Second Wave E-Ventures: Entrepreneurship in a New Context

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Abstract

The second wave of e-ventures, i.e., newly founded companies offering community-driven services via the Internet, is characterized by user content contribution, network effects, and altering business models due to the dynamic environment. This paper investigates issues relevant in the early stages of second wave of e-ventures. The paper describes two case studies, one the video sharing community Clipfish, and one featuring the online student community Studylounge. It discusses the cases along several issues related to the second wave e-venture specific characteristics showing specific occurrences in the cases. The paper finds that for e-ventures - as for classic ventures - top management involvement, a solid business case, and the illustration of the business opportunity foster access to resources. It further discovers that a combination of viral, guerilla, and classical marketing instruments fits the context of e-ventures and accomplishes community growth.

Keywords: E-Venture, Community, Content

1   Introduction

Between the mid 1990s and the beginning of the new millennium the first wave of entrepreneurship on the Internet produced countless e-ventures, i.e., newly founded companies that offer services via the Internet. While many of those e-ventures went out of business rather quickly, few remained on the scene and grew successfully. Among those surviving and successful players of the first wave e-ventures were eBay and Google, both founded in 1995, and Amazon founded in 1996.

Recently, companies belonging to a second wave of e-ventures, i.e., newly founded companies offering community-driven services via the Internet showed common three common characteristics, community-driven user content

contribution, network effects, and altering business models in a dynamic environment (O'Reilly 2005; Stone, Levy 2006).

The second wave of e-ventures according to the business press also goes by the striking title 'Web 2.0'. Similar to the first wave, it brings up protagonists such as YouTube.com or MySpace.com, both in their first year of operation acquired by other Internet or general media companies at high prices.

The entrepreneurship[1] literature offers a number of theoretical arguments to illuminate the early stages of ventures. It applies them to eventually explain the survival of ventures (e.g., Low, Macmillan 1988; Venkatraman 1997; Aldrich, Martinez 2001). While some consider venture survival to resemble a Darwinian evolution process (Hannan, Freeman 1977), others emphasize the entrepreneur's ability to adapt the venture strategy aiming at survival (Starr, MacMillan 1990).

The specific context of second wave e-ventures may imply alternative factors to explain the survival. Therefore, this paper investigates issues relevant in the early stages of second wave e-ventures paying special attention to the characteristics common for this class of ventures.

This paper applies case study methodology to explore the phenomenon of second wave e-ventures. It illustrates the development of the online video sharing community Clipfish and the online student community Studylounge and - drawing on the literature - analyzes them concerning issues relevant in early stage second wave e-venture. It ends with a summary and several ideas how to proceed with research on the phenomenon.

2   Research Method

We select the fieldwork case study methodology to conduct research on the survival of second wave e-ventures (Eisenhardt 1989; Yin 1999). Fieldwork case study allows to reflect the complexity of reality in approaching the 'how' in the venturing process. According to Yin's (1999) case study typology, this paper stresses the exploratory character.

For the data collection, we turned to Clipfish and Studylounge. In particular, we gather data concerning the overall situation and important issues from open discussions with three managers, a managing director, a technical director, and a project initiator. We conduct in-depth semi-structured interviews with the managing director of the online student community Studylounge and the project initiator and head of innovation of the online video sharing community Clipfish (Yin 1999). The interviews covered the overall venturing process, special events and incidents, actors and figures. Additional data collection efforts involved publicly available company and market data.

Further we gain additional information from figures and commonly available material. We ground our interpretation mainly on the perception of social construction (Morgan, Smircich 1980) by e-venture managers.

Ongoing data collection during the entire duration of the project assured the inclusion of management perspectives prior to project launch and during the early stages. The informal interview settings gave respondents the opportunity to be frank about their perceptions and impressions of the project. Reviewing results for

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1   Entrepreneurship concerns not only independent start-ups, but also spin-offs of established companies (Pinchot 1985; Starr, MacMillan 1990).

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inconsistencies and ambiguities and, if necessary re-checking with interviewees, reduced the risk of misconceptions.

Admittedly, case study method involving two cases lacks some generalizability compared to multiple cases or quantitative cross-sectional methods. However, the more appropriate representation of the second wave e-venture reality weighs against that weakness.

3   Two Second Wave E-Ventures

The two case studies represent the second wave e-ventures Clipfish and Studylounge. Both are spin-offs, meaning entrepreneurial teams in established companies came up with an idea, developed the idea, and ventured in the context of the established company. While spin-offs are quite common in times of new business opportunities enabled by the Internet, second wave e-ventures also establish independently.

