products which their peers love and where buying is made easy by offering the most relevant and personal recommendations. Run brings tools for extending online shopping to communities where there is a lot of involvement from people. RunToShop is chosen as the case study company in this research where its strategies and business model are analyzed and compared with the selected international competitors.

1.2 Study objective

As the online social shopping companies are emerging and getting popular during the recent years, there is rarely scientific research in this filed. The goal of this study is to analyze the business model of the case company and compare its business model with its main competitors' in order to find out the success factors for an online social company in the fiercer competition. According to the research objectives, the research problems are identified as follows:

1. What are the business models of the case company RunToShop and its three selected competitors, namely Yelp, Kaboodle, and Zlio?
2. Based on the evaluation of the selected competitors' business models with their market performance, what lessons can RunToShop learn from the competitors in order to become a successful online social shopping company?

Generally, the success of the business models is evaluated with the comparison of the company market performance according to our adapted research framework. Since RunToShop is still at

the initial stage to implement its business model, it is hard to compare its business performance with the selected international competitors who have operated in online social shopping business for several years. Thus, the comparison of market performance is only conducted among the three selected international competitors (YELP, Kaboodle and Zlio) in order to propose some managerial recommendations for RunToShop for future business development.

1.3 Research approach and methodology

1.3.1 Research process

As online social shopping is a new concept in research, there are not many studies in the field so far. In the theoretical part, many literatures about business models in E-Business are reviewed and especially Osterwalder's E-Business model ontology is introduced. Since there are no research frameworks which are established particularly to analyze and compare the business models for online social shopping business, the first task of this thesis is to develop an adapted research framework of business model analysis especially for online social shopping companies based on reviews of the existing theoretical frameworks.

In this study, the data used in the analysis is collected from various sources. The primary data is collected in a form of interviews with the company directors in RunToShop and an expert/consultant in the social shopping business field from the USA. The secondary data is collected from various literatures, related references and international publications. The observation of discussions on concerned blogs and forums are also significant sources for the study. In addition, the updated information about the competitors' movements is searched from different database and online newspapers collections.

The different types of sources for the research were used as follows:

- Literature from specific references in business modeling field
- Publications and discussions on online social shopping related blogs and forums
- Observations from the selected key competitors' websites
- Interviews and discussions with the managers in the case company and a professional consultant

These sources were chosen for different reasons. The following provides the justification for the selection of specific sources of information.

The literature for the theoretical part used in this thesis is based on theories of E-Commerce, value chain in E-Commerce, the importance of business models and frameworks to map a business model particular for Internet companies.

The secondary data for this thesis was mainly collected from the web pages of different organizations and public agencies, which provide reliable information in various formats including research papers, articles and statistics. The pages used are official websites of public organizations that maintain and update their information consistently. In addition, some social shopping related blogs provide updated information in the industries and the reviews of online social shopping business in different perspectives.

The observation from the main competitors' websites is an important resource to collect information from the selected competitors. Because competitors use their websites as a key channel to communicate with its consumers', business partners and the public, much valuable information can be found on their websites in order to analyze their business models.

The primary data for the research is obtained from interviews with the key managers in the case company RunToShop in order to discover its business strategies and business model. Furthermore, an interview with a professional consultant from a consulting company in USA aims to gain professional insights in online social shopping business in order to provide managerial recommendations to the case company.

In summary, the literature reviews build an overall picture of the development in E-Business and the business modeling techniques for Internet companies in E-Business. The research framework is developed on the base of Alexander Osterwalder's E-Business model ontology. According to the adapted framework, the primary and secondary data is collected and analyzed to answer the research questions.

1.3.2 Qualitative research

As the nature of ‘Social Shopping’ indicates the social science research methods should be applied rather than quantitative study. Thus, qualitative research methods are selected in this study. These were developed in the social science to enable researchers to study social and cultural phenomena. The motivation for selecting qualitative research is because the qualitative research methods are designed to help researchers understand people and social and cultural contexts within which they live. Kaplan and Maxell (1994) argue that the goal of understanding a phenomenon from the point of view of the participants and their particular social and institutional context is largely lost when the textual data are quantified.

Case study research is used as the main methodology in this study. Case study research excels at bringing an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Researchers have used the case study research method for many years across a variety of disciplines. Social scientists, in particular, have made wide use of this qualitative research method to examine contemporary real-life situations and provide the basis for the application of ideas and extension of methods². (Yin, 1984, p. 23)

Both interviews and case study, two of the most common qualitative research methods, are used in this study. RunToShop, the first online social shopping company in Finland, is chosen as the case company in our research and its main competitors in the world are selected to study in order to make a comparison and generalize the conclusions in the online social shopping business. The interviews with the managers in RunToShop are actually a part of the case study in order to discover how the business model is designed in practice according to the strategies. Moreover, the interview with the consultant from USA inputs insights of the development of the online social shopping companies worldwide from an expert point of view. The interviews with the business consultant from USA provide some updated information about the movement of the selected competitors, as well as an expert evaluation of the selected competitors’ business strategies, business models and market performance. The interviewee is also asked to give his

² Yin, R. K. (1984). *Case study research: Design and methods*. Newbury Park, CA: Sage.

opinions about the success factors for online social shopping companies and propose some managerial recommendations for RunToShop future development.

1.3.3 Structure of the study

The first chapter of this thesis gives an overview of the background of the research, the objective of study, the research process, and the structure of the study.

Chapter 2 explains theoretical issues in the study. The development of business modeling in E-Business is reviewed and the four pillars of the E-Business model ontology are introduced. The framework of this research, which is developed based on the Osterwalder's ontology, is adapted for the purpose of analyzing the business models of the case company and its main competitors in the following chapters.

Chapter 3 introduces the methodology of this research. The case study research method is chosen according to the research objectives. Furthermore, both observations and interviews are used to collect data in order to analyze and compare the business models of the case company and its selected competitors.

Chapter 4 focuses on the business model analysis of the case company RunToShop according to the collected data applying with the research framework which is developed based on the literature reviews.

Chapter 5 is an analysis and comparison of the business models of the three selected international competitors with RunToShop's according to the adapted research framework. The business performances of the three competitors are analyzed as well in order to evaluate the success of the business models in an operative level.

Chapter 6 gives a conclusion. The aim of this chapter is to summarize the key findings about each research problem and to discuss the findings in relation to existing theories. The conclusions are drawn from the analysis and comparison of the business models of the case company and its main competitors. In the discussion part, the lessons learnt from the case company and its competitors

are summarized as success factors for a popular online social shopping website in order to win in the fiercer completion. The success factors are also managerial recommendations for the case company.

2 LITERATURE REVIEW

Some literatures are reviewed to build a theoretical base for the research in this chapter, which is structured in the following way. In the first section, the notion of ‘business model’ used in this paper is clearly defined and the importance of understanding the business model for Internet based E-Business is summarized. In the second section, E-Business model ontology is introduced. Moreover, the four pillars of E-Business model are decomposed and well explained in order to build a framework to analyze the business model of the case company and its selected competitors in the later chapters. In the third section, based on Osterwalder’s business model analysis framework, an adapted research framework is created in order to compare and evaluate the business models according to the research objectives.

2.1 Business model for Internet based E-Commerce

There are different definitions of business models with different focus. According to Afuah (2004), a business model is a framework for making money. It is the set of activities which a firm performs, how it performs them and when it performs them so as to offer its customers benefits they want and to earn a profit. The definition of business model refined by Osterwalder is applied in this paper: *Business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences.* (Osterwalder A. & Yves P., 2005)

Traditional business models are transforming or developing to better exploit the opportunities enabled by technological innovations (Adamantia G.P. & George M.G. 2004). The emergency of E-Commerce re-constructs the traditional value chain and brings companies various innovative choices of business models. Admittedly, the topic of business model led to a lot of publications by journalists, business people, consultants and academics. It is discussed in various different domains, such as E-Commerce, information systems, strategy, and management (Pateli and Giaglis, 2003). Yet, business model are still relatively poorly understood (Linder and Cantrell, 2000), particular as a research area.

It is essential to understand and use of E-Business models in an increasingly dynamic and uncertain business environment for the following reasons (Osterwalder 2002).

- i) The process of modeling social system or an ontology- such as an E-Business model- helps identify and understand the relevant elements in a specific domain and the relationships between them. (Ushold et al., 1995; Morecroft, 1994).
- ii) The use of formalized E-Business models helps managers easily communicate and share their understanding of an E-Business among other stakeholders (Fensel, 2001).
- iii) Mapping and using E-Business models as foundations for discussion facilities change. Business model designers can easily modify certain elements of an existing E-Business model (Petrovic et al., 2001).
- iv) A formalized E-Business model can help identify the relevant measures to follow in an E-Business similarly to the Balanced Scorecard Approach (Norton et al., 1992).
- v) E-Business models can help managers simulate E-Business and learn about them. This is a way of doing risk free experiments, without endangering an organization (Sternman, 2000).

In literature, the concept of “business model” is interpreted in the following ways: (1) as a taxonomy (such as e-shops, malls, auctions) and (2) as a conceptual model of the way we do business. Taxonomies enumerate a finite number of business model types (e.g. Rappa 2001; Weill and Vitale 2001), while a conceptualization of ‘business model’ describes a meta-model or a reference model for a specific industry, allowing to describe an infinite number of business models (e.g. Linder and Cantrell 2000; Mahadevan 2000; Petrovic, Knittl et al. 2001; Weill and Vitale 2001; Gordijn 2002; Stähler 2002; Afuah and Tucci 2003; Osterwalder 2004). According to Petrovic, Kittl and Teksten (Petrovic et al., 2001), a business model is not a description of a complex social system itself with all its actors, relations and processes. Instead it describes the logic of a “business system” for creating value that lies behind the actual processes. Therefore, a business model is understood as the conceptual and architectural implementation of a business strategy and as the foundation for the implementation of business process, as shown in Figure 2-1 (Osterwalder 2002).

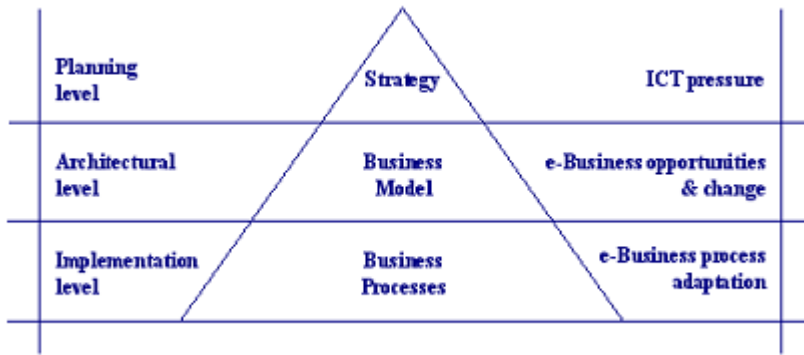


Figure 2-1 Business Logic Triangle (Osterwalder, 2002)

Slywotzky (1995) calls this business design and understands it as the totality of how a company selects its customers, defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers, and captures profits. In another words, a business model is the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams.

In the next section, E-Business model ontology is introduced to analyze business models of internet companies.

2.2 E-Business model ontology

The goal of this sections is to review the E-Business model ontology proposed by Osterwalder in order to define an approach that brings E-Business model literature one step further, by providing a more rigorous methodology that defines the essential concepts in E-Business models and shows the relationships between them.

E-Business model ontology³ highlights the relevant E-Business issues and elements firms have to think of, in order to operate successfully in the Internet era. Ontology is a rigorously defined framework that provides a shared and common understanding of a domain that can be

³ An E-Business ModelOntology for Modeling E-Business, Alexander Osterwalder, 15th Bled Electronic Commerce Conference e-Reality: Constructing the e-Economy, 2002.

communicated between people and heterogeneous and widely spread application systems (Fensel, 2001). This formal approach is necessary in order to achieve the business model advantages described above.

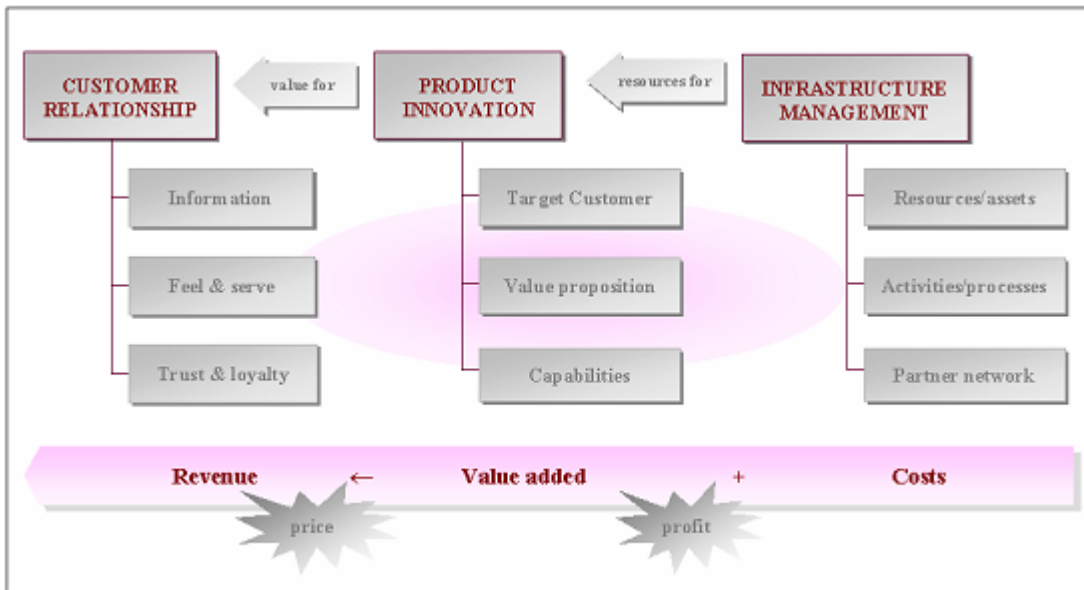


Figure 2-2 E-Business model framework (Osterwalder, 2002)

The E-Business model ontology established by Osterwalder is founded on four main pillars, which are product innovation, customer relationship, infrastructure management and financial aspects, as shown in Figure 2-2.

- (i) The *products and services* which a firm offers, representing a substantial value to the customers, and for which they are willing to pay.
- (ii) The *infrastructure and the network of partners* that is necessary in order to create value and to maintain a good customer relationship.
- (iii) The *relationship capital* the firm creates and maintains with the customers, in order to satisfy them and to generate sustainable revenues.
- (iv) The *financial aspects*, which are transversal and can be found throughout the three former components, such as cost and revenue structures.

The four pillars of E-Business model are further decomposed and explained in details in the following part of this chapter.

2.2.1 Product innovation

Product innovation, which is the first pillar of the framework, covers all product-related aspects. The main elements are the *value proposition* a firm wants to offer to specific *target customer segments* and the *capabilities* a firm has to be able to assure in order to deliver this value, as shown in Figure 2-3 (Osterwalder 2002).

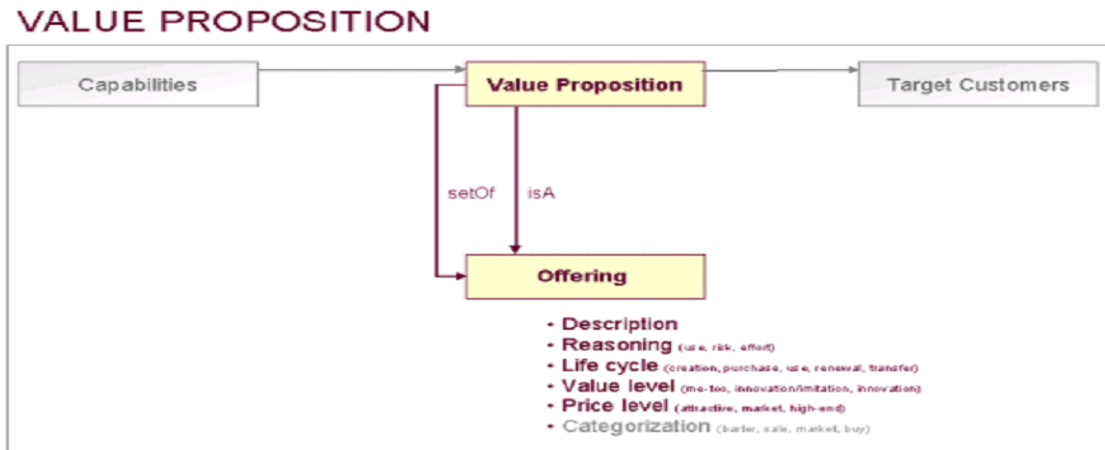


Figure 2-3 Value proposition (Osterwalder, 2002)

Value proposition refers to the value a firm offers to a specific target customer segment. ICT has created many new opportunities for value creation and made value creation more efficient. This opens up three ways of differentiation from competitors. Firstly, innovation through new, complementary or customized offerings. ICT allows firms to include strong and new information components into their offerings or in some cases even completely digitize their products. Through mass customization (Piller et al., 2000) for example, firms can propose value tailored to the profile of every single customer. Secondly, a lower price than the competition can be provided. Cost savings achieved through optimized infrastructure management or direct selling over the Internet (Benjamin et al., 1995), can be passed on to customers in form of lower price tags. Thirdly, a premium customer service level and customer relationship excellence can be achieved. ICT allows firms to propose a whole new range of and often free services that enhance the value of the core offering (Osterwalder, 2002).

To combine the three ways of differentiation outlined above with the approach of Kambil, Ginsberg and Bloch (Kambil et al., 1997), the concept of value proposition can be further decomposed into its sub-elements as three main components: (i) the cost element, which is decomposed into price, effort and risk; (ii) the role of the customer, which can be buyer, user, co-creator or transferor of value; (iii) the performance of the value proposition (Osterwalder 2002).

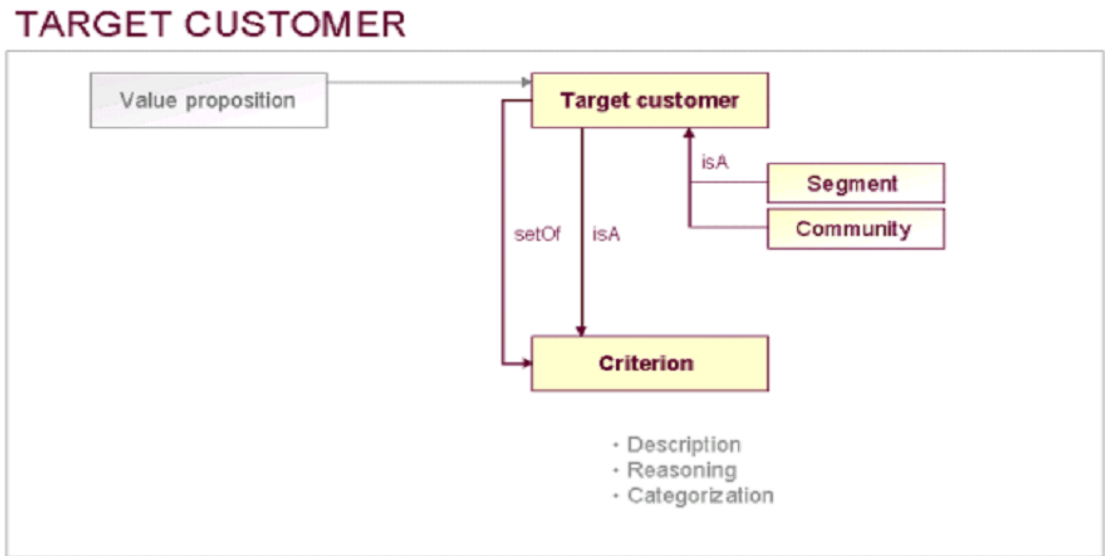


Figure 2-4 Target customer (Osterwalder, 2002)

Target customer. A firm generally creates value for a specific customer segment. The definition of the market scope (Hamel, 2000; Afuah et al., 2001) captures the essence of where the firm’s competition on which customers, which geographical areas, and what product segments. A firm can market either to businesses and/or individuals, commonly referred to as business-to-business (B2B) and business-to-consumer (B2C). Comparing with classical marketing, online marketing extends the access in the notions of distance and time. Through ICT firms expand their reach because geographical notions become less relevant and because Website or open 24/7. This is as much of an opportunity as also a threat because barriers to market entry are lower and competition increases (Porter, 2001).

