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Web 2.0: the ROI Case

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As Barack Obama's stunning presidential victory demonstrated, Web 2.0 platforms like Facebook, YouTube and Twitter are transforming electoral politics. And yet, ironically, Web 2.0 tools are still encountering resistance in the one place where they were supposed to have the most profound impact—the corporation.

On the surface, this resistance is not surprising. Traditionally, the architecture of corporations has been vertical and closed. Corporate cultures are characterized by rigid hierarchies managed as top-down organizations. The architecture of Web 2.0 platforms, by contrast, is essentially social and their design is open, horizontal and transparent.

There are also legitimate concerns about security breaches, legal liabilities and other downsides to Web 2.0. While buzzwords like harnessing "collective intelligence" through horizontal collaboration are compelling, there is still a tremendous fear factor about Web 2.0 in many companies.

In the current economic downturn, corporations are facing pressures to innovate and remain competitive. Pressures in favor of organizational change are coming not only from Web 2.0 consultants and software vendors, but from markets - investors, shareholders, stock prices. Against this backdrop, CEOs are increasingly showing openness to Web 2.0—especially if an "ROI" case can be made.

Surveys conducted by consulting firms like McKinsey and Forrester Research reveal that executives are showing openness to Web-based collaboration and social networking tools. Forrester forecasts robust corporate spending on Web 2.0 software including blogs, mashups, podcasts, RSS, widgets and wikis. It projects consolidated Web 2.0 spending growth at 43 percent annually from \$764 million in 2008 to \$4.6 billion in 2013.

Two areas where a bottom-line case can be made for Web 2.0 tools are peer production and open innovation. Peer production is a form of mass collaboration popularized by Wikipedia. Web 2.0 advocates argue that, by diffusing power downwards and outwards (even beyond the firm), managed hierarchies are no longer needed to organize production.

In the corporate world, the most widespread form of peer production is the wiki. Wikis encourage horizontal collaboration to solve problems. They are, in a word, a corporate form of 'crowd sourcing' that brings in the best expertise (even beyond the company walls) to develop new products.

Wikis are increasingly being deployed both internally and externally to improve productivity and build social capital. IBM famously launched its Wiki Central in 2005—ancient history in Web 2.0 time—as a vehicle for internal expertise. A year later, Big Blue organized a brainstorming platform called Innovation Jam, which was soon attracting more than 150,000 participants inside and outside the company to help identify emerging business opportunities.

Peer production can offer competitive advantages to firms in sectors where innovation produces winners and losers. Innovation should not be conceived as restricted to walled-off R&D departments, but promoted as a dynamic social process—or open innovation.

Procter & Gamble has outsourced its R&D through sites like InnoCentive, which crowdsources product

development and problem solving for its clients. InnoCentive, an R&D brain trust spinoff from drug maker Eli Lilly, demonstrated that, more often than not, the best brains are somewhere outside the corporation.

P&G now boasts that more than 50 percent of the company's new product development is crowdsourced from outside the Company. P&G launched an Open Innovation Challenge to identify innovative ideas in healthcare from small firms beyond its own research labs. The initiative attracted 170 expressions of interest, from which 72 ideas were submitted by 25 companies. From that group, eight applicants were selected for R&D funding and business support in order to transform their ideas into marketable products.

The key point here is that P&G reached out beyond its own vertical R&D department to harness this innovative creativity. Other global corporations that have integrated social networking into their organizational strategies include FedEx, Shell Oil, Motorola, General Electric, Kodak, British Telecom, Kraft Foods, McDonald's and Lockheed Martin.

As the McKinsey Quarterly noted in a report last year, "Executives in a number of companies are now considering the next step in this trend towards more open innovation. For one thing, they are looking at ways to delegate more of the management of innovation to networks of suppliers and independent specialists that interact with each other to co-create products and services. They also hope to get their customers into the act."

For traditional corporate executives, embracing these new forms of horizontal collaboration and bottom-up innovation inputs can be challenging-especially when R&D and IT departments, and middle management generally, oppose any change that threatens their gatekeeper power. But Web 2.0 collaboration and innovation has proved effective. McKinsey cited the well-known example of LEGO, which invited its customers to come up with new product models and be paid for the best ideas.

For many corporations, Web 2.0 platforms are especially effective for branding campaigns. Many Fortune 500 companies, from Coca-Cola to General Motors, have hired senior managers who work exclusively on "social media" marketing campaigns

to promote their brands. To some degree, large-scale multinationals with strong brands are adopting an "if you can't beat them, join them" approach to the Web after discovering that their brands are being swarmed by bottomup creativity on everything from Facebook "fan" pages to YouTube videos.

Fortune 500 executives also are grasping another hard fact. As media consumption and marketing campaigns move online, their brands are under threat from other market combatants because there are virtually no barriers to entry in the Web 2.0 sphere. Gone are the days when only largescale corporations could afford massive marketing campaigns focused mainly on mass media like television. Today, viral marketing campaigns on YouTube are frequently more effective and always much less costly. In fact, the cost is usually zero, or very close to it.

The problem with viral branding via Web 2.0 platforms, however, is that they can't claim any hard metrics like sales. Coca-Cola may have a few million "fans" on its Facebook page, but does that necessarily produce increased sales? Many argue that, even so, so-called soft metrics like brand recognition and buzz are important goals that, over time, produce hard ROI benefits.

As marketing budgets tighten in the current climate, companies are increasingly turning to Web 2.0 marketing to extend their brands in a more cost-effective way. It also helps that Web 2.0 platforms are more effective, period, leaving aside the costs. Indeed, a solid ROI case can be made for Web 2.0 branding strategies.

A good example is the YouTube marketing campaign by Blendtec, which manufactures kitchen blenders. The video series features Blendtec CEO Tom Dickson dressed in a white frock and clinically sticking all manner of objects-from hockey pucks and golf balls to credit cards and cell phones-in one of his Total Blender products. The humorous videos ask the ludicrous question "Will It Blend?"

Sounds goofy, but it worked. The viral campaign was so successful that it attracted more than 100 million hits and turned Dickson into a media celebrity with appearances on David Letterman's late-night talk show. More importantly, sales for the company's blenders soared fivefold. Thanks to Web 2.0 marketing, Blendtec went from an unknown brand to a household name and product.

Web 2.0 platforms are now gaining momentum, disrupting the old models of mass production, mass marketing and mass media. Corporate executives, once intrigued only by the hype and buzz around Web 2.0, are now embracing social media to boost productivity, foster innovation and market their new products. And increasingly, no longer just a trendy add-on, Web 2.0 strategies are producing results that show on the bottom line.

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