3.1   Video Sharing Community 'Clipfish'

In April 2006, the largest European TV broadcasting company RTL Television, a subsidiary of Bertelsmann, saw video sharing communities emerging, both abroad (e.g., youtube.com) and on its home turf, the German market (e.g., myvideo.de, sevenload.de). RTL Interactive (RTL), an RTL business unit, explored the opportunity to establish its own video sharing community.

Reflecting on the general TV broadcasting environment it operated in and the two core competencies, user acquisition and revenue generation through selling access to viewers, RTL decided to launch an online video sharing community. It set up a project team consisting of two operative members, a manager and a technically oriented website designer and assigned an executive manager to the team to secure access to resources and report to the board.

Following a short investigation of the business opportunity and the threats, the project adopted the name Clipfish and developed a working alpha version of the website in April 2006. Changing the website design twice within four weeks, Clipfish managed to come up with a working alpha backed by a technological infrastructure concept within four weeks. Upon quick load and stability testing, Clipfish launched the website on June 14, 2006.

During the post-launch phase, Clipfish built on RTL's strengths and gained key supporters to grow the community. It observed how the word had spread since the community had counted a total of 120 to 180 highly active core users. First generation adopters uploaded content, invited friends to join the community, and engaged in community building activities like commenting, rating, and messaging.

In August 2006 - a beta version had just been released - Clipfish noticed that the popularity of its site increased and consequently user growth and network traffic started to accelerate. However, Clipfish could not predict yet when user growth and thus network traffic volume would accelerate. Following the slogan "don't crash your beta", Clipfish avoided heavy marketing expenditures in order not to risk website performance with massive traffic in an immature beta stage.

3 Two Second Wave E-Ventures

In late September 2006, RTL Television learned that commercial TV rival ProSiebenSat1 took a 30% stake in Clipfish's competitor myvideo[2]. Even though Clipfish's website was still in beta phase, RTL decided to announce Clipfish on its prime time TV news.

Literally within minutes after the announcement, Clipfish saw traffic on the website explode. It worked heavily on the infrastructure, which could barely cope with the user load. Clipfish experienced availability bottlenecks.[3]

Following the hassle, Clipfish convinced RTL to invest in higher capacity infrastructure, server architecture, human resources, and marketing to further proceed on the successful path it had entered. Based to its initial success, Clipfish achieved funding for massive online advertising campaigns, TV commercials, and cross-promotion activities with selected TV shows from its parent company RTL. For instance, Clipfish set up a branded portal for the German counterpart of 'Pop Idol', the music entertainment TV show. With the portal, it offered registered users the chance to upload their self-produced casting videos and provided all casting videos shortly after the show. Following the example, Clipfish set up further portals with exclusive and branded content which could neither be imitated nor copied, and thus strengthened the brand association with its parent company RTL.

In markets with network effects[4], first movers are expected to experience first mover advantages, which sometimes even lead the market to tip to one standard or provider (Lieberman, Montgomery 1998). With regard to online video sharing communities, user-driven video supply, video ratings, comments, and message boards indicate the existence of network effects. Even though Clipfish had entered the German markets as late mover two months after myvideo, it depicted continuously accelerating user growth rates. Instead of tipping to either video sharing community, the market allowed both online video sharing communities to co-existed.

In February 2007, only eight months after its launch, Clipfish had become an official unit of RTL, it counted some 190,000 registered users, gained on average 2,800 new registrations per day, and received about 5,000 videos from registered users per day. Overall, at peak times during the day - usually between 6 and 10 o'clock p.m. - Clipfish observed approximately 75,000 visitors simultaneously on its website.

3.2 Online Student Community 'Studylounge'

In March 2006, Christoph Berger, co-founder and board member of Intergenia AG, came up with the idea to set up an online community for students in higher education. Based on entrepreneurial experience and with access to resources needed, Berger proposed the project of setting up an online community for

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2   Myvideo was the first German video sharing community. It was officially founded in April 2006 and operates mainly from its headquarters in Romania.

3   Bottlenecks slowed down the speed of the website. The website did not deny service or go offline at any time. Fortunately, Clipfish quickly designed a scalable architecture to manage such and future traffic peaks.

4   Katz and Shapiro (1985), Liebowitz and Margolis (1994) or Shankar and Bayus (2003) describe network effects, a phenomenon where the value of a network to a user depends on the number of users comprising the network. Network effects often cause the dominance of one network, as it initiated a tipping of the market to just one network (Shapiro, Varian 1998).

students to the Intergenia board. Intergenia AG is a German Internet Holding founded during the first wave of e-ventures in 1999. Besides its core business of server hosting, Intergenia operates several content-based websites, a web agency, and an IP telephone service provider.