CAPABILITIES & RESOURCES

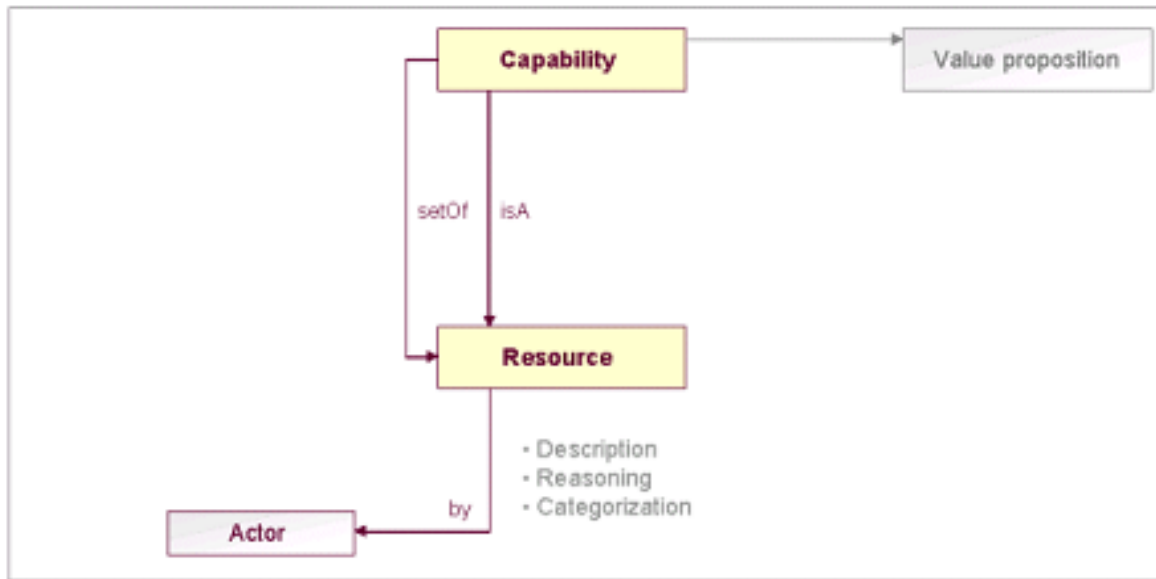


Figure 2-5 Capabilities & resources (Osterwalder, 2002)

Capabilities. To deliver the right value proposition to the right customer segments, a firm must ensure that it possesses the range of capabilities that underpin the proposed value. Several authors describe how value and competencies or capabilities are interconnected (Bagchi et al., 2000; Wallin, 2000). Capabilities can be understood as repeatable patterns of action in the use of assets to create, produce, and/or offer products and services to a market (Wallin, 2000).

2.2.2 Infrastructure management

The infrastructure management element, as the second pillar of the framework, describes the value system configuration (Gordijn et al., 2000) which is critical to deliver the value proposition. This comprises the **activity configuration** of the firm, in other words the activities to create and deliver value, and the relationship between them, the in-house resources and assets and the firm's **partner network** (Osterwalder 2002).

VALUE CONFIGURATION

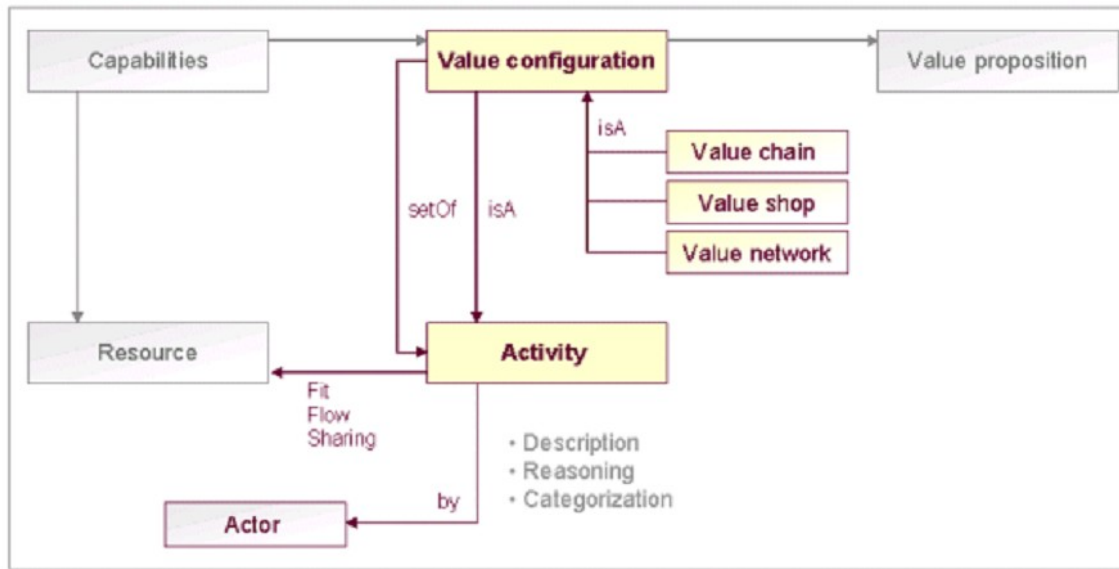


Figure 2-6 Value configuration (Osterwalder, 2002)

Activity configuration. The main purpose of a company is to create value that customers are willing to pay for. This value is the outcome of a configuration of inside and outside activities and processes. To define the value creation process in a business model, the value chain framework (Porter et al., 1985) and its extension, such as defined by Stabell and Fjeldstad (Stabell et al., 1998), are used. They extend the idea of the value chain with the value shop and the value network. Former describes the value creation process of service providers, whereas latter describes brokering and intermediary activities. It is in this component of the E-Business framework that such activities are realized as Supply Chain Management (SCM), Efficient Customer Response (ECR), or e-procurement.

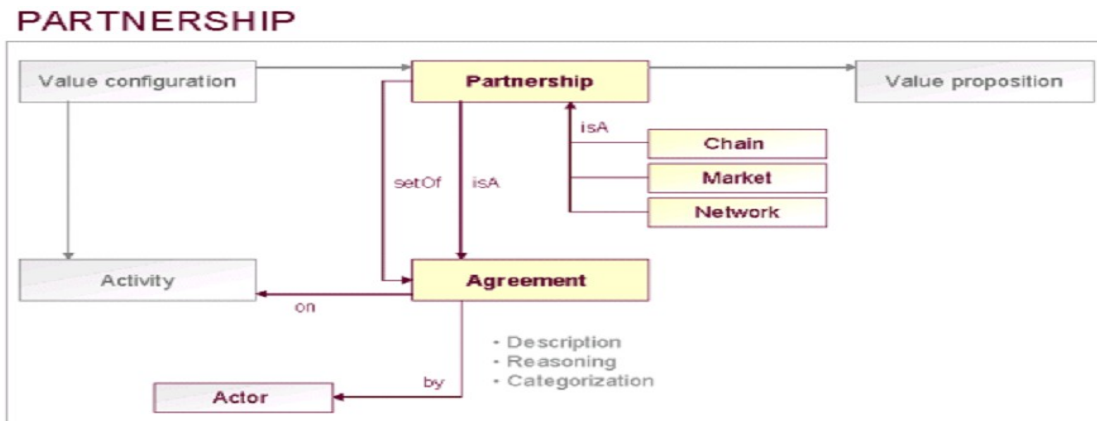


Figure 2-7 Partnership (Osterwalder, 2002)

Partner network. The partner network indicates which elements of the activity configuration are distributed among the partners of the firm. Management literature defines these strategic networks “stable inter-organizational ties which are strategically important to participating firms. They may take the form of strategic alliances, joint-ventures, long-term buyer-supplier partnerships, and other ties” (Gulati et al., 2000). Especially the shrinking transaction costs make it easier for firms to vertically disintegrate and to reorganize in partner networks. Firms can then focus on their core competencies in the value system configuration and rely on partner networks and outsourcing for other non-core competencies and activities. In E-Business literature there are several terms arising for these new forms of strategic networks in the value creation process, some call them b-webs (Tapscott et al., 2000), or fluid and flexible organizations (Selz, 1999), others call them value networks (Brandenburger et al., 1996).

Resources and assets. In order to create value, a firm needs resources (Wernefelt, 1984), which distinguishes as tangible, intangible, and human assets (Grant, 1995). Tangible resources include plants, equipment and cash reserves. Intangible resources include patents, copyrights, reputation, brands and trade secrets. Human resources are the people a firm needs in order to create value with tangible and intangible resources.

2.2.3 Customers relationship

Through the use of ICT firms can redefine the notion of customer relationship. First, they can get a feel for and understand the customer by outlining an *information strategy*. Second, firms can

exploit new ways to deliver value and expand reach by covering new and multiple *channels*. Third, companies must understand that *trust and loyalty* has become one of the most important elements in the business world (Osterwalder, 2002).

CUSTOMER RELATIONSHIP

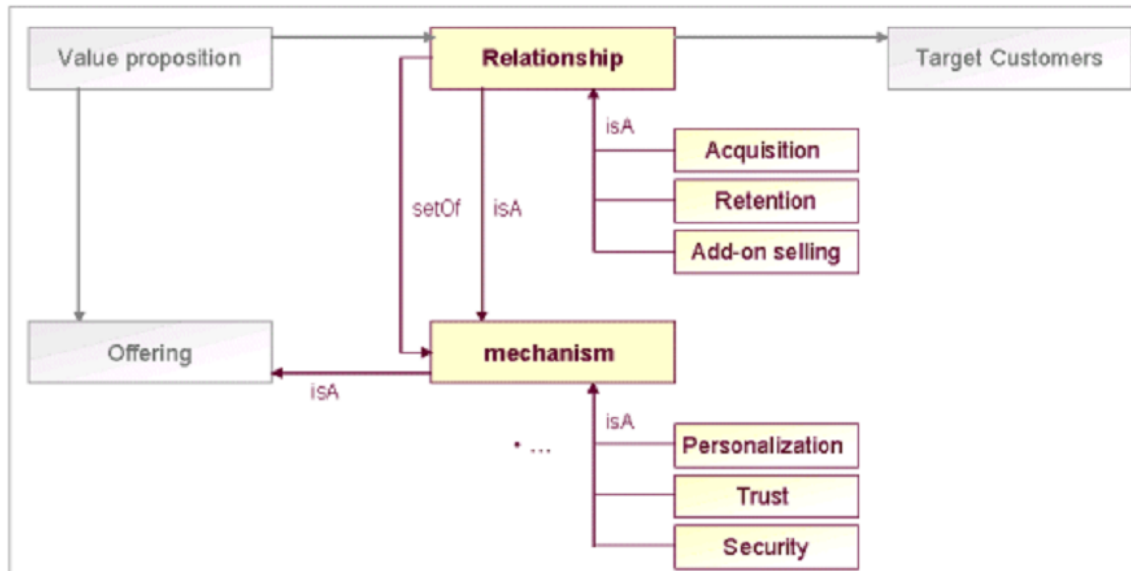


Figure 2-8 Customer Relationship (Osterwalder, 2002)

Information strategy. The objective of the information strategy is threefold. First, the defining of the strategy of gathering customer information and second the outlines of how to use this information in order to excel in customer relationship (e.g. through personalization and profiling). The third goal refers to the exploitation of customer information in order to discover new and profitable business opportunities and to ameliorate customer satisfaction. Data warehousing, data mining and business intelligence are important technologies that allow managers to gain insight on their customers buying behavior. These insights can be used to create what Hamel (Hamel, 2000) calls the positive feedback effect. A firm with a large base of users, and a way of rapidly extracting feedback and information from those users, may be able to improve its products and services faster than its competitors. In this virtuous circle products and innovation can be improved, which in return attracts new customers. Information strategy should contribute to a personalized relationship with the firm's customer. Customer profiles allow rule-based one-to-one personalization or collaborative filtering, which give the customer the feeling of having been taken seriously as an individual (Osterwalder, 2002).

DISTRIBUTION CHANNEL

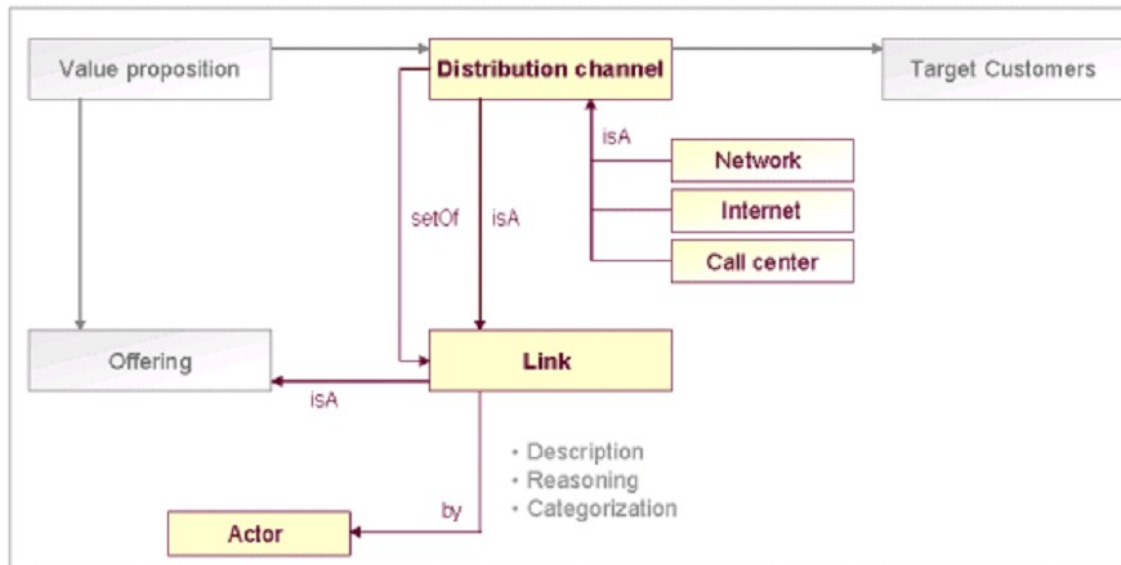


Figure 2-9 Distribution channel (Osterwalder, 2002)

Feel & Serve (distribution channels). This element refers to the way a firm ‘goes to market’ and how it actually ‘reaches’ its customers (Hamel, 2000). This means a company must define its channel strategy and outline through which channels - either indirect or direct channels, operated by the firm or provided by a third party (e.g. agent, intermediary) - it wants to deliver the companies value proposition. The purpose of a channel strategy is to make the right quantities of the right product or service available at the right place, at the right time to the right people. (Pitt, 1999). ICT, and particularly the Internet, has a great potential to complement a business channels (Porter, 2001). Direct selling over the Web could improve margins, whereas selling through new Internet mediation services (Sarkar et al., 1995) could mean new market opportunities. Of course the expansion of the range of channels also increases the potential of conflicts between channels (Anderson et al., 1998) and demands strong management. Because ICT can fundamentally change the way firms interact with customers, it is important to closely analyze and understand channel interaction (Osterwalder, 2002).

Trust and loyalty. It is essential to establish trust between business partners when the business environment becomes increasingly virtual and the implicated parties do not necessarily know each other anymore before conducting business. With the emergence of the Internet in business

and commerce important research has been conducted on what trust actually is in cyberspace. There are a certain number of mechanisms to build trust in E-Business environments, for example, virtual communities (Hagel et al., 1997), performance history, mediation services or insurance in case of harm, third party verification and authorization, and a clear and explicit privacy policy (Friedman, 2000; Dimitrakos, 2001). Customer loyalty can be understood as the outcome of the customer's trust and satisfaction. To establish loyalty and relationship capital (Tapscott et al., 2000) the firm has to create positive relationship dynamics (Hamel, 2000), where emotional (such as e-branding) as well as transactional elements in the interaction between firm and client play an important role. Even though well known, it is often forgotten that in most cases it is much cheaper to incite existing customers to do repeat business than to acquire new customers. In the early days of the Internet many E-Businesses have concentrated on acquisition for growth and have neglected customer loyalty (Osterwalder, 2002).

2.2.4 Financial aspect

The financial aspect, the last pillar of our framework is transversal as illustrated in Figure 2-2, because all other pillars influence it. This element is composed of the revenue model of the firm and its cost structure. The formerly mentioned determine the firm's profit model and therefore its ability to survive in competition (Osterwalder, 2002).

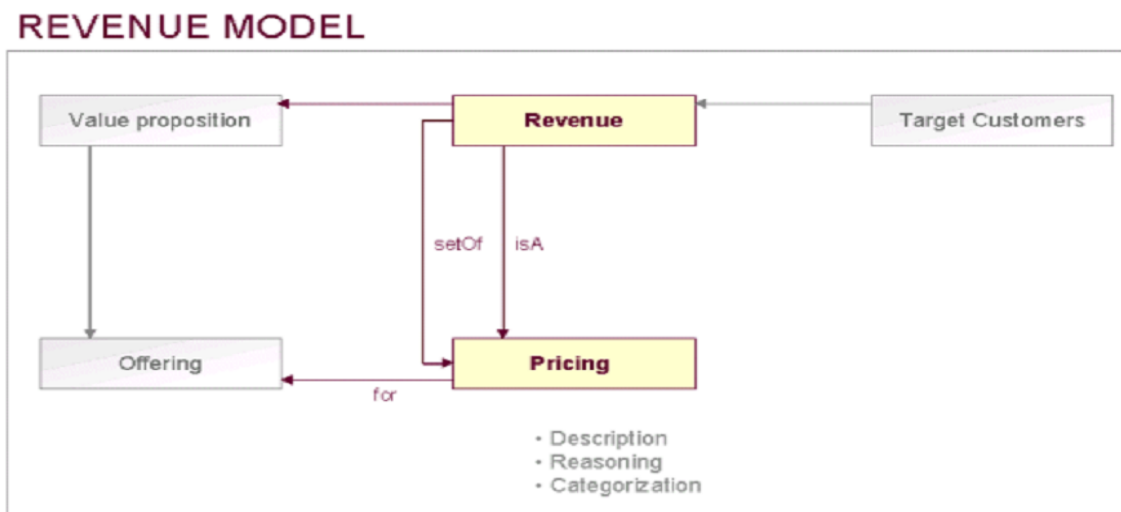


Figure 2-10 Revenue model (Osterwalder, 2002)

Revenue model. This element measures the ability of a firm to translate the value it offers its customers into money and therefore to generate incoming revenue streams. A firm's revenue model can be composed of different revenue streams that all have different pricing models. For instance, an online media company could sell its contents in several different ways. It could collect subscription fees from its private customers and demand fixed prices for contents (e.g. articles, films, and sound) from its business customers. The media company may also live from advertising and sponsoring that it could sell or auction to business customers. Another revenue stream could be commissions or transaction cuts from other businesses that conducted sales through the media Company's Website. The new pricing mechanisms enabled by ICT should be used in order to maximize revenues. Particularly the Internet has had an important impact on pricing and has created a whole new range of pricing mechanisms (Klein et al., 2000).

