

# **Understanding the Success of New Media Startups**

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## **Abstract**

User-Community-Driven Internet ventures (UCDI-ventures), characterized by (1) user-contributed content, (2) network effects, and (3), an interactive community have constituted a second wave of Internet-based entrepreneurship. Prime examples of UCDI-ventures such as YouTube or MySpace have received high capital market valuations. Many others have failed, though, thus making such ventures and their success drivers interesting phenomena for entrepreneurship research. In this context, the paper integrates UCDI-venture success drivers, three general ones from the entrepreneurship literature and two UCDI-venture related ones. It illustrates the applicability of the UCDI-venture success drivers with a short case study on the online video sharing community Clipfish in Germany. Then the paper assesses the success drivers and, finally, suggests an outlook to future research.

**Keywords:** Entrepreneurship, Venture, New Media, Community

# 1 INTRODUCTION

During the first wave of Internet entrepreneurship starting before the year 2000, eBay, Google, Amazon, and Yahoo have achieved remarkable success stories. Other ventures, however, went out of business quickly (Barnes et al., 2004). A subsequent and still ongoing second Internet entrepreneurship wave brought up so-called User-Community-Driven Internet-ventures (UCDI-ventures). They aim at financial returns as any other for-profit venture.

UCDI-ventures show three characteristics: (1) Their service provision includes user-contributed content; (2) their 'architecture of participation' implies network effects; and (3) their service offerings involve an interactive community (O'Reilly, 2005).

UCDI-ventures benefit from three recent technological evolutions. Firstly, advances in wireless and fixed-line transmission technology and competition in the market for Internet access have fostered the availability and affordability of faster Internet connections for domestic use and thus enhanced connectivity and interactivity of individuals in the society (Bargh & McKenna, 2004). Secondly, personal computers have increasingly offered integrated multimedia applications (Kuroda & Nishitani, 1998). Individual users can produce their own music and videos, edit their digital photographs, and share such content with others. Finally, advances in software for server-based media streaming and client reception altered the client/server relationship, as server-based streaming and only browser-based play-back on the client machine have become possible and common (e.g., Flash technology).

Building on the technological developments, prime examples of UCDI-ventures such as YouTube or MySpace have received high capital market valuations, an indicator of success; whereas many others have failed. This high failure rate (Arthur, 2006; Dvorak, 2007) makes the selection and investigation of UCDI-venture success drivers relevant to practice and entrepreneurship research, "the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited" (Shane & Venkataraman, 2000, p. 218).

In contrast to general entrepreneurship research, UCDI-venture research involves and emphasizes the user in the production and the diffusion of the service offering. With this specific focus, research on success drivers of UCDI-ventures extends the literature on entrepreneurship.

Towards a UCDI-venture related contribution to the entrepreneurship literature, we firstly define UCDI-ventures and describe three main characteristics they share. We then turn to the general entrepreneurship literature to derive general venture success drivers independent of the research context. Assuming that general drivers do not fully cover UCDI-ventures as phenomenon under research (Andrews, 1987), we return to the literature to derive additional UCDI-venture related success drivers. We combine all drivers to a 'UCDI-venture success driver framework'. Based on interview data and publicly available information, we investigate a short case on UCDI-venture Clipfish, an online video sharing community to illustrate the applicability of the success drivers. Drawing on the UCDI-venture case, the paper then assesses the success drivers and gives an outlook to the agenda for future research.

## 2 DEFINITION AND CHARACTERISTICS OF USER-COMMUNITY-DRIVEN-INTERNET (UCDI)-VENTURES

We define UCDI-ventures as for-profit ventures that offer immaterial and digitized user-contributed multimedia content via a website for direct consumption to an interactive community, where the number of users determines the value of the entire service offering to

the individual user. UCDI-ventures show three common characteristics, (1) user-contributed content, (2) network effects, and (3) an interactive community.

UCDI-ventures are characterized by **user-contributed content** (Kautz et al., 1997; Korica et al., 2006; Tredinnick, 2006) such as video, music, pictures, or personal profiles. User-contributed content may, but does not need to be user-generated content. For instance, YouTube and other ventures show professional content recorded by users and cut to clip length. The relative importance of user-contributed content to the service offering differs among UCDI-ventures (Filimon, 2006). Based on the user-contributed content, some UCDI-ventures design services restricting to user ratings and comments, whereas other UCDI-ventures create more enhanced services (Pitt et al., 2006). Concerning the type and format of user-contributed content, some UCDI-ventures such as Flickr (photographs) and YouTube (videos) focus mainly on one content type and format. Others such as Myspace facilitate user contribution of various content types and formats (Kolbitsch & Maurer, 2006). Regarding content accessibility, some UCDI-ventures make their content available to the public, whereas others restrict access to individuals affiliated with the contributing users (e.g., Facebook).