In March 2006, Berger scheduled a meeting with the German Internet company I12 AG which was founded in 1999 and specialized in publishing special interest content on the Internet. Berger knew the i12 CEO from industry events and had previously worked with the company on several Intergenia projects. At the end of the meeting, the companies decided to launch the online student community Studylounge. Intergenia offered hosting and marketing-based monetization of websites. I12 contributed software developers and content management software (CMS).

Still in March 2006, Intergenia and I12 founded the joint-venture in Germany. Only about a month after the kick-off meeting, in April 2006, Studylounge went live in its home market.

At that time, its main competitor in the German market for student communities, StudiVZ, founded in October 2005, already had about 50,000 users.

In spite of an increasing user growth rate fostered by heavy initial marketing, in absolute user numbers, Studylounge, achieving almost 7,000 users in 30 days, grew slower than StudiVZ. As a result, by mid August 2006, when about 700,000 of Germany's two million university students participated in one community, 90% of those students had chosen StudiVZ, only about 6% Studylounge, and the remaining 4% split among ten other communities. Studylounge realized that they would need tremendous financial efforts to conquer the German market.

Analyzing the interaction in both online student communities, Studylounge found that the main benefit for students lay in up-to-date profiles and direct and continuous user interaction and learned that students showed little willingness to administer redundant profiles in different communities. Studylounge recognized that both existing and new users appreciated the larger community which was StudyVZ. Studylounge was concerned that the market would completely tip to its competitor and therefore pursued the strategic shift to other lucrative countries.

As no company had yet approached other large European markets such as France, Italy, or Spain to establish an online student community, Studylounge decided to move abroad. It focused its strategic resources initially on the Italian market, betting on an early mover advantage for which it had been too late in Germany. Its existing systems could easily be transferred to other languages, allowing for a tight launch schedule of less than a month.

Only weeks after the decision, still in August '06, Studylounge launched a national website in Italy. Studylounge seemed to be first mover in the Italian market. To gain flexibility in resources, Studylounge employed local master students who represented the company and coordinated local activities such as the production and distribution of promotional material.

To approach the Italian market, Studylounge applied several innovative marketing instruments, which differed from the ones it had used upon launch in the German market. To spread the word on campuses and student events, but also on Internet forums, Studylounge let members actively participate in the marketing. It equipped students with flyers, posters, and other materials to convince fellow students to join the online student community. Studylounge awarded participating students a special title, supposedly raising their social status within the online community.

4   Discussion

Further, Studylounge adapted its systems to facilitate innovative marketing Only hours after a user registration, Studylounge automatically sent an email signed by one Studylounge founder encouraging the new member to invite friends to make the community successful.

In October 2006, competitor StudiVZ followed Studylounge and also launched in Italy. However, different from the experience in Germany, Studylounge had the lead and was ahead of StudiVZ by several thousands users.

In February 2007, Studylounge Germany had around 48,000 registered website users, but growth was marginal. It generated revenues on the page impressions and clicks through selling ad space on its website.

While the development of the Studylounge community had halted in the German market in February 2007, in the same month, Studylounge strengthened its efforts in Italy. Studylounge.it - after a slow start - had approximately 15,000 registered users, about 6,000 more than StudiVZ, and counting about 250 new registrations every day. Core Studylounge user groups with about 15 to 25 members were established at several large Italian universities, e.g., Luigi Bocconi University Milano, University of Rome la Sapienza, and University of Perugia. Those groups actively fostered Studylounge's gathering of further members and contribute to the uploading of content such as photos and discussion entries. Studylounge expected exponential growth of online student communities to start at an installed base of 18,000 to 25,000 registered users - this time for Studylounge as first mover.

Table 1 summarizes both second wave e-ventures under consideration.

	Clipfish	Studylounge
Business	Online video sharing community	Online student community
Initiation Date	April '06	March '06
Launch Date	June '06	April '06
Parent Company	RTL Interactive (RTL Group, Bertelsmann), Germany	Intergenia AG, I12 AG, Germany
Main Market	Germany	Italy
Secondary Markets	Various European countries	Germany, Spain, France
Users (Feb. '07)	About 190,000	About 63,000

Table 1. Summary of Two E-Venture Cases

4   Discussion

The discussion involves both cases and analyzes issues relevant in the early stages of second wave e-ventures. It draws on the literature for guidance.

4.1   Adaptation and Securing Access to Resources

For e-ventures, first year survival probability increases with the capability of fast adaptations (Paolo and Magnusson 2006). For quick adaptations, second wave e-ventures require sufficient resources. In case they originate in established corporations, a certain resource dependency on their respective parent companies
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could inhibit quick adaptation. An executive manager as link between the e-venture and the parent company substantially facilitates fast decision making concerning the e-venture. It provides access to required resources from the parent company and sometimes even allows for non-authorized activities by the e-venture (Noda, Bower 1996).