COST STRUCTURE

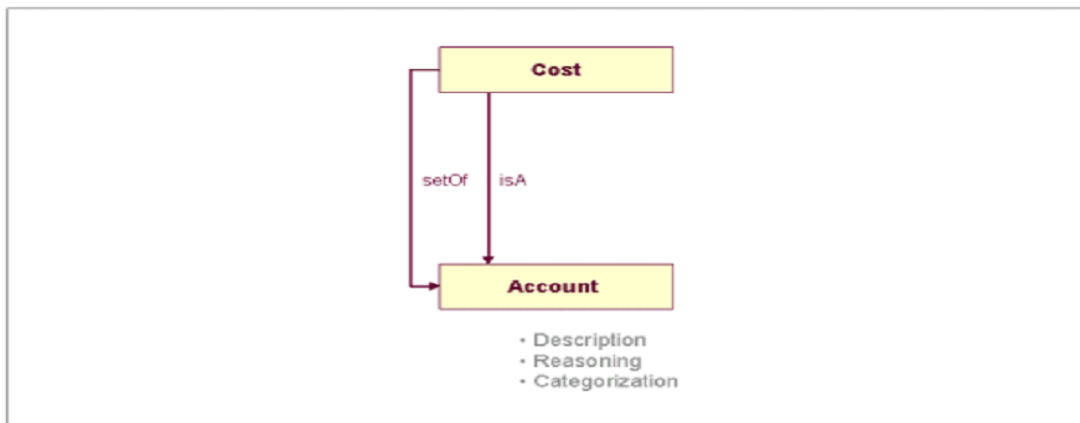


Figure 2-11 Cost Structure (Osterwalder, 2002)

Cost structure. This element measures all the costs the firm incurs in order to create, market and deliver value to its customers. It sets a price tag on all the resources, assets, activities and partner network relationships and exchanges that cost the company money. As the firm focuses on its core competencies and activities and relies on partner networks for other non-core competencies and activities there is an important potential for cost savings in the value creation process. The right use of ICT in customer relationship also opens up new opportunities for delivering premium customer services and therefore additional value at reasonable costs (Osterwalder, 2002).

Profit model. This element is simply the outcome of the difference between revenue model and cost structure. Therefore it can be seen as the culminating point and as an expression of the entire E-Business model ontology. Whereas Product Innovation and Customer Relationship shall maximize revenue, an effective Infrastructure Management shall minimize costs and therefore optimize the profit model (Osterwalder, 2002).

2.3 Adapted research framework

To summarize, Osterwalder’s business model framework can be broken down into four simple pillars outlined above, which are the ‘What (product innovation), the “who” (customer management), the how’ (infrastructure management) and the ‘how much’ (financial Aspects).

Because the specific features of online social shopping business and limited access to information, the research framework is adapted to the empirical study based on Osterwalder’s business logic triangle and business model research framework, as shown in Figure 2-12.

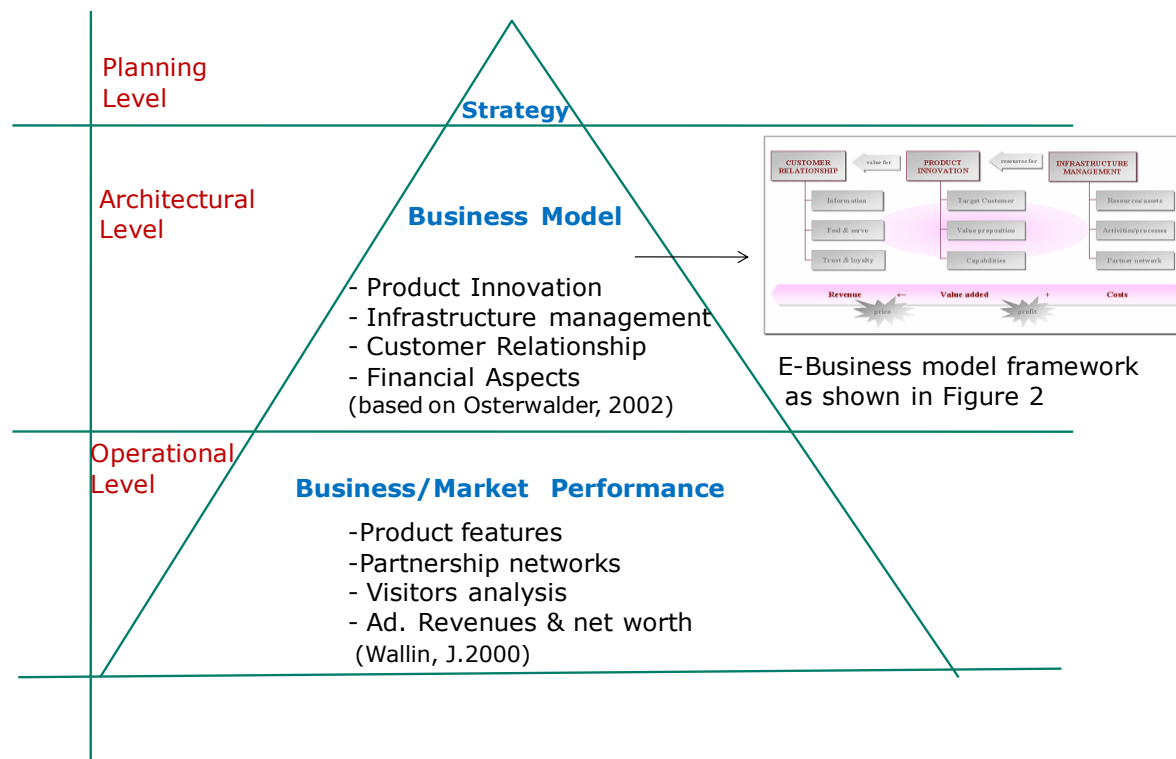


Figure 2-12 Adapted research framework for empirical study

The empirical research framework adapted Osterwalder's business logic triangle according to our study objectives. Osterwalder's business logic triangle focuses on how to design a business model according to business strategies and implement a business model through business process. The objective of our study is to analyze the business model of the case company and compare its business model with its main competitors' in order to find out the success factors for an online social company in the fiercer competition. Thus, the focus of our study is to compare business models and evaluate the performance of business models rather than to design and implement a business model. Therefore, the adapted research framework (Figure 2-12) is created. It starts with business strategies in planning level in order to explain why the business model is designed as it is. Then, in the architectural level, the business models are analyzed and compared in four aspects based on Osterwalder's business model research framework (as shown in Figure 2-2) which are product innovation, infrastructure management, customer relationships and financial aspects. Finally, in the operational level, the market/business performance of the companies is compared in order to evaluate the success of the business models. Four indicators in the operational level are chosen to compare in order to reflect the structure of business model: product features, partner network, visitor analysis and advertisement revenue as well net worth in the market (Wallin, J., 2000).

The adapted research framework provides a logic and clear structure to analyze, compare and evaluate the business models among companies. Following this adapted research framework, the investigation is conducted through answering the questions about on what basis the business model is designed (business strategies), how the business models are built and implemented, and how well the business models have performed in the market and what lessons can be learnt from the success or failure of the selected competitors. Firstly, the business strategies of the case companies and its selected competitors are compared in planning level. Next, the business models of the case company and its three selected competitors are analyzed and compared in architectural level. Based on Osterwalder's business model research framework, the business models of the four companies are decomposed into four pillars so that it is easy to conduct and visualize the comparison. Thirdly, the market performances of the three selected competitors are compared in the operating level in order to evaluate the success of their business models. Finally,

the result of using this research framework is to compare the business models in planning, architectural and operational levels in order to propose some managerial suggestions to RunToShop for future business development according to the lessons learnt from its selected competitors.

3 RESEARCH METHODOLOGY

The research methodology (Bennett, 1986; Jankowics, 1991) sets out the systematic, focused and orderly collection of data for the purpose of obtaining information from it, to solve/answer the research problems or questions. It plays an important role in research. Therefore choosing the correct method to deal with the research problem is a crucial decision in the research process.

Our research objective is to analyze the business model of the case company and compare its business model with its main competitors' in order to find out the success factors for an online social shopping company in the fiercer competition.

As the number of online social companies is quite limited so far, it is hard to do quantitative research. Thus, qualitative research method is chosen for an in-depth study in order to find out the success factors behind the business models. Case study and interviews are the main research methods in this thesis.

3.1 Qualitative research method

Once the research problems have been formulated, particular data shall be collected in order to analyze the problems. Selecting a data and analyzing method is always determined by the nature of the research problems and the specific sources of information. Qualitative research methods are selected as they were developed in the social sciences to enable researchers to study social and cultural phenomena. As the nature of 'Social Shopping' indicates the social science research methods should be applied rather than quantitative study. Thus, qualitative research methods are selected in this study. The motivation for selecting qualitative research is because the qualitative methods are designed to help researchers understand people and social and cultural contexts within which they live. Kaplan and Maxell (1994) argue that the goal of understanding a phenomenon from the point of view of the participants and their particular social and institutional context is largely lost when the textual data are quantified.

3.2 Case study research method

Case study research⁴ excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Researchers have used the case study research method for many years across a variety of disciplines. Social scientists, in particular, have made wide use of this qualitative research method to examine contemporary real-life situations and provide the basis for the application of ideas and extension of methods. Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 2002).

Critics of the case study method believe that the study of a small number of cases can offer no grounds for establishing reliability or generality of findings. Others feel that the intense exposure to study of the case biases the findings. Some dismiss case study research as useful only as an exploratory tool. Yet researchers continue to use the case study research method with success in carefully planned and crafted studies of real-life situations, issues, and problems. Reports on case studies from many disciplines are widely available in the literature.

Many well-known case study researchers such as Robert E. Stake, Helen Simons, and Robert K. Yin have written about case study research and suggested techniques for organizing and conducting the research successfully. This introduction to case study research draws upon their work and proposes six steps that should be used:

- Determine and define the research questions
- Select the cases and determine data gathering and analysis techniques
- Prepare to collect the data
- Collect data in the field
- Evaluate and analyze the data
- Report results

⁴ <http://fiat.gslis.utexas.edu/~ssoy/usesusers/l391d1b.htm>

The case study part in this research is organized and conducted according to the six steps suggested above.

3.3 Interviews

Interview is one of the most common qualitative research methods. The identification of the qualitative interview as a particular type only became necessary in post-war social research. Qualitative interview generally refers to in-depth, loosely or semi-structured interviews which are often used to encourage an interviewee to talk about a particular issue or range of topics. The researcher is reasonably a co-producer of the data, which are produced as a result of an interaction between researcher and interviewees. Here the focus shifts to data generation. (Seale, 2004: p181) However, in doing a qualitative interview, interviewer does not fully depend on the information given by respondents. Interview, to some extent, has been shaped in accordance research aims and objectives. During an interview, interviewer will have to frame the whole process to ensure that it is not just a story-telling meeting. It was often the case that the interviewee would have been a person of higher social status than the investigator, so presentation of a loosely structured research agenda allowed the respondent a degree of freedom to raise topics of personal interest.

The qualitative research interview seeks to describe and the meaning of central themes in the life world of the subjects and to cover both a factual and a meaning levels (Kvale, 1996). Interviews are particularly useful for getting the story behind a participant's experiences. The interviewer can pursue in-depth information around the topic (McNamara, 1999).

There are several types of interview listed as follows:

- *Informal, conversational interview*- no predetermined questions are asked, in order to remain as open and adaptable as possible to the interviewee's nature and priorities.
- *General interview guide approach*- the guide approach is intended to ensure that the same general area of information is collected from each interviewee; this provides more focus than the conversational approach, but still allows a degree of freedom and adaptability in getting the information from the interviewee.

- *Standardized, open-ended interview*- the same open-ended questions are asked to all interviewees; this approach facilitates faster interviews that can be more easily analyzed and compared.
- *Closed, fixed-response interview*- where all interviewees are asked the same questions and asked to choose answers from among the same set of alternatives. This format is useful for those not practiced in interviewing.
- *Telephone interviews*- which enable a researcher to gather information rapidly via telephone without meeting interviewees

In this study, four interviews are conducted with three managers from the case company (RunToShop Oy) and one professional consultant from USA. The interviews with the managers from RunToShop aim to investigate the strategies, business process and business model of the case company. Furthermore, the interview with the consultant from USA aims to find out the evaluation of the business models and performance of the main selected competitors as well as the key success factors for online social shopping companies from a professional point of view.

Three face-to-face interviews with the managers in the case company are standardized and open-ended interview with different focuses according to the business areas they are in charged. Telephone interview is used when interviewing with the consultant from USA. All the interview questions are designed according to the research objectives and the research problems. The researcher is well trained to direct and conduct a successful interview in order to obtain in-depth answers to the research problems.

4 CASE STUDY: RunToShop Oy

RunToShop is the first online social shopping company in Finland. RunToShop is a service for consumers to find the products their peers love and where buying is made easy by offering the most relevant and personal recommendations. RunToShop brings tools for extending online shopping to communities where there is a lot of involvement from people. Users in RunToShop will be rewarded for their efforts. Not being just another social shopping site, RunToShop concentrates in creating an easy and fast environment to facilitate in making buying decisions.

RunToShop founded in December, 2007 and launched to the Finnish market in September, 2008. Behind RunToShop there is a team of capable experienced professionals. **Taneli Tikka**, the CEO, a serial entrepreneur and dealmaker, has run 7 companies and held board seats in 13. Before joining RunToShop he was CEO and a major shareholder at IRC- Galleria (the largest social media company in Finland) which he sold to Sulake Corporation (the company behind Habbo Hotel) in the spring of 2007. He is also working with well-known social network sites Dopplr and Muxlim. **Toni Paloheimo**, the head of product marketing, is always striving for new and novel. Prior to joining RunToShop he has worked a few years as a management consultant at Accenture and later building internationalization and e-commerce strategies for Itella (former Finland Post Corporation). Toni is also known as the founder of Yritys 2.0, a crowdsourced project for writing an online book on enterprise 2.0. **József Pap**, Head of Affiliate Relations, József has experience of B2B -sales related to implementation of web services and improving the earning models of customers. He has worked actively in marketing open source content management systems and participated in development of several communities, such as maemo.org. His talent of selling consulting services was polished when working at Trainers' House and later the enthusiasm for better web-services was woken up by the good people in Nemein.

As discussed in Chapter 2, business model is understood as the conceptual and architectural implementation of a business strategy and as the foundation for the implementation of business process. Thus, the general business strategy of RunToShop and its business process is explained before the business model is mapped out.

4.1 General Strategies of RunToShop⁵:

The key strategies which RunToShop has set up are differentiation, International expansion, mobile services and agile strategy.

Differentiation strategy: Focus on people rather than software development

One of the very central things that RunToShop is trying to build in the strategy is the human soft warm approach coming from the social scientific side. **Differentiation strategy** is applied in order to differentiate from the competitors in the market and to stand out in the competition. Many of online shopping companies consider themselves as software companies which develop system/software or provide engineer solutions. They are more in the business that building tools for people to use for social shopping. RunToShop much more emphasize the angle of applied social science and focuses on end users as people with subjective opinions and human feelings in a social context basically.

International Expansion: From local to East Europe and English-speaking world

RunToShop will expand to International market after the initial launch in Finland. After the Finnish market is mature, RunToShop will expand to Easter Europe, particularly in Poland. Poland is one of the foreign markets RunToShop are evaluating early in the game since one of the investors has affluent experience in the Polish market. According to a report from the Polish publication⁶, Poland's Internet penetration rate reached 42 percent in Q2 2007. Another research provider, Gemius/PBI, estimated almost 14.1 million Internet users in May 2007. Their study shows that some local social network websites are already quite popular and developing heavily in the Polish market and the Internet users show their interests in online social shopping services. The Interactive Advertising Bureau in Poland estimated the Internet advertising market in 2006 to be worth 60 million Euros, or \$95 million. Internet advertising was an estimated 5 percent of the total media ad spends in Poland that year. In 2007, Internet advertising was expected to reach 115 million Euros, or \$182 million⁷. The report states, "Online market grows dynamically at a pace of 50 percent per year and is the fastest growing sector among all media."

⁵ According to the Interview with Taneli Tikka the CEO of RunToShop

⁶ Internet Standard, Polish Internet Market Accelerate, 1 Edition, January 2008

⁷ Internet Standard, Polish Internet Market Accelerate, 1 Edition, January 2008

Furthermore, the biggest E-Commerce market in Europe is UK, which should be positioned on the top of the list for International expansion. The English language version for UK and simultaneously for the rest of English-speaking world will definitely be delivered early in 2009. In addition, Asia is an interesting market in the world but the competition is quite different. Online retailing business is still developing in some Asia countries, where the logistics systems to deliver the mail orderings need to be improved. Thus, it is more difficult than in the Western countries. But there is a huge potential in the market and RunToShop has to investigate more about the market before set up a plan to enter.

Mobile services: First mover in online social shopping market in Finland

Mobile business is definitely an important field for RunToShop to enter. After the initial public launch in September, 2008, RunToShop will invest and develop an XML version mobile portal which provides similar services as online with very practical features on mobile phones. An open standard will be used to allow all kinds of accesses with smart phones and i-Phone around the world. The mobile version of RunToShop is estimated to be launched in the later fall of 2009.

Agile Strategy

RunToShop is built entirely on ‘agile strategy’ that can adapt a change according to what happens in the marketplace. It spends only on priorities and responds quickly to the fast changing Internet business. The focus since the beginning of RunToShop has been to keep the company very agile and capable of reacting to change in the circumstances. Thus, RunToShop has not plan extensively for the future development at this stage. It all depends on what kind feedback they will get with the survey after the launch of Beta version. At that time, they will modify the features and applications according to the market feedback and set up the plans for the next steps.

4.2 Brief description of the business process of RunToShop

RunToShop is a place for people, to share their favorite things and good experiences with their friends. RunToShop aims to build an active platform where people can come to communicate for online shopping, to challenge the online stores and to express their opinions. Thus, the online

shopping processes have been changed as a result of the emergence of social- shopping website which is shown in the following figure.

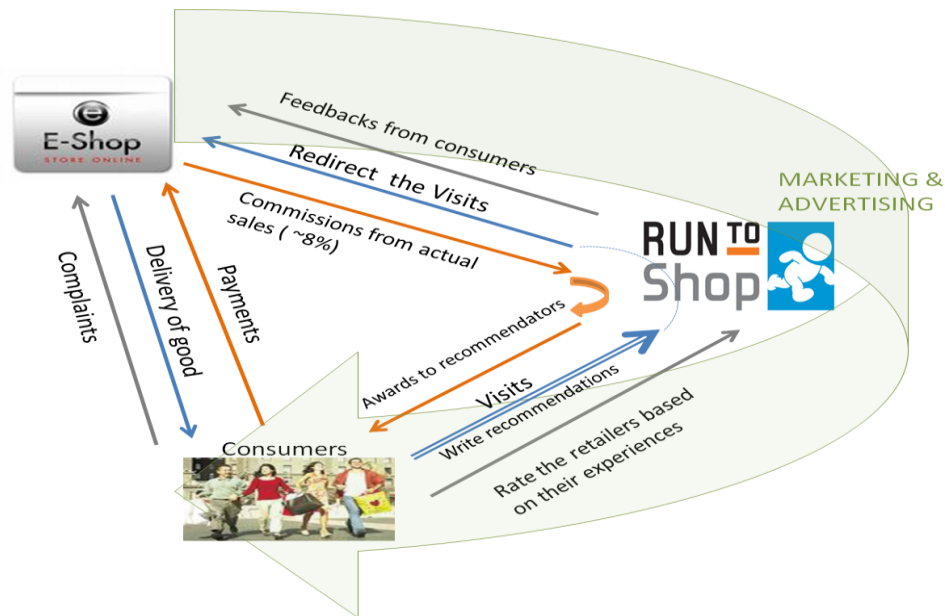


Figure 4-1 RunToShop's business process

RunToShop is a marketing platform bringing E-shops, consumers and their social networks together. The influencers can open an online 'Kioski' where they can write recommendations of their favorites via RunToShop and invite their friends through their social network come to visit. The consumers visit the website and read the recommendations from friends or people similar to them. If they discover something interesting based on the recommendations, RunToShop redirects the visits to the online shops' websites. If the consumers get interested in the product, they can purchase directly from the online shop. Online shop is in charge of delivery of good and customer services. Consumers make payment directly to the online shop, which will pay RunToShop some commissions as a predetermined percentage of actual sales. RunToShop will award the best recommenders with commissions to encourage people to make more and better recommendations. If the consumers are not happy with the products or services after the transactions, the consumers can complain to the online shops directly and also rate the online shops' performance according to their buying experiences via RunToShop website. Then RunToShop will give feedbacks from consumers to online shops to help them improve their products/services. Furthermore, online shops can do marketing and advertising via RunToShop's

website in order to attract more potential consumers. RunToShop will also provide special services to the consumers who would like to pay premiums.