UCDI-ventures are subject to **network effects** (Fumero, 2006; Millard & Ross, 2006), i.e., the value of the UCDI-venture to a user depends on the number of users (Shankar & Bayus, 2003; Shapiro & Varian, 1998). Network effects differ, however, concerning the degree of continuity and interaction required for network effects to occur (Stone & Levy, 2006; Wilson, 2006).

UCDI-ventures grow an **interactive community** in which users interact with each other via a website (Choi et al., 2006). Some UCDI-ventures such as YouTube mainly foster the consumption of user-contributed content; they facilitate commenting and rating only as add-ons. Other UCDI-ventures strive for ongoing interaction of users via instant messaging, chat rooms, or message boards (Korica et al., 2006). Examples of the latter category are Facebook or LinkedIn, both building a service model around iterative and sustained user interactions.

### 3 UCDI-VENTURE SUCCESS DRIVERS

#### 3.1 General Venture Success Drivers

Success drivers originate in two streams of entrepreneurship research. The first stream analyzes characteristics of ventures in a given environment from a natural selection perspective (e.g., Aldrich, 1979; Hannan & Freeman, 1977; Hawley, 1950; Katz & Kahn, 1966). The second stream identifies success drivers within the organization that actively manages its environment to succeed (e.g., Low & MacMillan, 1988). It includes studies regarding individual success drivers (e.g., Begley & Boyd, 1987; Cross & Travaglione, 2003; Earl, 2003; Hadjimanolis, 2000; Kakati, 2003; Kelmar & Wingham, 1995; Krauss et al., 2005; Smilor, 1997; Starr & MacMillan, 1990; Timmons, 1982). It also includes works focusing on comprehensive models of success drivers (Baum et al., 2001; Chrisman et al., 1998; Rogoff et al., 2004; Vesper, 1980).

Across those studies, three general venture success drivers appear: (1) Personal Network and Personal Characteristics of Entrepreneurial Team, (2) Product or Service Idea in Business Model, and (3) Available Resources and Capabilities.

Ad (1) Personal Network and Personal Characteristics of Entrepreneurial Team. The personal network including family and friends originates in the entrepreneur (Starr & MacMillan, 1990; Teal & Hofer, 2003). It gives access to a secondary network of potential support (Florin et al., 2003; Greve & Salaff, 2003; Nijkamp, 2003). The entrepreneur's personal characteristics and traits as success drivers reach from behavioral aspects such as initiative,

risk taking, and intentions to emotional aspects (Baum et al., 2001; Cross & Travaglione, 2003; Delmar & Wiklund, 2003; Goleman, 1995; 1998; Gundry & Welsch, 2001; Krauss et al., 2005; Rogoff et al., 2004; Smilor, 1997; Starr & MacMillan, 1990).

Ad (2) Product or Service Idea in Business Model. The linking of product or service characteristics to revenue streams as basis for a business model represents an often cited success driver (Earl, 2003; Rogoff et al., 2004; Timmons, 1982). Newness and idiosyncrasy of products or services are also considered important (Vesper, 1980).

Ad (3) Available Resources and Capabilities. The resources and the according capabilities serve as success drivers (Baum et al., 2001; Kakati, 2003; Kelmar & Wingham, 1995; Rogoff et al., 2004; Timmons, 1982; Vesper, 1980). Resource development is important towards a valuable resource base (Hadjimanolis, 2000).

Table 1 shows the three drivers along with their respective literature sources. The drivers are rather general and take neither the new technological developments nor the market opportunities into account. Hence the drivers seem insufficient to explain the differences in the success of UCIDI-ventures. According to Andrews (1987), success driver research requires context-specific adaptations. Hence, two additional UCIDI-venture related success drivers complement the three general venture success drivers.

Success Drivers	Literature Sources
<i>Personal Network and Personal Characteristics of Entrepreneurial Team</i>	Baum et al. (2001); Chrisman et al. (1998); Cross & Travaglione (2003); Florin et al. (2003); Gundry & Welsch (2001); Kakati (2003); Krauss et al. (2005); Rogoff et al. (2004); Smilor (1997); Starr & MacMillan (1990); Timmons (1982); Vesper (1980).
<i>Product or Service Idea in Business Model</i>	Baum et al. (2001); Chrisman et al. (1998); Earl (2003); Hadjimanolis (2000); Rogoff et al. (2004); Vesper (1980).
<i>Available Resources and Capabilities</i>	Baum et al. (2001); Chrisman et al. (1998); Hadjimanolis (2000); Kakati (2003); Kelmar & Timmons (1982); Vesper (1980); Wingham (1995).

**Table 1: Three General Venture Success Drivers in the Literature**

### 3.2 UCIDI-Venture Related Success Drivers

Two additional success drivers also derived from the literature are related to the UCIDI-venture characteristics.