As subsidiary of RTL, Clipfish had to adhere to conservative resource allocation structures. In contrast to the entrepreneurship literature (Noda, Bower 1996), Clipfish could neither change RTL's corporate decision making structures nor could it apply non-authorized activities to achieve resources. Despite the volatility in the market, Clipfish had to show a valid business case to convince its parent company and to unlock the necessary resources to launch the second wave e-venture.

Studylounge, as a joint-venture of two parent companies, experienced ambiguous and ambivalent resource allocation instances. In contrast to Noda and Bower (1996) but in line with Newbert (2005) and Zahra et al. (2006), Studylounge exploited the partnership among its two differently positioned founders to benefit in terms of complementary human and financial resources. It obtained hosting and marketing support from Intergenia and software development and content management input from I12. To both parent companies, Studylounge plausibly illustrated the business opportunity inherent in the right composition of the asked for resources.

Upon resource availability, both second wave e-ventures needed to allocate them in a flexible and parsimonious way, taking into account community growth and frequently changing service requirements. *Clipfish* issued contracts to part-time employees. It made use of on-demand and outsourcing offerings to be capable of reacting to sudden demand changes concerning technology and technology related skills. *Studylounge* directly controlled only few resources, but made sure it could go back to Intergenia or I12 for further resources in due course if its business accelerated and required extended infrastructure. Its resource strategy allowed Studylounge to shift its strategic focus to further countries and quickly create the needed logical structures, e.g., website and database, as core assets of its second wave e-venture.

4.2 Marketing Strategies With Limited Resources

With limited initial resources and consequently scarce marketing budgets, second wave e-ventures build on guerilla marketing[5] and viral marketing[6] to reach the potential core community users.
Clipfish set up forums and web portals to pursue viral marketing. Further, it designed an application user interface (API) that allowed users to post Clipfish branded videos under external domains and thus to promote the Clipfish community and its service. It aimed at not only creating a brand image, but directly conveying also the actual service offerings (Morris et al. 2002). Its traditional Internet marketing involved search engine marketing, cost-per-order-marketing through affiliate systems, and banner campaigns.

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5   Guerilla marketing refers to "low cost, effective communications, cooperative efforts and networking leveraging resources, using energy and imagination" (Morris et al. 2002, 3).

6   Viral marketing, also called user-to-user marketing stands for "the tactic of creating a process where interested people can market to each other" (Subramani, Rajagopalan 2003, 300).

5   Summary and Outlook to Further Research

In addition to its online marketing activities, Clipfish also applied classical marketing owing to its special position as subsidiary to a large media company (Bennett 1988). It exploited the diversified network of RTL when it took advantage of cost-effective cross promotion involving RTL TV shows and various RTL websites. It also benefited from editorial advertising such as the prime time TV announcement. Clipfish's website traffic directly followed both the announcement in prime time news and various TV spots.

Studylounge pursued both, guerilla and viral marketing. It exploited active user participation, both on its community website and directly on campuses and at student events. Studylounge convinced students to promote the Studylounge community in their respective educational milieu. It equipped student teams with t-shirts, flyers, and posters to spread the word in their every day environment. As incentive, it allowed those student teams to take prominent positions in the community. Applying those innovative, yet inexpensive marketing approaches in the Italian market, Studylounge observed superior results in Italy compared to its previously applied more classical approaches in Germany.

5   Summary and Outlook to Further Research

This paper described the initiation and growth of two second wave e-ventures, i.e., newly founded companies offering community-driven services via the Internet. The first case illustrates the birth and growth of Clipfish, an online video sharing community and the second case portrays Studylounge, an online student community. Based on the two case studies, the paper discussed issues relevant in the early stages of second wave e-ventures.

The paper found that actively securing access to resources was especially important in second wave e-ventures as spin-offs of established companies. Towards access to resources, top management involvement was similarly important for e-ventures as it commonly is for classic ventures. Further, a solid business case and the illustration of the business opportunity deliver the arguments to achieve resources from the parent company. Apart from securing access to resources, the paper found that a marketing strategy comprising viral, guerilla, and classical marketing instruments accounted for the scarce available resources characterizing typical second wave e-ventures and successfully accomplished community growth.

Further research may investigate how those issues relevant in early stages of second wave e-ventures relate to factors of survival from traditional entrepreneurship literature. Also, one could explore the issues in ventures from different contexts. Assuming the issues occur similarly also in different contexts, further cases could serve to operationalize the issues before quantitative research could confirm them and test possible relationships.

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