In the following section, the business model of RunToShop is analyzed according to the research framework which is built based on Osterwalder's business model ontology.

4.3 Business model of RunToShop

4.3.1 Products innovation⁸

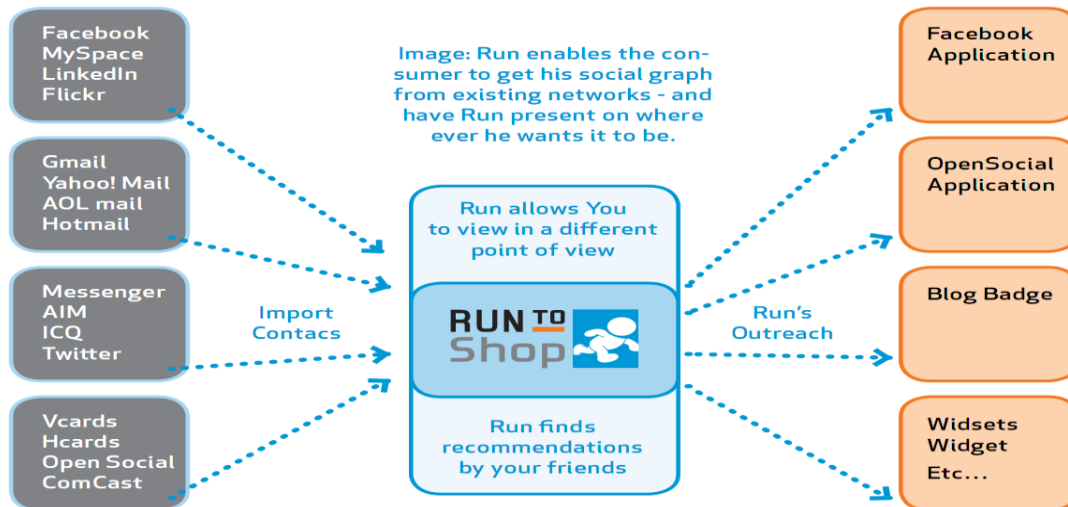
*Product innovation, which is the first pillar of the framework, covers all product-related aspects. The main elements are the **value proposition** a firm wants to offer to specific **target customer segments** and the **capabilities** a firm has to be able to assure in order to deliver this value (Osterwalder 2002).*

The products of RunToShop are innovated based on the strategy and developed according to the feedback from the market. Basically, RunToShop's product **value proposition** focuses on the connectivity of social network, users' personalities, trust and reliabilities buildup and live contact.

Build a platform allowing people's interaction with their social network

As it is mentioned before, RunToShop emphasizes on the angle of applied social science and focuses on end users as people with subjective opinions with very human feelings in a social context. Many features and applications are designed for people interacting with others through their social network, like blog badges, different kind use with which consumers can use the same system/platform to access the same people, without even visiting the websites. RunToShop allows its users to link and identify their existing friends and acquaintances in a multitude of technical ways. RunToShop supports contact importing and linking from various popular sources of social information, as shown in Figure 4-2.

⁸ According to the interview with Toni Paloheimo, the head of Product Marketing of RunToShop



Source: RunToShop Business Plan

Figure 4-2 RunToShop builds a platform for people interacting with their social network

Importing contacts and connecting those real-life links allows RunToShop customers to find recommendations specifically by the people they know and already trust. RunToShop also allows a people to switch their point of view and see the world with a pair of brand new eyes: in RunToShop one can switch one's point of view to somebody else and see what their trusted friends recommend. This allows one to see the world of recommendations through a person one really respect, or possibly a celebrity⁹. RunToShop also extends to social networks and online communities. RunToShop aims to create an application, widget, or the like for every successful and popular social network out there. Facebook and MySpace are the obvious first choices. Additional places to extend Run into include: Piczo, Xanga.com, friendster, TagWorld, Hi5, Bebo, Netvibes, etc¹⁰.

Focus on personalities rather than price comparison

Personality has to come first. RunToShop clearly differentiates from competition by placing the person and personality first before the products and services. A typical online store has sole focus on the product/price -factors, and does not place much emphasis on who is making the recommendation etc. RunToShop has developed many features for customers to find out the

⁹ RunToShop Plan RC 0.9

¹⁰ RunToShop Plan RC 0.9

personality of influencers. First of all, every consumer needs to describe themselves, including their professions, hobbies and personalities. Next, the fame of a person indicates his/her degree of the reputation in the virtual community. Then, a memo shows the user's recent activities, recommendations and wish-list. Some features also ensure that consumers can not only browse and search interesting product and services by tags, but also interesting people and personalities. When a registered user open a new 'Online Kiosk', the likeness between the users and the recommendatory are assessed according to their personalities, memo descriptions and the community they are from. The users can also search people by their personality and the people who are similar to them. The search results of the products and services can also be ranked by the influencers' fame or likeness with them.

Build up reliability and trust

Lack of trust is one of the biggest problems for online shopping. RunToShop is trying to buildup their reliabilities and trust among consumers. Importing contacts and connecting those real-life links allows Run customers to find recommendations specifically by the people they know and already trust. RunToShop also allows users to evaluate the others' recommendations according to usefulness. If any suspect occurs, the users can report to the Web Administrator who will investigate the problem and take an action if necessary. Furthermore, RunToShop award the best influencers in order to encourage more and higher quality recommendations.

Enable live contact between people and influencers

RunToShop will make it possible for consumers to contact influencers with live communication tools, mainly chat and VoIP. This will add an important, but mainly missing, feature to an online shopping experience. Various channels the users can use to interact with each other, including e-mails, chat, and VoIP. Besides, RunToShop will deploy existing communication tools, e.g. Skype, MSN and Google Talk.

There are different *target customers* group which plays different roles in RunToShop's business. *Online store* is RunToShop's business customers (also know as 'business partners'). RunToShop accelerates its sales and makes commission revenue from it. *Influencers (also know as 'shopkeepers')* are consumers who recommend products and services in RunToShop. *Consumers*

(also known as 'shoppers') are users who purchase online through RunToShop's recommendation services. In addition, RunToShop's expected consumer target group is well educated young female aged 20-35 in Finland and young males who are interested in technologies, because the statistics shows that they spend more time online for browsing and internet shopping than other people. After the Beta launch in Finland, RunToShop will expand to other cultures, other languages and areas and also other kind of end-user groups, one of which might be elder and more mature people.

RunToShop has **capability** to realize its value proposition as RunToShop has a wide pool of business partnership network and they are building a large consumer community in Finland. RunToShop has the capability to build a trusted platform for people to do online shopping more efficiently and effectively with the possibility of instance interacting with the influencers who have similar kind personality with them.

4.3.2 Infrastructure management:

*This second pillar of the framework, the infrastructure management element, describes the value system configuration (Gordijn et al., 2000) that is necessary to deliver the value proposition. This comprises the **activity configuration** of the firm, in other words the activities to create and deliver value, and the relationship between them, the in-house resources and assets and the firm's **partner network** (Osterwalder, 2002).*

The **activities configuration** of RunToShop is connecting consumers with the right products from the right online shops through the trusted recommendations by influencer. RunToShop has two types of partnership agreements in their **Partner network**: directly partnership and affiliate partnership, as shown in the following figure. RunToShop has 15 direct partners (by June, 2008) who have direct partnership agreements with Run, whose products are covering design products, sports products, web services, jewelry, clothes and etc. RunToShop has also joined some affiliate programs¹¹, such as TradeDoubler Affiliate Program, which is one of the largest program based

¹¹ An automated marketing program where a Web advertiser or merchant recruits webmasters to place the merchant's banner ads or buttons on their own Web site. Webmasters will receive a referral fee or commission from sales when the customer has clicked the affiliate link to get to the merchant's Web site Web site to perform the

marketing solution providers in Europe. It is worth noting that consumers are not obligatory to recommend the products and services of the company's business partners. The idea is to find out the best sellers from the consumers' perspective and to make partnership with them. Nevertheless, RunToShop expects to generate 50% of the total transaction volume from its business partners in order to get commissions.



Figure 4-3 RunToShop's partnership network

RunToShop currently focuses on Small and Medium Enterprises (SME) in Finland. On the one hand, since the small companies have relatively little budget for marketing comparing with their large competitors, the word-of-mouth advertising in the virtual community is one of the most cost-effective solutions to show their products and attract new customers. On the other hand, large companies have already established diversified marketing channels so that the simple partnership will not add much value to them. However, RunToShop expects to develop a deep partnership with larger companies to support their customers' service when RunToShop's online community grows big enough in the future. The aim with deep partnerships is to work with selected partners in a synergistic way in these areas and really internalize the mission to make these partners succeed and win against the competition.

desired action, usually make a purchase or fill out a contact form. The most common types of affiliate programs include pay-per-click, pay-per-lead, and pay-per-sale. (source: www.webopedia.com)

The business partners are carefully selected from the following different perspectives. From consumers' perspective, the partners' products should be interesting, recommendable and trustworthy for the consumers. Influencers may gain personal interests and value by doing recommendations. The products should be mainstream products with reasonable sales volume instead of niche products. From business *partners'* perspective, they should have online stores and E-Business services with similar online marketing strategies and target the same customer segments as RunToShop's. In addition, business partners should also emphasize on personalities and building trustworthy reputation.

The partnership agreements will be valid with no time limitation until one of the parties terminates. The items in the agreement are negotiated between both parties. Firstly, no fee is required to join the partnership. The idea is to attract as many business partners as possible to build up a large products and services pool for recommendations. Secondly, no advertising fee is charged at the beginning. As the customer base is enlarging, some business partners may do advertising on the website with paying a certain amount of advertising fees. Thirdly, commissions are charged as a certain percentage of the actual sales. The commission rates are not the same in different deals, which need to be negotiated in order to satisfy both parties. The commissions for services providers are higher than for products sellers. Last but not the least, some premiums may be charged if the partners would like to get better services and interact more with the consumers.

Currently, the business partners are more retailers for products rather than service providers. The reason is that the current revenue model is mainly based on the commissions of the actual sales. It is more difficult to track the actual sales generated through RunToShop for business providers. The revenue model should be modified for services providers, for example, the commission may be charged on per reservation made through RunToShop.

At the early stage of the company, RunToShop will focus on developing the services to consumers and offer no special services to its business partners except bringing potential customers. In the future, RunToShop will develop some B2B services to offer its business partners more features to display their products more visualized and to interact with consumers.

These deep partnerships involve the organizations in a much deeper level and resemble a kind of synergetic key account management models to assist the partners in customer service, helpdesks, sales, marketing, branding, market research, and etc.

4.3.3 Customer relationship

*Through the use of ICT firms can redefine the notion of customer relationship. First, they can get a feel for and understand the customer by outlining an **information strategy**. Second, firms can exploit new ways to deliver value and expand reach by covering new and multiple **channels**. Third, companies must understand that **trust and loyalty** has become one of the most important (Osterwalder, 2002).*

RunToShop focuses on the **information** about personalities. With this information, consumers can receive automatic recommendations according to their personalities and search for the recommendations which are made by the people who have similar personality and interests.

RunToShop uses some social network and online community as its **distribution channel**. Run aims to create an application, widget, or the like for every successful and popular social network out there. Facebook and MySpace (open social) are the obvious first choices. Additional places to extend Run into include: Piczo, Xanga.com, friendster, TagWorld, Hi5, Bebo, Netvibes, etc¹². In addition, RunToShop allows influencers personalize their ‘online kioski’ and marketing it on their own blogs with badges. In addition, RunToShop also exchange link with its business partners in order to attract more visitors.

RunToShop organized social events for its community members regularly to encourage the loyalty. Lack of trust is one of the biggest problems for online shopping. RunToShop is trying to buildup their **reliabilities and trust** among consumers. Importing contacts and connecting those real-life links allows Run’s customers to find recommendations specifically by the people they know and already trust. RunToShop also allows users to evaluate the others’ recommendations according to usefulness. If any suspect occurs, the users can report to the Web Administrator who

¹² RunToShop Plan RC 0.9

will investigate the problem and take an action if necessary. Furthermore, RunToShop award the best influencers in order to encourage more and higher quality recommendations.

4.3.4 Financial aspect

RunToShop's revenue model is a combination of the Business-to-Business (B2B), Business-to-Consumers (B2C) and Consumer-to-Consumer (C2C). B2B service is the main revenue stream for RunToShop. The main income comes from selling advertising placement on the website and the commission from the business partners is paid as a pre-defined percentage of the transactions which take places between the consumers and business partners. For B2C, the services for consumers are free currently but consumers may pay a certain amount of premium in order to get better customers services in the future. In addition, RunToShop also covers C2C business where consumers earn money by offering recommendation services to other consumers. Influencers may get awards to their excellent recommendations. Although the awards for the influencers are costs for the company, it adds value to the end-consumers and motivated people to actively participate and loyal to the virtual community.

After the website launches, the revenues mainly come from the sales commissions from the business partners. When the customers' base grows bigger, some companies may be attracted to do advertising on the website. In the future, RunToShop will set up premium account for their business partners who can get more information from the market and the possibility to interact more with the consumers. In the initial stage of the business, the current revenue stream is still too small to cover the heavy investment of product development. However, RunToShop has successfully raised some funds from investors to support its technology and business development.

To summarize, the business model of RunToShop is illustrated in Figure 4-4.

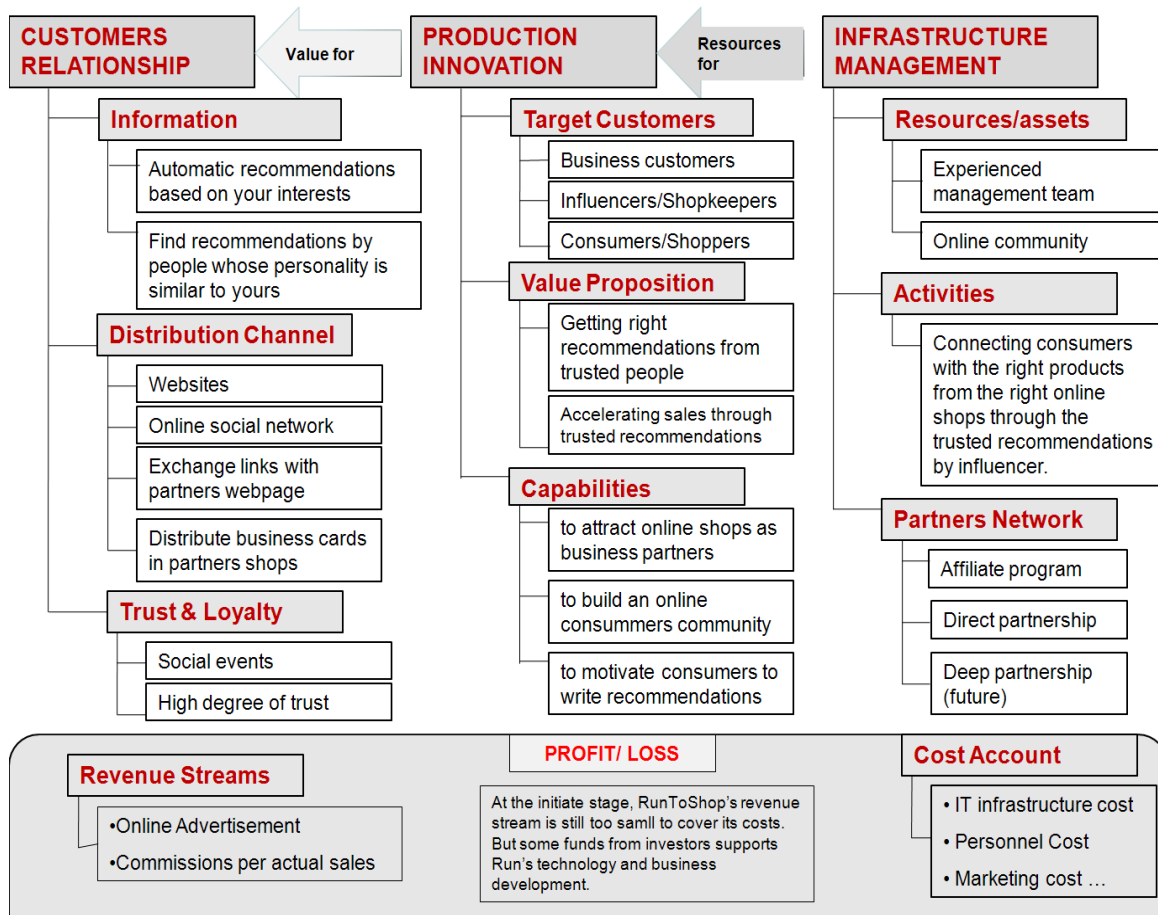


Figure 4-4 RunToShop's business model analysis

5 EMPIRICAL STUDY

5.1 Companies' profiles of the selected competitors

Social online shopping is a quite new concept in the E-business market in recent years. However, a few players who have seen the potential growth in the market entered the social shopping area at the early stage. The competition is becoming fiercer as a result of the increasing number of players in the market.

As RunToShop's key business idea is to bring recommendations to the online shopping process which is missing previously, RunToShop competes with both online and offline recommendations. Online recommendations come from other sites concentrated on social shopping which includes sites concentrated on prices, while offline recommendations include newspaper recommendations and network marketing and other sources of referrals and testimonials. In addition, RunToShop also competes from the scarce time of an average consumer.

The list of RunToShop's main competitors is shown in Appendix 1. The direct competitors are basically the online social shopping websites which have similar customer base, products features and services, and similar business model as RunToShop's. Most of the direct competitors are from USA. Besides the International competitors, there are also local Finnish competitors, like Suomi24.fi and Fruugo.com. Both of them come to the market later than RunToShop.

Because of time limitation, this study focuses on International competitors. Three major competitors are selected in this analysis according to the company size, number of visitors, and the uniqueness of their business models, namely Yelp, Kaboodle, and Zlio. The companies' profiles will be introduced in this section. In the following sections of this chapter, the competitors' business strategies, business models and market performance will be analyzed according to the adapted research framework and compared with the case company RunToShop's strategies and business model.

5.1.1 Company profile of Yelp

Yelp, which is based in San Francisco, USA and founded by two former PayPal employees, is a local reviews website covering almost 40 states. Users write and read reviews about anything from their favorite restaurant to the worst downtown club. Additionally Yelp offers social networking features: the ability to add friends, groups, events, talk in forums or message contacts. The idea behind this is that users will trust their friends' reviews more than others. The company profile of Yelp is described in the following table¹³:

Table 5-1 Company's profile of YELP



Company Location*	San Francisco
Slogan	Real People, Real Views
Geographical market coverage	40 states in U.S.
Site languages	English
Contact online	info@yelp.com
Visitors in May, 2008	15 million (Compete), 3.3 million (Quantcast)
Found Date*	July, 2004
Launch Date*	July 10, 2007
Fund raise*	31 million \$
Employee	12
Link to its WebPages (Google)	7,320,000

*Source: www.crunchbase.com

¹³ Information based on the data gathered in June, 2008

5.1.2 Company profile of Kaboodle

Kaboodle is a free service that lets users collect information from the web and store it on a Kaboodle list that can be shared with others. The sites' primary use is to simplify shopping by making it easier for people to find items they are interested in and by allowing users to share recommendations with one another using Kaboodle lists and groups. It based in USA, aims at organizing massive amounts of information so shoppers can make great product choices, in less time, across merchants and online shopping destinations. Kaboodle's company profile is introduced in Table 5-2.