One UCIDI-venture-related success driver is 'Marketing Strategy with Viral Emphasis' or just viral marketing which stands for "the tactic of creating a process where interested people can market to each other" (Subramani & Rajagopalan, 2003, p. 300). Viral marketing emphasizes the linkage between organization, i.e., the UCIDI-venture, and its users.

UCIDI-ventures need to conduct marketing to reach potential users and raise awareness for the service (Sheth et al., 2006), but typically possess only scarce resources (Newbert, 2005). To overcome the resource scarcity, they may exploit their community as an external asset and focus on viral marketing (Helm, 2000; Miller, 2000; Sheth et al., 2006). To motivate users to get involved in the viral marketing efforts, UCIDI-ventures may count on extrinsic motivation and pay their users a commission per newly acquired user (Kwok et al., 2002). Alternatively, they may count on users' intrinsic motivation by rewarding the users with a special position in the community, awards, or other publicity elements (Bitzer et al., 2004; Hars & Qu, 2002).

The second UCIDI-venture related success driver is 'Speed to Market'. Network effects potentially offer an early mover advantage which could cause a market to tip to just one

community or standard (Shapiro & Varian, 1998). Such tipping threatens late movers who lack the deep pockets for acquiring users (Makadok, 1998).

Hence, speed-to-market, i.e., a time-based strategy, is important to achieve competitive advantage in an environment of fast-changing technology and customer requirements (Chen et al., 2005; Hayes, 2002; Suarez & Lanzolla, 2007). Speed-to-market is also relevant when competition is strong (Schoonhoven et al., 1990) as in many Internet industries with low entry barriers.

The third UCIDI-venture characteristic, user-contributed content, emphasizes users as an external resource that enriches the success driver 'Available Resources and Capabilities'.

### 3.3 Integrating UCIDI-Venture Success Drivers

Following the previous arguments, the UCIDI-venture success driver framework (Figure 1) comprises five success drivers. Two success drivers from the entrepreneurship literature, 'Personal Network and Personal Characteristics of Entrepreneurial Team' and 'Product or Service Idea in Business Model' remain unchanged. The third driver from the entrepreneurship literature 'Available Resources and Capabilities' requires further specification with regard to UCIDI-ventures. It demands an emphasis on external user-contributed resources both in terms of content origin and in terms of content diffusion to users. Resources and capabilities need to be available in a flexible manner especially when exponential network growth causes service peaks - as to be expected in markets with network effects. The two additional UCIDI-venture related success drivers, 'Marketing Strategy with Viral Emphasis' and 'Speed to Market', are derived from the UCIDI characteristics. Each of the five success drivers supposedly has a positive influence on UCIDI-venture success.

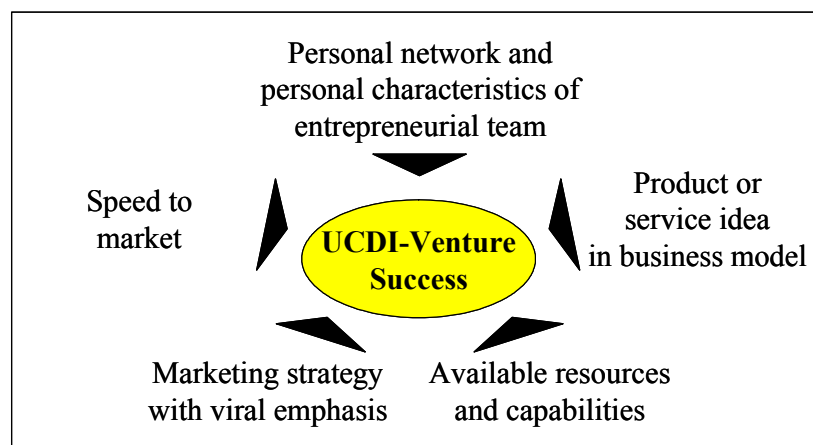


Figure 1: UCIDI-Venture Success Driver Framework

## 4 APPLYING THE UCIDI-VENTURE SUCCESS DRIVERS

Investigating the relevance of the five drivers in a practical case serves to illustrate the applicability of the UCIDI-venture success drivers. Toward a specific UCIDI-venture, the idea of an online video sharing community has already been established in the US by YouTube. As the development of online video sharing communities in Germany follows the US development only with a time lag, investigating German online video sharing communities enhances the chances not to follow one of the many dead ends of UCIDI-ventures (Arthur, 2006). In the German market for online video sharing communities, three UCIDI-ventures (MyVideo, Sevenload, Clipfish) lead the pack in terms of user number and page views. We

select one of them, the online video sharing community Clipfish (see Figure 2) to illustrate the UCIDI-venture success drivers.