Table 5-2 Company's profile of Kaboodle



Company Location*	Santa Clara, ISA
Slogan	no
Geographical market coverage	Mainly in US
Site languages	English
Contact online	info@kaboodle- inc.com
Visitors in May, 2008	3 million (Quantcast /Compete)
Found Date*	October, 2005
Launch Date*	October 18, 2005
Fund raise*	5 million \$
Number of Employee	12
Link to its WebPages (Google)	2,830,000

*Source: www.crunchbase.com

5.1.3 Company profile of Zlio

Zlio gives users the ability to create their own shops and sell goods from other e-commerce services. Users can stock their store with over three million products and earn commissions on every item bought from their Zlio Shop in a similar fashion to a regular affiliate program. Zlio was co-founded in 2006 by David Levy and Jeremie Berrebi, a notable French internet entrepreneur, whose goal is to build up the largest online sales force in the world. Based in Paris, France, Zlio started their International expansion quite fast to the US and UK market as well as Germany. Moreover, the first institutional investor in Skype has just invested \$4 million in Zlio. A large proportion of these funds will be spent for R&D to add more features to generate more revenue for the recommenders. The basic data of Zlio's company profile is briefly introduced in Table 5-3.

Table 5-3 Company's profile of Zlio



Company Location*	Paris, France (Headquarter) , New York, US (American Office)
Slogan	My very own store
Geographical market coverage	France, US, UK, Germany,
Site languages	English, French, German
Contact online	
Visitors in May, 2008	40K (Compete), 28K (Quantcast)
Found Date*	November 2005
Launch Date*	September 10, 2006 (in France)
Fund raise*	4 million \$
Number of Employee	7
Link to its WebPages (Google)	119,000

*Source: www.crunchbase.com

In the following sections, the analysis of competitors will be conducted according to the adapted research framework. In Chapter 5.2, business strategies of YELP, Kaboodle, Zlio will be introduced and compared with RunToShp's business strategies in planning level; In Chapter 5.3, the business models of YELP, caboodle, and Zlio will be analyzed and compared with RunToShop's business model in architectural level. In Chapter 5.4, the business performance of the selected competitors is analyzed and compared with each other in order to evaluate the success of their business models in operational level. Chapter 5.5 is a summary of the findings in empirical study.

5.2 Strategic analysis and comparison

5.2.1 Yelp's strategic focuses

It is important to note that Yelp does not consider itself as a social shopping website; instead, it aims at the Yellow Page local ads market. Yelp is about reviewing local service experience, which structured the site to motivate people through the praise and attention that their reviews receive from others. Good strategies make YELP outstand in the competition. Firstly, *localization* is one important strategy for Yelp's success. It focused on San Francisco in its first year. The new generation of Web workers took Yelp to be their entertainment hobbies, and that helped generate enough critical mass that others joined in. Now the Bay Area represents about 30 percent of Yelp activity, followed by Chicago and New York.¹⁴ Secondly, according to the CEO of Yelp, Jeremy Stoppelman, YELP's strategy *focuses on community* first, consumer second and business third. Thirdly, YELP's reviews are only for local services providers rather than products providers. Last but not least, Yelp entered *mobile business* field faster than its competitors and it has planned to add location aware mobile features on iPhone.

5.2.2 Kaboodle's strategic focuses

Kaboodle's special focuses on strategy and business operation differentiate itself from competitors. Firstly, Kaboodle focuses on consumers with the goal to make online shopping

¹⁴ Saul Hansells, 'Why Yelp Works?' May 12, 2008, <http://bits.blogs.nytimes.com/2008/05/12/why-Yelp-works/#comment-198253>

really easy for the shopper. Kaboodle's powerful shopping tools allow people to organize their shopping through Kaboodle's lists, discover new things from people with similar shopping style, get discounts on popular products, and find the best prices. Secondly, Kaboodle lets consumers write reviews only for products retailers and also offers price comparison between different online retailers. Thirdly, Kaboodle shares revenue with other websites to generate additional revenues, e.g.: e-bay and shopping.com.

5.2.3 Zlio's strategic focus

Zlio's goal is to build up the largest online sales force in the world with high commission incentives. Zlio has developed aggressive money making business model and motivate the influencers with high commissions rewards. Its product and services are designed with the focuses on influencers. The recommendations are mainly for retailers of products rather than services providers. With International expansion strategy, Zlio based in France has developed its websites in French, English and German, which enable it to expanded very fast to UK, US and Germany market.

5.2.4 Comparison of strategies

The strategies of RunToShop and its three selected competitors are summarized in the following table 5-4.

For the strategy of target customer segments, YELP's strategy focuses on community development first, consumer second and business third; Kaboodle focuses on consumers need in order to facilitate online shopping; Zlio focuses on influencers to help them making money by high commissions rewards. RunToShop would like to differentiate itself from its competitors with the focus on end users as people with subjective opinions and human feelings in a social context.

Table 5-4 Comparison of strategies

Yelp	Kaboodle	Zlio	RunToShop
<ul style="list-style-type: none"> • Focus on 1st community 2nd consumer 3rd businesses • Reviews for service providers • Localization • Mobile Business 	<ul style="list-style-type: none"> • Focus on consumers • Reviews for products and compare prices • Keep good relationship with business partners 	<ul style="list-style-type: none"> • Focus on influencers • Recommendations for products • International expansion • High commission rewards business model 	<ul style="list-style-type: none"> • Differentiation • Recommendations for products and services. • International expansion • Agile strategy • Mobile service

From product contents focus, YELP is about reviews of the local services providers (e.g., restaurants, bars, health care, etc) based on their personal experiences which can be either positive or negative; Kaboodle is about a ‘wish list’ of the products that the consumers are willing to buy and price comparison between different product providers; Zlio is about recommendations of products that shopkeepers (influencers) would like other people to buy in order to earn commissions; In RunToShop, people can recommend and share their favorite products and services with their friends via social shopping network.

From geographic market strategy, YELP focuses on localization strategy which intends to get reviews as local as possible and offer consumers location-based services. Kaboodle provides online services in English to consumers worldwide with no geographic specifications. Zlio emphasize international expansion strategy which has penetrated the major markets in USA and West Europe by offering services in different languages. RunToShop will focuses on Finnish market at first and then start its international expansion to East European market and the English-speaking market.

Last but not least, Yelp has entered mobile business field and provided location aware mobile features on iPhone while RunToShop also plan to enter mobile business in the early stage of its business development. With different strategies focuses, the four companies have different designs of business models which will be analyzed in the following section.

5.3 Business models analysis and comparison

5.3.1 YELP's business model

5.3.1.1 Product innovation

YELP has three *target customer* segments: 1) business partners who are usually local service providers who use YELP's business services, 2) consumers who check reviews in YELP and 3) influencers who write reviews in YELP. YELP target more on community of consumers who are willing to use YELP's local review services to enhance their quality of life.

For the *value proposition*, YELP offers consumers localized reviews as references. Meanwhile, YELP offers its business partners possibility to investigate feedbacks from consumers and do marketing online.

In order to deliver the value proposition successfully, YELP has *capability* to build and develop local community very fast in different cities in USA and motivate its members to write reviews for local services. On the other hand, YELP has the capability to attract business customers to use its business services and do marketing online.

5.3.1.2 Infrastructure management

YELP has developed its *resources and ability* to establish a local community in a new city efficiently and motivate people to write reviews online. Thus, Yelp employs community manager in 16 cities in order to increase the size of community in different cities and to keep the community active and loyal to their services.

With YELP's *activities configuration*, consumers get references on local services through online reviews by local community. Yelp often organizes events and rewards for Yelp Elites who are

active Yelp evangelists and role models, both on and off the site. For business services, YELP enables business partners to communicate with their consumers directly through YELP messages.

YELP does not join any affiliate program. Instead, it has its *partnership agreement* with local business partners which are usually individual service providers. It offers sponsored listing and premium account to its business partners. Yelp released a suite of business tools to give business owners tools to participate more directly in the conversation. The suite is available at biz.Yelp.com and enables YELP's businesses partners to: a) message customers who have reviewed their business; b) see how many prospective customers viewed their business page; c) update business information instantly (i.e. hours of operation, categories); d) receive new review email alerts¹⁵. Yelp also offers sponsors' listing for business partners who would like to pay sponsors in order to get higher position in the search results.

5.3.1.3 Customer relationship

Location is important *information* that YELP uses to provide customized services. To be able to register in YELP, consumers need to have a postal code in USA so that they can be assigned to the nearest community. Influencers should also provide a valid postal number in USA for the service they reviewed so that YELP can offer location-based services to consumers.

Website and online social network is the key *distribution channel* for YELP. Meanwhile, YELP uses aggressive phone selling to potential business partners in order to sell advertisements banners and sponsorship program. In addition, mobile business is another important distribution channel to reach the consumers on move.

Yelp hires community managers to increase the size of the local community when expanding its business to a new city¹⁶. They also organize free events frequently for the YELP Elites to *encourage loyalty*. Although some consumers seem to *lack of trust* for the reviews from strangers as well as the 'sponsored listing', most consumers use YELP's reviews as a reference especially when traveling to a new city.

¹⁵ 'Yelp let business fight back', Nick Gonzalez, April 28, 2008, TechCrunch
<http://www.techcrunch.com/2008/04/28/Yelp-lets-businesses-fight-back/>

¹⁶ According to telephone interview with David Bealby, Executive Vice President, INBAC, Silicon Valley, USA

5.3.1.4 Financial aspects

YELP has raised a big amount funds to support its development. It invested heavily on building up IT infrastructure and local community development. All Yelp's services are free for end-users. Their business revenues mainly from selling Ads banners and sponsorship program to business partners. Instead, Yelp uses some relatively subtle advertising formats: businesses can pay to have their companies listed first on search pages (identified as a sponsored listing). Moreover, business partners can pay to add photos and other information to the webpage about their business. Besides, mobile business is another revenue stream for Yelp. They allow end-users to send mobile message to each other via Yelp. Moreover, YELP also provides mobile services by developing mobile applications on iPhone. By September 2009, Yelp has ranked the No. 1 travel application on the iPhone and No. 26 overall in overall iPhone applications¹⁷.

In summary, Yelp's business model is illustrated in Figure 5-1.

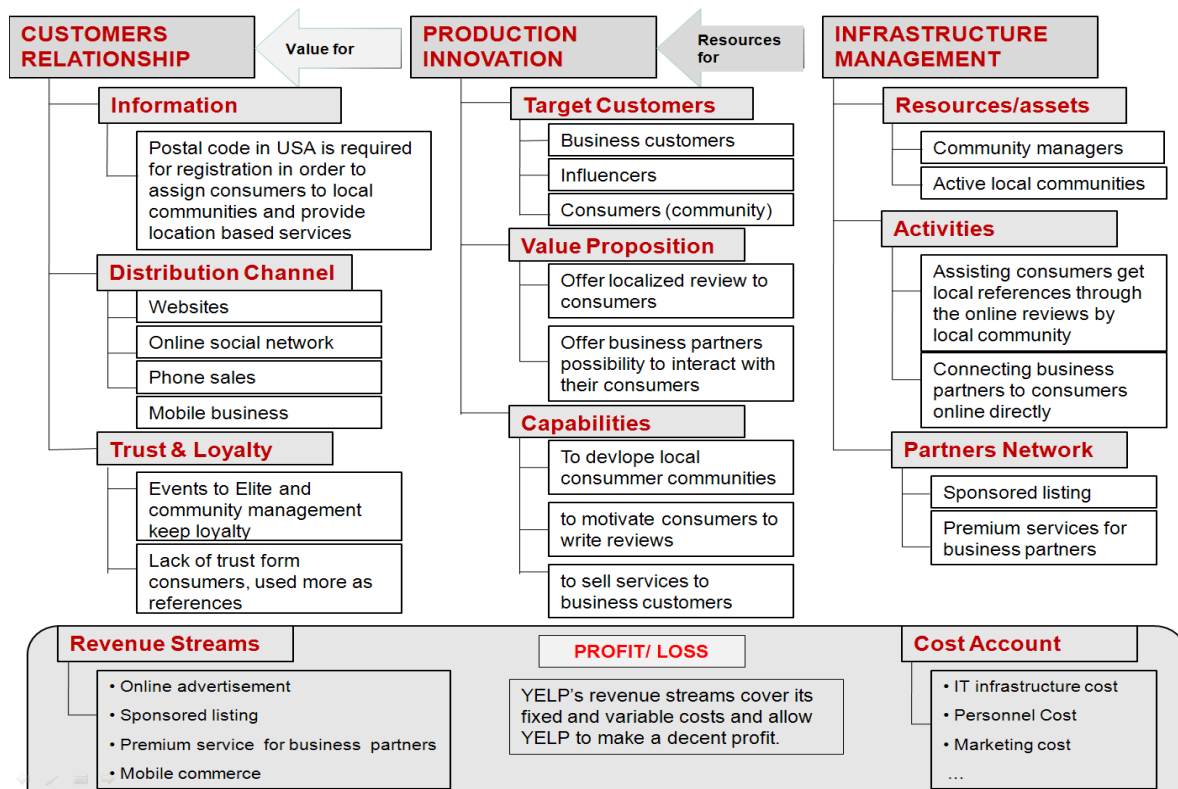


Figure 5-1 Yelp's business model analysis

¹⁷ <http://www.techcrunch.com/2009/09/02/Yelp-is-growing-80-percent-a-year-while-citysearch-remains-flat/>

5.3.2 Kaboodle's Business Model

5.3.2.1 Product innovation

It has three *target customer segments*: 1) business partners who do advertisement and use Kaboodles brand program; 2) consumers who check reviews in Kaboodle; and 3) influencers who write reviews in Kaboodle. Moreover, Kaboodle key target customers segment is young female consumers in USA.

The *value proposition* that Kaboodle offers are easier online shopping for consumers and efficient marketing channel for its business partners. On the one hand, with Kaboodle's services, consumers can collect information of their favorite products into their Kaboodle homepage across internet and make faster shopping decisions by interacting with friends and other shoppers online. On the other hand, Kaboodle help retailers and brands build awareness within the Kaboodle community, enhance relationships with customers, and take advantage of unique merchandising and sales opportunities.

In order to deliver the value proposition successfully, YELP has *capability* to develop loyal online community and motivate its members to write reviews and participates on different activities. Kaboodle also has the capability to keep good relationship with business partners and achieve win-win situation by sharing revenue with other websites.

5.3.2.2 Infrastructure management

Kaboodle has patented its search engine technology, so called 'Add to Kaboodle's button', which can help shoppers collect and organize their selections across the webs on one simple page. The site's primary use is to simplify shopping by making it easier for people to find items they are interested in and by allowing users to share recommendations with one another using Kaboodle lists and groups. Kaboodle lists, however, can also serve a variety of purposes besides just shopping. They can be used for planning vacations, sharing research for work or school, sharing favorite bands with friends, and basically anything else the consumers might want to collect and share information about. Kaboodle makes it easy to create lists by offering downloadable web

browser buttons that directly add items to the consumers' list from the website they are browsing. When adding items to the list, Kaboodle also automatically adds a summary of the web page you have saved. Anyone can browse Kaboodle without signing up, but users must register to create lists and use the site's other features. Established online community and good relationship with business partners are very important *resources* for Kaboodle's business development.

Kaboodle designed many *activities* to assist consumers to collect information and make faster shopping decisions. For example, 'help me choose' feature which assists shoppers to make purchasing decisions fits women's shopping psychology; 'Searching gifts' feature allows shoppers to search gift by interests, recipients, categories, occasions or prices ranges. 'Compare prices' is another nice feature that attracts many price-sensitive shoppers attention. 'Small online test' to help shoppers understand better their styles and find out the suitable things and 'shopping soul mate' for them. Import list from other website like Amazon make it easier for shoppers to gather their favorite products. Meanwhile, Kaboodle assist business partners to build brand awareness within Kaboodle community through the brand programs.

Kaboodle has different types of **partnership** in its network. Firstly, it offers premium services as Kaboodle's Brand Program, which is designed to meet the needs of retailers and brands. The Brand Profiles can be customized to reflect a company's branding, messaging, current promotions and featured products. Retailers will now have a specific dedicated area to promote their brands, separate from any community added products. Secondly, Kaboodle has also worked with eBay to create pages for collectors of certain items on Kaboodle, wherein they can receive feeds of eBay auctions that are relevant to their collections. Meanwhile, Kaboodle, has created another revenue source by striking a deal with eBay's comparison shopping service, Shopping.com. Under that agreement, whenever a Kaboodle user features a product that also appears on the Shopping.com database, Kaboodle will post the prices at which the product is sold online at various merchants. Should a reader click through to the merchant's site, Kaboodle will earn a share of the fee the merchant pays to shopping.com for that click.

5.3.2.3 Customer relationship

Kaboodle's *information strategy* is to collect the 'wish list' from consumers and share it through its social network. There are also online tests in Kaboodle to help consumers find out their shopping style and search for 'shopping soul mates' who have the similar shopping styles.

Kaboodle' uses websites and online network as their *distribution channel*. Consumer can import their online network list to Kaboodle and add Kaboodle badges on their own blogs. Kaboodle also exchange links with other websites in order to attract new customers. Furthermore, Kaboodle has also worked with eBay to create pages for collectors of certain items on Kaboodle, wherein they can receive feeds of eBay auctions that are relevant to their collections

Kaboodle organizes contest for users and rewards winners with financial incentives in order to motivate consumers' active participation and loyalty in online community. The degree of *trust* on Kaboodle service is relatively high. Because Kaboodle's 'wish lists' are created by consumers themselves based on their own needs and shared through the online social network, their friends can view the 'wish list' and purchase online the listed items as gifts.

5.3.2.4 Financial aspects

Kaboodle intends to keep services free to consumers forever. Kaboodle has a big marketing spends to encourage active participation and loyalty to the online community.

Kaboodle's revenues come from B2B business mainly. Firstly, Kaboolde earn commissions from the actual sales it brings to business partners. Secondly, Kaboodle also sell Ads banners to business partners. Thirdly, Kaboodle's Brand Program is a premium service designed to help retailers and brands build awareness within the Kaboodle community, enhance relationships with customers, and take advantage of unique merchandising and sales opportunities. Last but not least, Kaboodle also shares revenues with other business websites, such as e-bay and shopping.com.

In summary, Kaboodle's business model is illustrated as Figure 5-2.

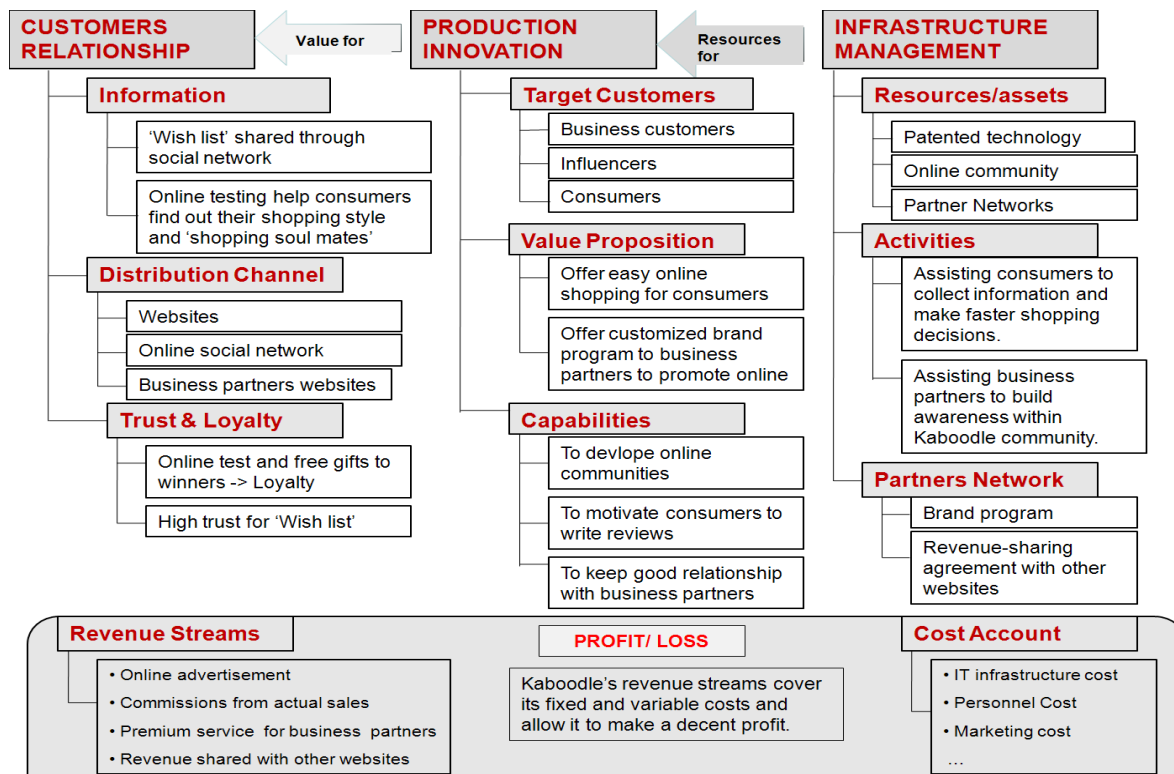


Figure 5-2 Kaboodle's business model analysis

5.3.3 Zlio's business model

5.3.3.1 Product innovation

It has three *target customer segments*: 1) business customers who are online retailers 2) shopkeepers are individual consumers who open an online shop in Zlio and earn commissions from the sales generated in their shops. 3) Shoppers who buy products/services through Zlio's online shops. Zlio mainly target on the shop keepers who would like to make money online.

For *value proposition*, Zlio's product gives users the ability to create their own shops and sell goods from other E-Commerce services. Zlio aims to build up the largest online sales force in the world. The users (shopkeepers) of Zlio act as sales forces of their shops. They can fill their online shop with the products of business partners from affiliate business programs. They can write reviews for the products, personalize their shops and promote their shops via various channels in order to earn high commissions from actual sales.

To be able to deliver the value proposition to their target customers, Zlio has the **capabilities** to build its own online communities and to help shop keepers to promote their online shops and reward them high commissions. Zlio also has capabilities to expand its services fast to different main markets in USA and Europe (e.g., UK, France and Germany).

5.3.3.2 Infrastructure management

Zlio has built its website in different languages, such as English, French and German, which is important **resource** to enable Zlio to expand to International market very fast. They already have established active international communities in France, USA, UK, and Germany. Furthermore, the affiliate programs provide Zlio's users a huge pool of products to recommend.

For the **activities configuration**, Zlio consistently develops features to help shopkeepers promote their online shops and make money through writing recommendations. Moreover, Zlio also develops its market in different countries.

Zlio has a large **partners' network** with various kinds of products. Firstly, with membership of different affiliate programs, Zlio stores can sell over three million unique products from 120 of the biggest US merchants including Buy.com, BestBuy.com and others and one million products from 62 reputable UK merchants including Play and Dell, among others. Zlio earn commissions from the sales it generates for the merchants. Secondly, Zlio joined forces with Shopping.com to allow its users in USA to be paid per click on their ZlioShops. Last but not least, Zlio has much cooperation with Google. For example, Zlio enable the shopkeeper use Google's Statistical Analysis tool to monitor the traffic to their stores; it also allows the shopkeeper to add Google advertisements to their own shop and earn commissions if any sale is generated.

5.3.3.3 Customer relationship

Zlio's **information strategy** stresses on personalization and customization. Moreover, they enable shopkeepers to use Google's statistic analyzing tools to analyze the visitors of their Zlio shops and to make better promotion to reach the potential consumers.

Online websites and social network is Zlio's main **distribution channel**. As shopkeepers in Zlio act as online sales forces, Zlio helps shopkeepers promote their online store in various ways, for

example, by providing tools for creating a ZlioShop widget for personal blogs, websites or social networks. Furthermore, Zlio offers tips for using Google Ad Words, search engine optimization and direct promotion via IM, email, phone calls and more.

Zlio used different ways to enhance the customers' *loyalty*. Zlio organized contests for consumers to encourage active participation. Zlio also allows shopkeepers to customize their online shops, for example creating unique domain names for the online shops and changing color and layout of their online shops. The customized services make online shops more personalized therefore encourage the loyalty of shopkeepers. Furthermore, Zlio rewards high commissions to motivate shopkeepers to write recommendations and promote their own online shops intensively. 10% commission on each and every sale the shopkeepers make and 5% on each sale which their friends make. They can also get commissions by clicks. However, high commissions may decrease trust from shoppers. Shoppers may suspect the reliability of the recommendations which was written for earning money. In addition, shoppers may doubt that the high commissions to shopkeepers could lead high prices for them.

5.3.3.4 Financial aspects

Zlio has various revenue channels. Firstly, Zlio sells advertisement banners to business partners. Secondly, Zlio earns commissions on the actual sales which generate from its online shops. Thirdly, Zlio has an agreement with its business partners so that it can earn commissions by click. For example, Zlio joined forces with Shopping.com to allow its users in USA to be paid per click on their ZlioShops. Last but not least, Zlio cooperates with Google. For example, Zlio also allows the shopkeeper to add Google advertisements to their own shop and earn commissions if any sale is generated. These different revenue streams bring Zlio enough profit to develop its business.

In summary, Zlio's business model is illustrated as Figure 5-3.

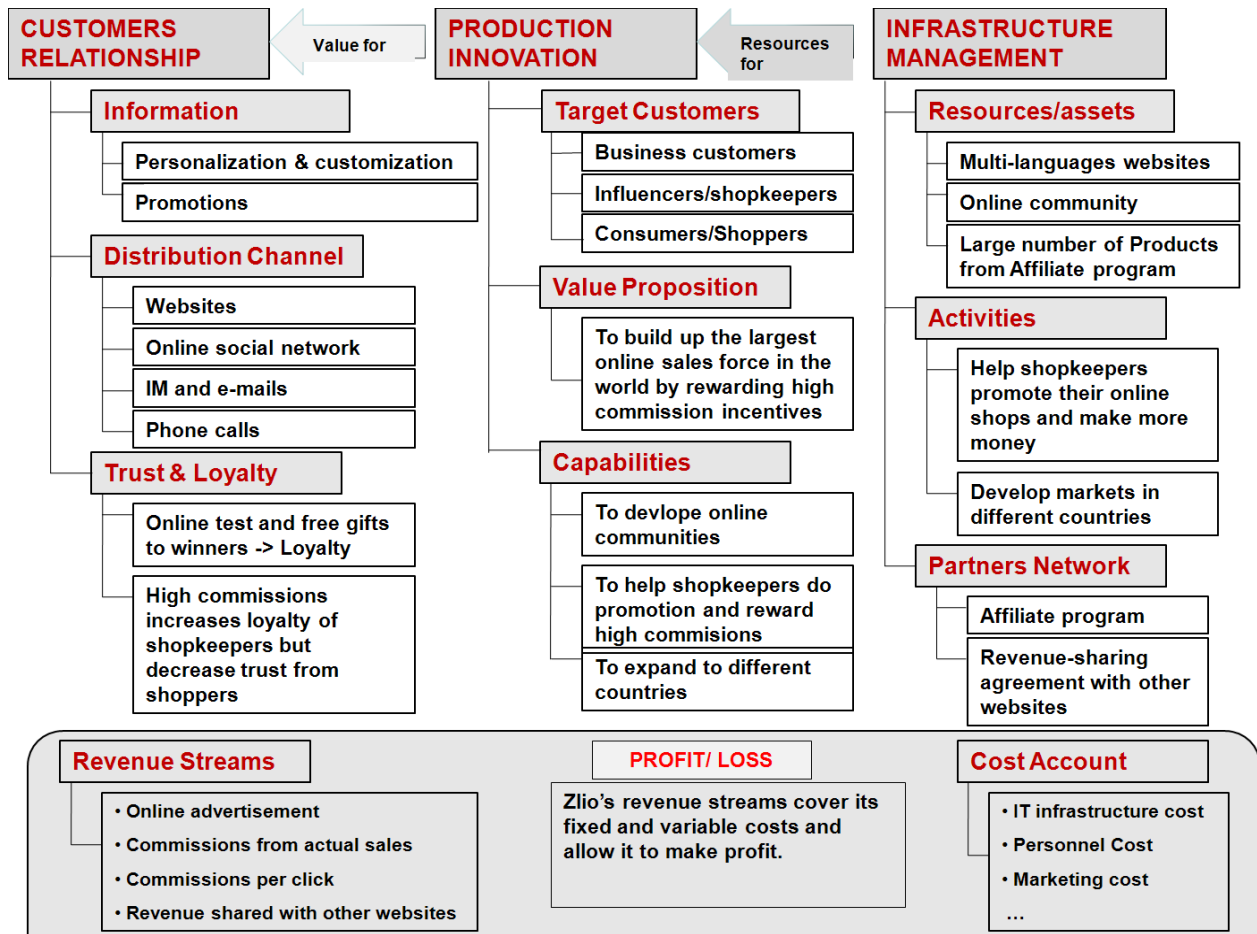


Figure 5-3 Zlio's business model analysis

5.3.4 Comparison of the business models of competitors and RunToShop

As analyzed above, the four companies are all built on online social shopping business model which combines B2B, B2C and C2C business. However, each company has different emphases in their business models according to their own strategic focuses which are analyzed in Chapter 5.2. In this section, the business models of the three selected competitors and the case company RunToShop are compared according to Osterwalder's business model framework as shown in Figure 5-4.

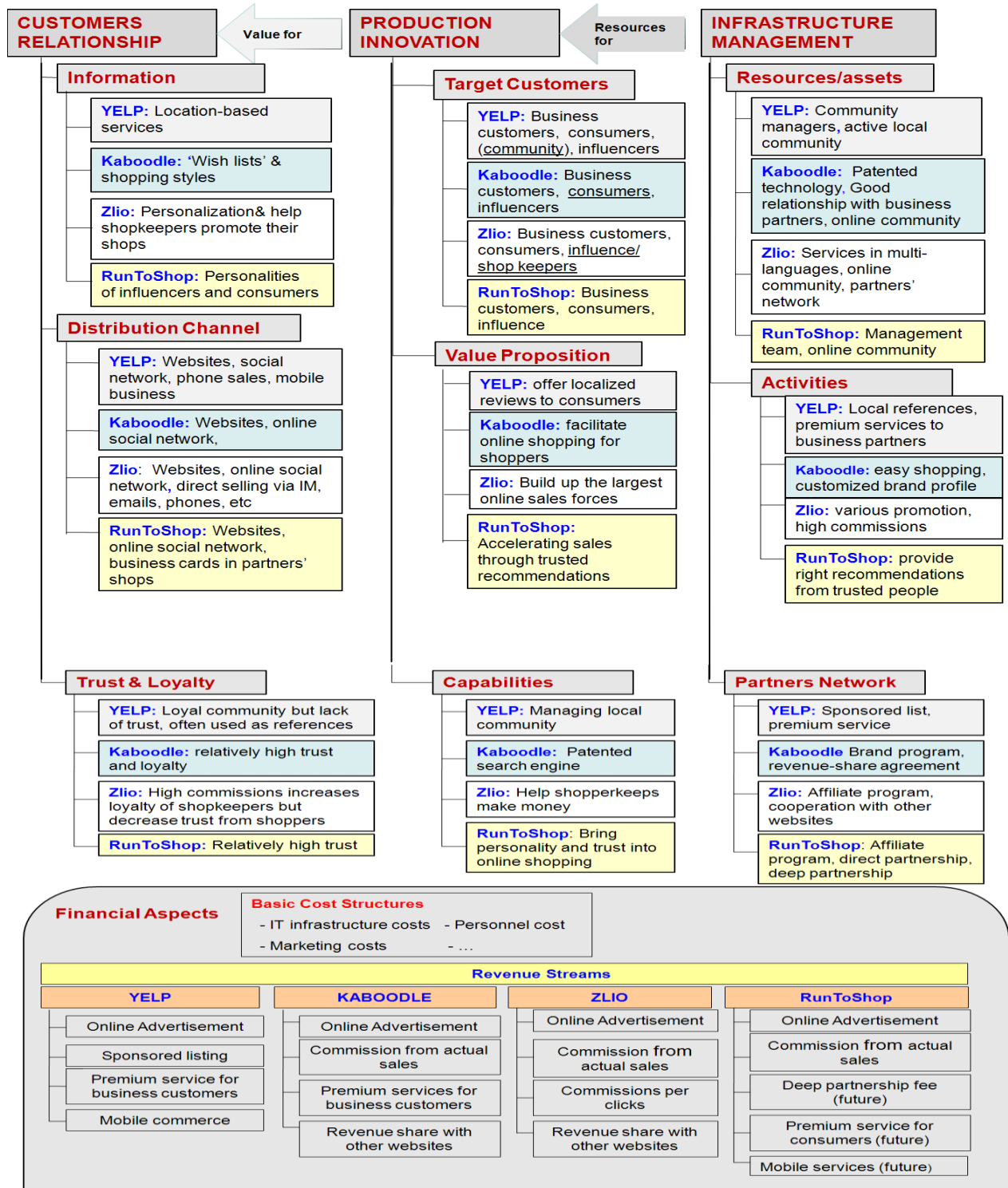


Figure 5-4 Comparison of the business models

5.3.4.1 Product innovation

Although the logic of the products are similar which is to build a internet marketing intermediary between consumers with their social network and business partners, the value proposition, target customer groups focuses and strengths in capabilities are different for the four companies.

They all have three target customers segment, namely business customers, influencers and consumers. Nevertheless, their services are designed with focus on different customer segments: YELP's offers location based services for community; Kaboodle's service designed based on the consumers' needs to facilitate shopping; Zlio enables influencers make money via internet by offering other consumers recommendation services. RunToShop allows influencers to share their favorite with their social network and enables consumers to check what the other people love.

They proposed different values in the value chain: YELP aims at offering localized reviews to consumers and connect business partners with online communities; Kaboodle facilitate online shopping for consumers with its patented search engine and online services; Zlio aims at building up the largest online sales forces in the world with high commissions fees. RunToShop would like to help people get right recommendations from trusted people through their social network.

Different strengths in capabilities enable the four companies to deliver the value propositions to the target customers. YELP has strong capability to manage its online community; Kaboodle patented technology to search and collect information make the online shopping easier for consumers; Zlio has developed its capabilities to help influencers make money; RunToShop tries to develop a product to bring personality and trust into online shopping.

5.3.4.2 Infrastructure management

All the four companies have built its own online communities and business partners' network which are the two most important *resources* for online social shopping companies. Besides, Yelp hires community managers in different cities in order to keep local community lively which has generate a huge consumer base for the business partners to interact with. Kaboodle's patented

technology and good relationship with their business partners are two valuable assets for its business development. Zlio's webpage and service are offered in multi-languages which are vital for international expansion. RunToShop's experience management team in Internet business is a crucial asset for the company.

Each competitor organizes different *activities* to build up and manages its infrastructures. YELP hires local community managers and organizes activities frequently to YELP members in order to keep the local community vigorous. Meanwhile, YELP also provides premium services to business partners to help them advertise and collect feedbacks from consumers. Kaboodle organizes many contests and gives free gifts in order to motivate consumers to write more useful reviews and to participate more in the community. Moreover, Kaboodle's tailored brand program also encourages its business partners to promote its brand to consumers via Kaboodle. Zlio provides various promotion methods to help the shopkeepers to promote their online shops in order to earn high commissions. In addition, Zlio also organizes contests among its members and offer prizes for winners. RunToShop organizes social activities to encourage active participation in virtual communities.

Comparing with the selected competitors' *business partners' network* management, Kaboodle has developed the best relationship with its business partners by its brand program while Zlio has the worst business partners' relationship because of its aggressive money making business model. Although YELP got many complaints from individual business owners, YELP's increasing influence among the consumers make it better bargaining power than the individual business owners. At the initial stage, RunToShop has joined affiliate program and developed some direct partners with some small and media sized online retailers. RunToShop aims to build deep partnership with big companies as strategic alliance in the future.

5.3.4.3 Customer relationship

The four companies use *different information strategy* to keep close customer relationship. YELP focuses on location information in order to provide location based services and serve local communities better. Kaboodle emphasize on 'wish list' and shopping styles. With the 'wish list'

consumers can collect all the things they would like to have into one list and share with their social network. Zlio enable shopkeepers to use Google's statistic analyzing tools to analyze the visitors of their shop in Zlio and make better promotion to reach the potential consumers. RunToShop highlights information about personalities and fames of influencers which may enhance the reliability of the recommendations.

Websites and online social network are the most common *distributions channels* for online social shopping companies. In addition, YELP uses phone sales to sell business services to business customers and also deliver services via mobile phone. ZLIO help shop keepers promote directly via instant messengers, e-mails, and phones. RunToshop also distribute its business card with web address in their partners' shops when it launched to the market.

The degrees of consumers' *loyalty and trust* are different for the four companies. Firstly, YELP hires community manager to develop local community in new cities. They organized events frequently to keep the local community active and loyal. However, one of biggest weaknesses of YELP is lack of trust. YELP used to pay people to write some reviews about the cities where it was entering. The paid reviews are less credible than the spontaneous reviews. However, YELP's sponsored listing which allow business owners to get higher rank in the search result may distort the free competition between business owners. It is also reported some business owners posted false reviews of both their business and their competitors to mislead the consumers. Secondly, the users' central designed features enable Kaboodle retain relative high consumers loyalty and trust. Kaboodle's 'wish list' is created based on the consumers' own needs which can be trusted and used when preparing gifts for friends. Moreover, people tend to trust more on the recommendations from people who have similar shopping tastes. Thirdly, Zlio's high commissions on the one hand to encourage the loyalty of the shopkeepers. On the other hand, the high commissions destroyed the trust from shoppers. Fourthly, RunToShop organizes some social events to encourage loyalty in community. The highlights of personality and fame of the influencers may increase the consumers' trust in recommendations.

5.3.4.4 Financial aspects

The cost structures of the four companies are similar, including IT infrastructure cost, marketing cost, and personnel cost, etc. For revenue streams, while there are some common revenue streams for all companies, each company has developed their special revenue streams. Online advertisement is one of the most important revenue streams for online companies. Commission from actual sales are common revenue streams for the social shopping companies dealing with products providers, such as Kaboodle, Zlio and RunToShop. As YELP's reviews are made for local services providers, there is not actual sales generate from YELP. YELP charges premium fees for their premium services to business customers. Sponsored listing brings YELP additional revenue. Mobile service is also an important revenue stream for YELP. Kaboodle charges premium fees for its services to business partners while develops revenue share agreements with other websites, such as e-bay and shopping.com. Zlio also have revenue share agreement with other websites, e.g. shopping.com and Google, Furthermore, Zlio receives commissions per clicks. At the beginning of RunToShop's business, it only gets income from online advertisement and commissions per sales. However, in the future, RunToShop has planned to charge premium for business partners with deep partnership agreement while they will also develop premium services to consumers. Mobile commerce will be another additional income channel for RunToShop.

5.4 Comparison of market/business performance

Based on the adapted research framework, in this section, the business performances of the three selected competitors are compared in operational levels in order to evaluate the success of their business models. Four indicators which reflect the structure of the business models are selected to analyze and compare, including product features, visitor analysis, business partners and advertisement revenues and net worth. Because RunToShop is at its initial business stage to implement its business model, it is hard to compare its performance with the selected competitors who have operated business for several years. Thus, the comparison of the business performance is mainly conducted between the three competitors. The results of the comparison are proposed as lessons learnt from competitors for RunToShop managerial team who should pay special attention when implementing its business model.

5.4.1 Comparison of product features

With different value proposition, the products' features are designed with different focuses. The comparison of product features for consumers is shown in Table 5-5. As social shopping sites focus on consumers and their social communities, all the three websites have developed many features for consumers. There are some common features for the three websites, such as 'invite from your network to join the community', 'write reviews/ recommendations'. 'Make lists', 'check the others profiles', 'check reviews from others', 'search products/services', 'send messages to other registered members', ' find new friends with similar interests', 'blogs', and 'show the most popular products and latest information on the homepage', etc. These common features well reflect the characteristics of a social shopping website: writing reviews, contacting and making friends in social life, sharing wish lists with friends, searching products, and blogs. Nevertheless, each website has developed their unique features in order to differentiate itself from the competitors.

YELP emphasizes on local community, thus many features concerning communication and involvement the members within communities are designed. For example, Yelpers can send messages to each other by online message, e-mails and even mobile messages. They can set up a conversation topic and have a group discussion online. YELP organizes many events to its

community members to foster loyalty. Moreover, location-based service is another important characteristic of Yelp. Many of the applications are related to locations, such as ‘check updated events near to you’, ‘search places/services by locations’. ‘Show locations on online map’, ‘show facilities nearby on the map’, etc. In addition, most of reviews on YELP are about services. People can get the latest information about the restaurants/ bars including opening hours, contact information, menu, and wireless facilities.

Kaboodle emphasizes on shoppers and many features are designed for this key target. For example, ‘add to Kaboodle’ button can help shoppers collect and organize their selections across web pages on one simple page; ‘help me choose’ feature which assists shopper to make purchasing decisions fits women’s shopping psychology; ‘Searching gifts’ feature allows shoppers to search gift by interests, recipients, categories, occasions or prices ranges. ‘Compare prices’ is another nice feature that attracts many price-sensitive shoppers attention. ‘Small online test’ helps shoppers understand better their shopping styles according to which Kaboodle can recommend suitable things and ‘shopping soul mate’ for them. Import list from other website like Amazon make it easier for shoppers to gather their favorite products.

Zlio aims at helping shopkeepers make money, so their product features are designed to reach this target. Zlio allows the shopkeepers to customize their stores. The shopkeepers can get own domain name for their Zlio store and customize their shop by choosing a theme and changing layout. Shopkeepers can also add photos and videos to their own stores. Furthermore, Zlio helps shopkeepers promote their online stores. They show the top stores on the homepage with the changes in ranks. Shopkeepers add Google Ad. to their own stores and may get 60% of sales generated if any. The users can also exchange links from their shops with other shops in order to get high ranks in search results. Last but not least, paying high commission is one of the most important features of Zlio. In addition, Kaboodle, and Zlio have some common features, ‘Add widges to your blog, MySpace profile, or other website’, ‘Show off your lists with a java script badge or flash slideshow’, ‘Organize contest to encourage users to show themselves and win the prizes’, ‘make tags’, etc.

Table 5-5 Comparison of products features for consumers offered by YELP, Kaboodle and Zlio

Product features for Consumers	YELP	Kaboodle	Zlio
Invite friends to join the community from you network*	+	+	+
Write reviews/ recommendations*	+	+	+
Rate for the products and services*	+	+	+
Check language spelling when enter review	+		
Good for kids option (yes, no, not sure)	+		
Make lists*	+	+	+
Compliment to the others	+	+	
Check reviews from others *	+	+	+
Search and discover products *	+	+	+
Check updated events happening near to you	+		
Search places/products/services by location	+		
Show location on online map	+		
Show the facilitates nearby on the map	+		
Get the latest information (opening hours, concat info, menu, wifi)	+		
Send info to your friends by e-mail	+		+
Send messages to other registered members*	+	+	+
Mobile services	+		
Find new friends with similar interests*	+	+	+
Set up a conversation topic and talk with others online	+		
Collect and organize their selections from across the web on one simple page		+	
Search gifts by interests, recipients, categories, occasions or prices		+	
Add widges to your blog, MySpace profile, or other website		+	+
Help me choose' feature assists shoppers to make a purchasing decision		+	
Compare prices		+	+ (between merchants)
Show off your lists with a javascript badge or flash slideshow.		+	+
Create and join groups of common interests for social networking		+	
Small online test to help shoppers understand better their styles		+	
Organize contest to encourage users to show themselves and win the prizes		+	+
Blog*	+	+	+
Import list from other website (like Amazon)		+	
Check deals and discounts		+	
Show the most popular products and latest info on the website*	+	+	+
Make Tags		+	+
Brand list		+	
Check the others' profile*	+	+	+
Recommendation rating			
Statistics about your own profile			+with Google tools
Subscribe the recommendation to your homepage			+
Show the influential rate and popularity in the community			
Recent activities in you profile			+
Find individuals with high influential rates			
Get a domain for your own shop			+
Customize your shop by clothing the theme and changing layout			+
Earn commissions			+
Add Google advertisement to your shop			+
Exchange links with other shops			+
Make cash back on your own purchases via your own shop			+
Help the consumers to promote their stores			+
Show the changes of the ranks of your store/status in the community			+
Add photos or videos to your profile		+	+

5.4.2 Comparison of partner's network

YELP does not attend any affiliate program but uses aggressive sales strategy to sell its business services and advertisement spots to individual business owners. The relationship between YELP

and its business partners are quite complicated¹⁸. On the one hand, because Yelp's increasing influential power makes the business owners cannot ignore YELP in the USA's online business market, some business owners think they have to use Yelp for competitive reasons. On the other hand, many business owners become frustrated about Yelp's unfair policies and started to complain about them. Sites like Yelp-Sucks and IHateYelp have appeared, with the general theme of being an angry business owner who was complained on Yelp. Nevertheless, as YELP's strategy states that, YELP focuses firstly on community, secondly on consumers and business comes the last.

Kaboodle keeps decent relationships with its business partners through its customized brand programs. In addition, Kaboodle has also cooperation with eBay and shopping.com. With the cooperation, Kaboodle is able to attract more visitors and consumers and to add another revenue streams with the revenue sharing agreements. In one word, good relationship with its partner's network is a valuable asset for Kaboodle's business. It is important to notice that Kaboodle was acquired by Hearst at a price about \$30 millions¹⁹. The reasons for this acquisition are newspapers in which Hearst has a significant stake will soon be outpaced by online advertising and Kaboodle has similar customer targets and product contents as Hearst magazines have. This partnership will provide Kaboodle the flexibility and resources necessary to continue building the premier social shopping platform. With the power of Hearst behind the start-up, Kaboodle can work on advancing the site functionality and bringing in advertisers²⁰.

Zlio has partnership with some affiliate programs which enable Zlio's stores to sell over three million products from 120 of the biggest US merchants including Buy.com, BestBuy.com and others and one million products from 62 reputable UK merchants including Play and Dell, among others. Moreover, Zlio has revenue share partnership with shopping.com and google.com, which bring additional revenue stream to Zlio. However, Amazon has banned Zlio from selling its products, since May 2007. Amazon has not given reasons for its decision, though there is some

¹⁸ According to telephone interview with David Bealby, Executive Vice President, INBAC, Silicon Valley, USA

¹⁹ [Hearst Acquires Kaboodle for \\$30+ million](#), by Michael Arrington, TechCrunch, August, 2007

²⁰ Hearst Acquires Social Shopping Site Kaboodle, By Enid Burns, The ClickZ Network, Aug 9, 2007
<http://www.clickz.com/showPage.html?page=3626683>

speculation that Amazon has taken this action as Zlio, which gets 50% of its sales through Amazon, competes directly with its own aStores service²¹. Furthermore, Google also imposed penalty to Zlio. The problems with partner network relationship management restrict Zlio's development. Whether Zlio's aggressive money-making business model is accepted by the market is still a question mark.

5.4.3 Visitors analysis and comparison

Different value proposition and product features of the three companies attracted different customer groups to visit the websites. The demographic of the regular visitors of the three competitors' websites are analyzed as follows.

The following table shows the comparison of indexes. Index is a measure of how a given metric compares to an average, such as USA internet users. The index 100 indicates the Internet average in USA. The higher the index, the better the site is at attracting that type of audience. If a site indexes 100 in college graduates, that means a given visitor to it is as like to be a colleague graduate as any internet users in USA chosen at random. Note that a high index does not necessarily mean a high percentage in an absolute sense. For example, approximately 5% of internet users in USA are Asian. A site with an Asian index of 400 would have an audience four times richer than average in Asians, but Asians would still only constitute one visitor in five. Index is chosen in comparison rather than percentage²².

Yelp.com is a top 500 site that reaches over 3.7 million people in USA monthly. The site is popular among young adults, more educated, more affluent, slightly more female than male audience. **Kaboodle.com** is a top 500 site that reaches over 3.0 million people in USA monthly. The site is popular among more youthful, largely female audience with lower education and income. **Zlio.com** reaches approximately 22,581 people in USA monthly by August 2008. The site caters to a slightly male slanted group and lower educated mid-age people with relative lower income.

²¹ Amazon bans Zlio from selling its products, May 2007, e-consultancy
<http://www.e-consultancy.com/news-blog/363388/amazon-bans-zlio-from-selling-its-products.html>

²² From www.quantcast.com, August, 2008

Table 5-6 Demographic analysis of visitors based on index

	Index: 100 = Internet Average		
	Yelp	Kaboodle	Zlio
Gender			
Male	93	76	108
Female	105	122	92
Age			
50	79	50	86
35-49	140	99	117
18-34	145	132	119
12-17	19	158	86
3-11	0	54	44
Householder Income			
\$100K+	133	94	78
\$60-100K	97	99	105
\$30-60K	85	103	93
\$0-30K	90	105	131
Ethnicity			
Other	174	87	110
Hispanic	103	114	136
Asian	222	84	66
African American	101	107	129
Caucasian	91	99	95
Head of Householder Education			
Graduation School	147	89	89
College	114	102	91
No College	71	101	110
Children Ages 6-17 in Household			
Yes	83	134	104
No	108	83	97

Yelp, and Kaboodle especially, attract more female visitors while more males visit Zlio. Kaboodle, which is featured by fashion, wish-list and asking recommendations from friends to make purchasing decisions, is more suitable for female buying habits and psychology. On the hand, Zlio fits more male’s psychology, who is interested in running a shop, earning commissions by giving recommendations to others. More affluent people more likely visit Yelp while Kaboodle and Zlio attract more low income people. This may also related to the products features of the websites. Yelp provides references to places for consumption and events. The

visitors of Yelp are young adults and seeking for quality of life. On the other hand, Kaboodle assists visitors to find the cheapest products/ gifts so that it attracts young people who are more price-sensitive with low income. Zlio offers low income people who want to earn extra money from the Internet an opportunity to get commissions by giving recommendations in virtual community. Moreover, Yelp’s visitors are well-educated while Zlio’s visitors are relatively low educated. Well educated people know how to use internet to enhance their quality of life while low educated people might not have special professional skills to live on so they are interested in using the Internet to make some money.

Over the past year, Yelp has nearly doubled its U.S. audience, while its competitors have remained relative flat. In July, 2009, Yelp had 31 million unique U.S. visitors, up 77 percent from a year ago according to Competitors.com. Kaboodle had about 5 million unique U.S. visitors with 67 percent annual increase. Zlio has only around 13,000 unique visitors in U.S. and the number had decreased around 51% from last years. However, this study only shown the market performance in U.S. Zlio has also developed market in France and Germany which are excluded in the analysis from competitors.com. The following figure shows the changes of the number of unique visitors²³ of the three selected competitors’ websites during the past years. Obviously, YELP has outstood from the competitions with the enormous number of visitors and significant growing speed.

Table 5-7 Comparison of changes in the number of visitors of YELP, Kaboodle and Zlio

	Unique visitors*	Monthly Change	Yealy Change
YELP	31, 338,372	11.03%	77.54%
Kaboodle	5,356,346	1.82	67.72%
Zlio	12,914	-9.71%	-51.01%

* Data on July, 2009

23 The Unique Visitors metric only counts a person once no matter how many times they visit a site in a given month. Unique Visitors are typically used to determine how popular a site is.

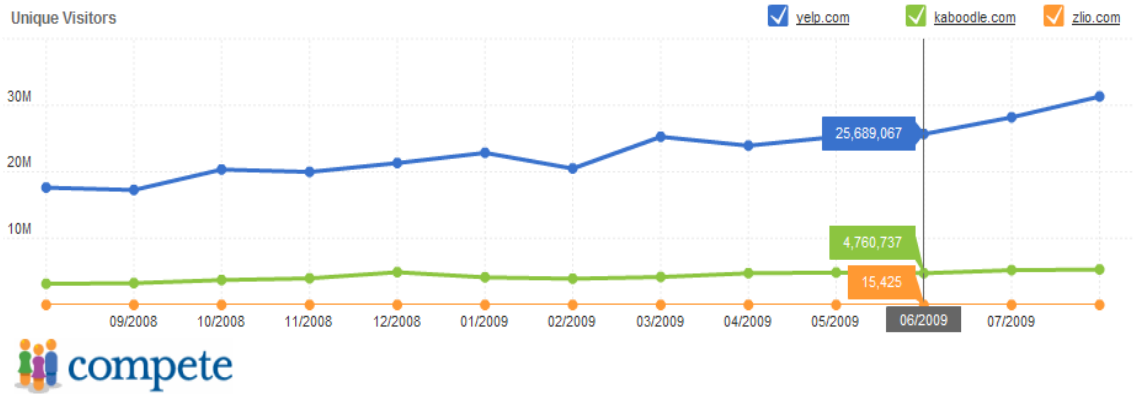
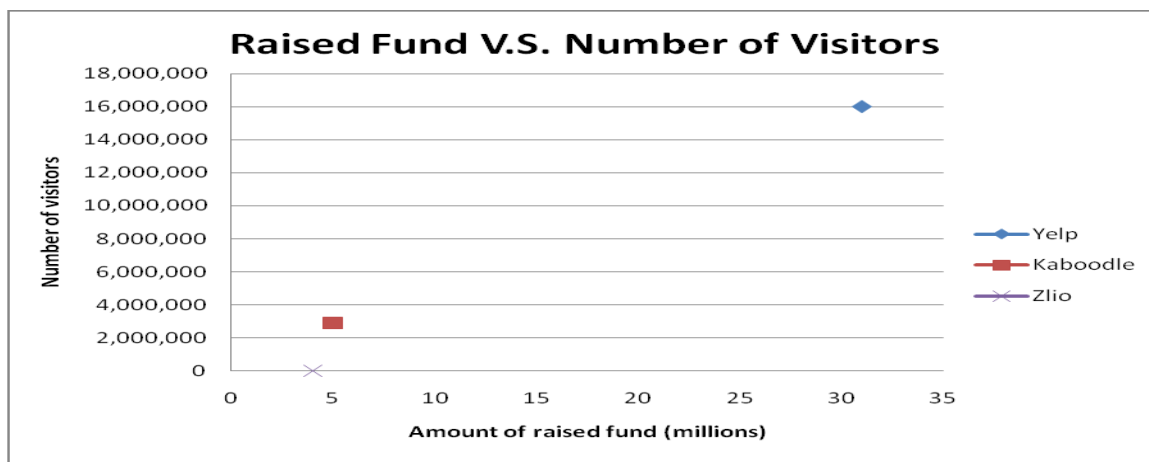


Figure 5-5 Comparison of changes in the number of visitors of YELP, Kaboodle and Zlio

5.4.4 Financial aspect

Among the three selected competitors analyzed above, Yelp is the most successful one to differentiate itself in strategies, product features, and product/services categories. Yelp’s unique characteristics have attracted about 16 million visitors in June 2008. The increasing size of Yelp’s community and influential power in the U.S. Investors see the potentials of YELP’s development so that market has helped Yelp raised 31 million funds by Feb 2008. Thus, Yelp has outperformed its competitors, as shown in the following figure.



Source: www. compete.com (May, 2007)

Figure 5-6 Comparison of raised fund and the number of visitors

As the selected competitors are small and media sized companies which are not listed in any stock market yet. There is little detailed information about their finance and accounting available

from public resources. The main revenue steams come from their B2B business. They all sell advertisement banners on their website to business partners. Moreover, YELP and Kaboodle provide premium services to business partners while Zlio and Kaboodle have revenue sharing agreement with some other online shopping websites.

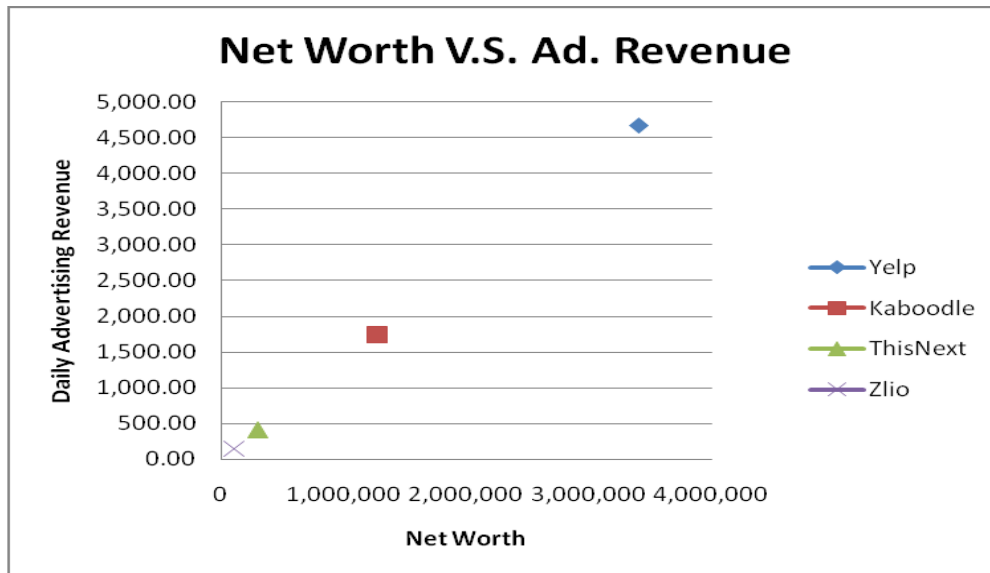
The following figure shows the estimation on net worth value and advertisements revenues by webistesoutlook.com. YELP has the most estimated net worth value and advertisements revenues while Zlio has the least.

Table 5-8 Net worth and Ads Revenue comparison

	YELP	Kaboodle	Zlio
Net Worth	\$3.41 Million	\$1.27 Million	\$107,689.6
Daily Pageview	1,555,869	580,168	48,358
Daily Ads Revenue (\$)	4,670.25	1,742.95	147.52
Annual Ads Revenue (\$)	1,704,641.25	636,176.75	53,844.80

Note: Annual Ads revenue=Daily Ads Revenue*365

source: <http://www.websiteoutlook.com>



Source: <http://www.websiteoutlook.com>

Figure 5-7 Comparison of net worth and advertisement revenues

5.5 Summary

To summarize, in this chapter, the empirical study is carried out following the structure of the adapted research framework as shown in Figure 2-12. At first, business strategies in planning level are analyzed for each competitor and compared with RunToShop's strategy. Secondly, the business models of the selected competitors are analyzed individually and compared together with the RunToShop's business model using Osterwalder's business models' framework in order to find out the similarities and differences. Finally, in the operational level, the market/business performance of three selected competitors is compared in order to evaluate the success of their business models and find out the success factors of an online social shopping company.

With the strategic focus on local community, YELP's offers local reviews of services providers in USA. Its business model design enables YELP to develop its consumer base with notable speed. Its enormous consumer base and active local community increase YELP's negotiation power with the individual business partners and attract delight advertisement revenue.

Kaboodle aims to facilitate online shopping for consumers. Its business model is built with focuses on consumers and business partners. With the production designed for shopping psychology and behavior for young females, its increasing popularity among young females in USA and its good relationship between business partners make Kaboodle be acquired by Hearst which is a traditional advertisement media have similar customer targets and product contents as Kaboodle. With the power of Hearst behind the start-up, Kaboodle can work on advancing the site functionality and bringing in advertisers.

Zlio's goal is to build the largest online sales force in the world and help influencers make more money. Its aggressive money making business model causes problems in trust from consumers and conflicts with its business partners. After Amazon has banned Zlio from selling its products in U.S., the number of visitors has decreased significantly. The international expansion to France and Germany can hardly turn the unfavorable situation in a short term.

RunToShop aims at accelerating sales through trusted recommendations. It emphasizes on personality and fames of the influencers in the virtual community with goal to increase trust in online shopping. Its business model is well designed according to is strategies and in the process of implementing. As RunToShop is at the initial phase of its business development, it is hard to evaluate how successful its business model is. However, RunToShop management team could get some managerial recommendations as the lessons learnt from their three selected competitors, which are given in the following chapter.

6 CONCLUSIONS

6.1 Objectives and aims of the thesis

As social online shopping is emerging in E-business and getting popular during recent years, there is rarely scientific research in this field. The goal of this thesis is to analyze the business model of the case company and compare its business model with its main competitors' in order to find out the success factors for a online social company in the fiercer competition. RunToShop, the first social shopping company in Finland is the case company in the study. Three of its international competitors, YELP, Kaboodle, and Zlio, were selected to study according to the company size, the number of visitors and the uniqueness of their business models. The study was carried out by face-to-face interviews with related managers in the case company in order to find out their strategies and draw its business model. The competitors' business models were analyzed based on the information obtained from different resources, such as their websites, blogs, and other professional business forums. An interview with a professional consultant in online social business from USA inputs some opinions from an experts' point of view. The collected data was analyzed according to the adapted research framework based on Osterwalder's business model analysis framework. By analyzing and comparing the collected data according to adapted research framework, the solutions to the research problems were found out, as summarized in this section.

6.2 Summarization of key findings

- i. What are the business models of the case company RunToShop and its three selected competitors, namely Yelp, Kaboodle, and Zlio?**

The business models of RunToShop, YELP, Kaboodle and Zlio are illustrated individually in Figure 4-4, Figure 5-1, Figure 5-2 and Figure 5-3 while a comparison of the four companies' business models is shown in Figure 5-4.

In general, the four companies have similar business model which aims at building an internet marketing intermediary between consumers with their social network and business partners. Their business models combine B2B, B2C, and C2C business together. They all have three target

customers segment, namely business customers, influencers who make recommendations/reviews and consumers who use the services and purchase online. Established online community and business partner's networks are the key resources for an online social shopping company. Online websites and social network is main marketing and distribution channel for their services. Their cost structure is quite similar, all including cost for infrastructure development, marketing cost, personnel cost and so on. However, different strategies decide different focuses on their business models which determine their business performances.

RunToShop aims at providing right recommendations from trustful people for consumers and accelerating sales through trusted recommendations for business partners. Its business model is well designed according to its strategies and in the process of implementing. RunToShop's product and services are designed with focuses on consumers and influencers. The experienced management team and established online community and partners' network in Finland is RunToShop's key resources for business development. RunToShop has developed direct partnership with some small and medium online retailers while it joins in an affiliate program. RunToShop intends to develop deep partnership with international companies in the future. RunToShop emphasizes on personality and fame of the influencers in the virtual community with the goal to increase trust in online shopping. It also organizes social events to encourage the loyalty of consumers. At the beginning of business development, commission from actual sale is the only revenue streams for RunToShop. However, RunToShop intends to generate revenues from online advertisement, premium services for deep partnership, mobile services or premium services for consumers. As RunToShop is still in the process to implement its business model, it is hard to evaluate how successful its business model is. Nevertheless, RunToShop management team could get some managerial recommendations as the lessons learnt from their three selected competitors.

YELP offers localized reviews of services providers for consumers in USA and its premium business services allow its business partners to communicate with consumers directly. Among the three target customers segments, YELP focuses on local community first, consumer second and business partners last. YELP hires local community manager to build up local community when expanding to a new city and keep the local community active and loyal. YELP's loyal and active community has become its biggest resources which increase YELP's negotiation power

with the individual business partners who are usually small and media sized services providers in USA. YELP offers sponsored listing and premium services for its business partners. The relationship between YELP and its business partners is quite complicated. YELP is good at using location-based information to maintain close relationships with consumers. It assigns consumers to a local community and provides location-based services for consumers. On one hand, YELP often organizes events to encourage the loyalty of the local community; On the other hand, YELP's sponsored listing decreased the trust from consumers although many consumers still use YELP reviews as good references. YELP has attracted delight online advertisement revenue. Premium services and sponsored listing for business customers is another important revenue channel for YELP. In addition, YELP also provides mobile services by developing mobile applications on iPhone. YELP's business model has achieved a huge success in U.S. market. Among the three selected competitors, YELP has the biggest number of consumers with notable increasing speed and the most net worth of the website.

Kaboodle value propositions are providing easier online shopping for consumers and efficient marketing channel for its business partners. Its main target consumer segment is consumers (especially young female consumers). Kaboodle enables consumers to collect information on Internet and make shopping decisions more efficiently. Kaboodle's established online community and ability to keep good relationship with business partners are the biggest assets for its business development. Kaboodle has different types of business partners. Kaboodle provides brand program as premium services for online retailers to marketing its brands and products to consumers while Kaboodle also cooperates with e-bay ad shopping.com under revenue sharing agreements. Kaboodle often organizes online contests and gives free gifts for winners in order to encourage the loyalty of consumers in online community. Kaboodle's 'wish list' which is created by consumers with their actual needs tends to gain high degree of trust. Kaboodle's main revenue streams are generated from online advertisement, commissions from actual sales, premium services and shared revenue with other websites. With the product designed for shopping psychology and behavior for young females, its increasing popularity among young females in USA and its good relationship between business partners make Kaboodle be acquired by Hearst which is a traditional advertisement media with similar customer targets and product contents as

Kaboodle. With the power of Hearst behind the start-up, Kaboodle can work on advancing the site functionality and bringing in advertisers.

Zlio's goal is to build the largest online sales force in the world with high commission reward business model. Its product is designed to help influencers promote their online shop in order to make money by making recommendations. Zlio's multi-language websites and its ability to expand to different countries are the key resources for its business development. Zlio has joined various affiliate programs which provide consumers a huge pool of products to choose from for recommendations. It has also revenue sharing agreements with other websites. It allows high degree of personalization and organizes online contests frequently in order to encourage the loyalty of the consumers. However, its aggressive money making business model causes problems in trust from consumers and conflicts with its business partners. Zlio's revenue streams are from online advertisement, commissions from actual sales, commission per click and revenue sharing with other websites. After Amazon has banned Zlio from selling its products in USA, the number of visitors has decreased significantly. The international expiation to France and Germany can hardly turn the unfavorable situation in a short term. Whether Zlio's aggressive money making business model is accepted by the market or not is still a question mark.

ii. Based on the evaluation of the selected competitors' business models with their market performance, what lessons can RunToShop learn from the competitors in order to become a successful online social shopping company?

According to the empirical analysis as well as the phone interview with a professional consultant²⁴ in online social shopping business, RunToShop, as a startup in social online shopping business, should learn some useful lessons from its selected competitors which are summarized as follows:

Focus on consumers' needs rather than business partners and influencers. The consumers, who have specific needs for online shopping and are willing to pay for the services, should be targeted when designing the products' features. Kaboodle is a good example. Its features and services, which are designed according to consumers' needs and shopping behaviors, can easily

²⁴ David Bealby, Executive Vice President, INBAC, Silicon Valley, USA

be accepted by consumers and generate sales. Comparatively, Zlio's features focuses more on influencers. However, recommendations do not necessary create needs for consumers and make the real transactions happen. Zlio's high commission reward is an incentive for shop keepers but may decrease the trust from consumers. Thus, the business model and services should be designed with the focus on consumers.

Focus on communities. Yelp's example shows that well established loyal community is definitely a strong bargaining power for a social shopping site. Although some business owners are not satisfied with Yelp, Yelp's increasing influential power in consumers still brings them advertisers and investors. However, it does not mean that business partners are not important. One of the advantages of Yelp is because their business partners are small and medium sized service providers who have relatively small bargaining powers.

Keep good relationships with business partners. A good example is Kaboodle who has premium services for brands and collaboration with e-bay and shopping.com. A bad example is Zlio who depended too much on its affiliate program with Amazon which generate 50% sales for Zlio in USA market. Thus, after Amazon banned Zlio to sell its products in 2007, the number of visitors to Zlio has dropped sharply.

International expansion is not necessarily the key to success. Zlio is an example. There is a flaw in its business model which could not be accepted by the market. A rash international expansion which just copies a flawed business model to other countries cannot change its destiny fundamentally. Comparatively, Yelp's localization strategy which encourages loyalty in the social network community has gain a great success. Although Yelp's market expands quite slowly, it has fostered regular customer's bases and loyal local community which support the business sufficiently.

Differentiation from competitions is very important. Yelp's distinctive features make it unique in the market. Its first move to mobile business will make Yelp keep ahead in the competitions. Focusing on niche market is very important for startups to compete with bigger players²⁵. As some large internet players, such as Amazon, are planning to enter in the online social shopping

²⁵ According to telephone interview with David Bealby, Executive Vice President, INBAC, Silicon Valley, USA

market, it is significant for startups to find out a niche market where they can keep competitive advantages over large competitors and build up its own customers bases.

6.3 Conclusion and management recommendations for RunToShop

6.3.1 Conclusion

To conclude, business model is significantly important for a successful online shopping website. The business model is a fundamental factor for the success of a company. Any online shopping company has to design their business model carefully before start their business. The four pillars of business model inter-relate each other and together make a successful business model.

Product Innovation should be made according to the core value proposition based on what the end target customers need and willing to pay. User centered design methods could be applied for the product feature design. The products features directly influence what kind audiences attracted by the website. The regular visitors of the websites are the primary customer base of the websites which on the other hand is the audiences group attracts business partners to do advertisement on the website.

Infrastructure Management, especially the partnership network, is also vital for an online social shopping company as B2B business is the main revenue streams for online social shopping companies. On one hand, the business partners are attracted by the huge active consumer bases that the online shopping company has established so that they are willing to pay for the advertisements or premium services to interact with the consumers through the online social shopping websites. On the other hand, business network is also a resource of online social shopping websites. The more business partners join the network the more choices for consumers to choose to make recommendations. Thus, good relationship with business partners is also a crucial factor for success.

Customer Relationship Management is significant for an online social shopping company because the active customer community is the essential resource to online social shopping. Although the B2C services is free of charge, online social shopping company should pay special attention to encourage consumers to active participate in the online community and to build trust

and loyalty in the community. The bigger the size of the community and the more active it is, the more value and bargaining power the online shopping companies will gain.

Financial Aspects. The time for return of investment is relative long for an online social shopping company. When looking at the profit and cost in different parts of online social shopping business, B2C service is free of charge in order to gain as much as consumers to participate in the community. C2C services is a cost for the websites as the company need to compensate the consumers who made good recommendations in order to keep the online community active. B2B business is the main revenue stream of the online social shopping websites. The advertisement banner selling and premium services to business partners are the most common income for the online social shopping websites currently. Revenue share agreement with other websites can enlarge the customer bases for both websites, provide better services to end consumers and achieve the win-win goal as a result. In addition, mobile service is also a very promising revenue stream for online social shopping companies.

6.3.2 Managerial recommendations for RunToShop

In general, RunToShop should carefully setup its strategic focuses and readjust its business model based on the lessons learnt from its selected competitors summarized above. Some managerial recommendations are proposed based on the findings of the empirical study and some suggestions from Mr. David Bealby (Executive Vice President, INBAC, Silicon Valley, USA) are given as shown in Table 6-1.

The logic of RunToShop's product is quite similar as Zlio, which allow people to open an online shop where the can write recommendations to others. However, RunToShop does not use high commissions rewards to motive people to do recommendations and promotions. Instead, RunToShop focuses on personality of the influences and evaluations of his/her fames in the virtual community in order to increase consumers' trust on recommendations. Nevertheless, good recommendations can not create consumer's needs. It is important to propose a unique value proposition according to the actual needs of consumers. As a mall startup, RunToShop should find out and focus a niche market where the recommendations are really needed and appreciated by consumers in order to build up its competitive advantages over the giant online shopping

companies. RunToShop should focus on Finnish market at first and expand to international market carefully after it achieves success in the local market.

Table 6-1 Managerial Recommendations for RunToShop

<i>Business model framework</i>	<i>Managerial Recommendations for RunToShop</i>
Product innovation	Focus on the real need of consumers and niche market ²⁶ ; Focus on Finnish market before expanding internationally
Infrastructure management	Develop more services for business customers and develop its partners' network; Do NOT depend too much on one affiliate program; Cooperate with other websites.
Customer Relationship	Focus on community development (cooperate with existing communities); Build up trust and loyalty.
Financial Aspects	Develop more revenue streams; Premium service for consumers is arguable ²⁷ ; Mobile business is promising; Possible revenues share with other websites.

At the start of the business, RunToShop should invest heavily on product innovation and development. It takes time to develop products features in order to deliver value proposition to the target customers efficiently and effectively. When the products are developed maturely, companies should focus on building an active online community and a solid customer base which is the fundamental resources for a successful online social shopping website. One of biggest problems for RunToShop is how to motive people to write recommendations without high commissions rewards and how to keep the online community active and loyal. One possible suggestion is to cooperate with the existing communities in the real society, for example, some hobby clubs, such as fishing, motorcycles, etc. In the hobby clubs, people have similar interests and they may need recommendations from others when purchasing professional equipments. RunToShop can consider cooperating with some hobby clubs and providing their members an online platform to share experiences and make recommendations in order to transfer their club members to RunToShop's virtual community.

²⁶ According to telephone interview with David Bealby, Executive Vice President, INBAC, Silicon Valley, USA

²⁷ According to telephone interview with David Bealby, Executive Vice President, INBAC, Silicon Valley, USA

Meanwhile, RunToShop should develop its business partner network continuously and cooperate with other websites and communities in order to enlarge its consumer bases and broaden its revenue streams. It is quite risky to depend too much on one affiliate program. RunToShop should develop more business services to its business partners in order to extend its business partnership network. Actually, RunToShop's plan to develop deep partnerships with big companies in the future is a very smart strategy.

RunToShop should design its revenue model in order to get as many revenue streams as possible in order to make good profits. At the moment, RunToShop's revenue is mainly from the commissions of actual sales and selling advertisement. In the future, RunToShop are planning to charge premium services for business partners. It will also provide premium services for some consumers while some services are kept free for consumers. It is arguable whether it makes sense to charge premium services for consumers while all competitors intend to keep services all free for consumers forever²⁸. Furthermore, mobile services are definitely one of the promising revenue streams for RunToShop. RunToShop should consider developing its mobile applications with Nokia.

To summarize, RunToShop's business model should be adjusted according to the lessons learned from its international competitors. Besides the managerial recommendations mentioned above, RunToShop should prioritize to invest on its product and services development and enlarge its consumer community efficiently, which are the most valuable assets of an online social shopping company.

6.4 Suggestions for future research

This study aims at finding out the success factors for online social shopping companies by investigating the business models of the case company, RunToShop, one of the first online social shopping companies in Finland and its main international competitors. Due to the time, budget and human resources limitations, only three big international competitors in the online social shopping business are chosen to evaluate in this study. Nevertheless, their business models are

²⁸ According to telephone interview with David Bealby, Executive Vice President, INBAC, Silicon Valley, USA

quite typical and interesting to compare. Further study could be taken to evaluate and compare the business models of more online social shopping companies in different countries. Particularly, one could also study about the business models of the main players in Finnish online social shopping market, such as Suomi24.fi and Fruugo.com, and suggest for the success factors to win in the local competitions in Finland. Moreover, one could also study about how to improve the business model of small and medium online social shopping companies in order to compete with the Internet giants companies, such as Amazon, e-bay or facebook, if they decide to enter the online social shopping business.

7 APPENDICES

Appendix 1: A list of RunToShop's Competitors

Bunnybot

is a live shopping tool that lets customer combine chat with shopping. It does this by launching a web-based application that shows shopping activity on the left, and chat conversations on the right. Buddies can be imported from Yahoo, AIM or MSN.

Buzzillions

is a user-generated product review site. It gets its reviews from its partner site Power Reviews, which provides customer review software to e-commerce sites. Buzzillions has an interesting business model in that they sell traffic, or product leads, from Buzzillions right back to the merchant network that uses PowerReviews, on a CPC or CPA basis.

Clipfire:

is a shopping search engine and community. Clipfire is not a competitor to shopping websites. Instead, the goal of Clipfire is to help users find the shopping websites with the best deals.

Crowdstorm:

Recommend products and write comments about them, and the best items bubble up to the top.

Jellyfish

Its model is very similar to affiliate ads – a referral fee is paid whenever an item is sold through the site. However, in this case the payment doesn't go to a webmaster for referring the sale - it goes straight to the consumer.

Kaboodle:

A free service that lets users collect information from the web and store it on a Kaboodle list that can be shared with others. The site's primary use (and pretense on which it was founded) is to simplify shopping by making it easier for people to find items they are interested in and by allowing users to share recommendations with one another using Kaboodle lists and groups.

MyPickList.com:

Integrates a user profile and your favorite product recommendations into a portable widget (a PickList) which can be embedded on your SNS or blog.

MyFavoriteThingz :

Just like MyPickList but with a revenue-sharing model that lets you earn commission when people buy what you recommend.

MyShopping:

This Facebook application (sans actual site) allows you to harness your ultimate existing network—your facebook friends—and do your shopping from within the interface. Search, rate,

ask opinions, make wishlists, and buy products. Soon you will be able to earn cash when people take your suggestions in their own shopping activities.

[Pronto:](#)

is currently the internet's fastest-growing comparison shopping website. According to comScore, the company that tracks these sorts of things, Pronto has over 3.1 million unique visitors every month. Pronto is built on the internet's largest product index and propriety crawl technology. With it you can access over seventy million products from over 65,000 online merchants.

[Shopwiki](#)

“[ShopWiki](#) is a unique site which lets you get information about a wide range of products for purchasing. And currently it has covered a massive range of about 3 billion products. ShopWiki combines the need of knowledge of products with the ability to search the desirable products from the wide varieties. It provides all the basic necessary information about what you need to know when you want to make a choice.”

[Stylehive.com :](#)

Build a part of the “hive” by tagging, rating and reviewing products or just see what others are saying.

[StyleFeeder.com:](#)

Recommendation software matches you against other users to find you products from the web based on your interests and style (complete with Facebook app)

[ThisNext.com:](#)

A “shopcasting network” where you can recommend, share and discover products. Shopcast lists and picks are tagged and searchable on the site.

[Wists.com:](#)

Especially for discovering and promoting small retailers and young designers, the site lets you publish or share lists of recommendations and wishlists.

[Wize:](#)

Silicon Valley based Wize is a site that tracks expert and user product reviews across the Internet and churns them through an algorithm to create a single, 1-100 ‘WizeRank’.

[Wishpot](#)

“Wishpot makes it easy for you to shop anywhere, keep all your finds in one place, connect with friends, and discover the hottest deals.”

[Yahoo! Shoposphere:](#)

Pick Lists let you share products on the Shoposphere, throughout Yahoo! Shopping, by email, and even through RSS feeds. They have plans to add revenue sharing and blog buttons in the near future.

Yelp:

Founded by two former PayPal employees, Yelp is a local reviews website covering almost 40 states. Users write and read reviews about anything from their favorite hole in the wall restaurant to the worst downtown club. Additionally Yelp offers social networking features: the ability to add friends, groups, events, talk in forums or message contacts. The idea behind this is that users will trust their friend's reviews more than others.

Zlio:

An all-in-one site that lets you display products you like on both a personal page and a widget. The key element is revenue sharing: you are paid whenever someone buys a product on your Zlio page (Skype and MSN Messenger are popular recommendations).

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