#### **4.1 The Case of Clipfish**

In April 2006, the largest European TV broadcasting company RTL, a subsidiary of Bertelsmann, saw video sharing communities emerging, both abroad (e.g., YouTube.com) and on their home turf, the German market (e.g., MyVideo, Sevenload). RTL Interactive, an RTL business unit, explored the opportunity to establish their own online video sharing community. Reflecting on their general TV broadcasting environment and their core competencies, user acquisition and revenue generation through selling access to viewers, RTL decided to launch such a UCIDI-venture.

RTL Interactive 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.

Soon the project adopted the name Clipfish and developed a working alpha version of the website in April 2006. 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. They observed how the word spread. 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 increased popularity of their site combined with accelerating user growth and network traffic. However, it could not predict yet when user growth and thus network traffic volume would take off. Following the slogan "don't crash your beta", Clipfish avoided heavy marketing expenditures. They did not want to put their website on the line with massive traffic in a beta stage.

In late September 2006, RTL's commercial TV rival ProSiebenSat1 took a 30% stake in Clipfish's competitor MyVideo (the first German video sharing community, officially founded in April 2006 and operated mainly from Romania). Thereupon RTL decided to announce Clipfish on their prime time TV news, even though the website was still in beta phase. Within minutes after the announcement, traffic on the website exploded. Clipfish worked heavily on the infrastructure to cope with the user load. Some availability bottlenecks slowed down the speed. The website did not deny service or go offline at any time as Clipfish quickly designed a scalable architecture to manage traffic peaks.

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. Clipfish achieved funding for massive online advertising campaigns, TV commercials, and cross-promotion activities with selected TV shows. For instance, Clipfish set up a branded portal for the German counterpart of 'Pop Idol', the music entertainment TV show where they offered registered users the opportunity to upload their self-produced casting videos. Following the example, Clipfish also set up further portals with exclusive and branded content which could neither be imitated nor copied, and thus strengthened the brand association with their parent company RTL.

Even though Clipfish had entered the German markets two months after MyVideo, they depicted continuously accelerating user growth rates. The market allowed both online video sharing communities to co-exist.

To further exploit Clipfish, RTL in January 2007 arranged for a Clipfish collaboration with Giga TV, a special interest TV channel to produce and air a daily TV show called ROFL TV, involving selected uncommented Clipfish videos. Typical license agreements with uploaders allowed Clipfish to also use videos in other media at no cost.

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

In August 2007, Clipfish parent RTL extended the successful exploitation of Clipfish on TV. It started producing Clipfish TV. The show involving a well-known host and about 100 studio guests was aired weekly on Saturday showing a selection of Clipfish video clips along with comments by the host.

By December 2007, Clipfish counted 3.5 million monthly visitors and more than half a million registered users.

#### **4.2 Success Drivers in the Case of Clipfish**

The success driver **Personal Network and Personal Characteristics of Entrepreneurial Team** was relevant to Clipfish. Even though not in the sense of the entrepreneurship literature emphasizing the personal network outside the organization, the success driver influenced Clipfish through interpersonal linkages within the organization. For instance, Clipfish established a link to the RTL board via an executive manager. It thus adapted to the established RTL decision making structure and accomplished quick access to resources needed in the volatile market environment.

The success driver **Product or Service Idea in Business Model** played an important role for Clipfish. As subsidiary of RTL, Clipfish had to show a product or service idea leading to a valid business case. Clipfish's idea was to enhance user segmentation based on user profiles within the community. The success driver enabled Clipfish to create revenue streams through advertising revenues. It let Clipfish focus on exploiting the potential of user profiles and create potential revenue opportunity to a media company such as Clipfish's parent RTL.

The success driver **Available Resources and Capabilities** was important to Clipfish. In particular, Clipfish had to adhere to conservative resource allocation structures. Convinced by Clipfish's service idea and the business model, parent company RTL unlocked the necessary resources to facilitate the technical setup and the commercialization of the website. Resource availability provided by RTL enabled the UCIDI-venture to enhance the website performance and assure usability even with a tremendously increasing user number. Clipfish issued contracts to part-time employees, made use of on-demand and outsourcing offerings to be able to react to sudden demand changes concerning technology and technology related skills.

The success driver **Marketing Strategy with Viral Emphasis** was relevant for Clipfish. It enabled Clipfish to grow the community via user-to-user interaction, taking advantage of the viral marketing strategy in the form of invitation emails by users to friends who were not yet registered. It further supported Clipfish through forums, web portals, and a specifically designed application user interface (API) allowing users to post Clipfish-branded videos under external domains to promote Clipfish. However, due to its relationship with media company RTL, Clipfish also had access to costly traditional marketing instruments. It benefited from cost-effective cross promotion in RTL TV shows and on various RTL websites. Clipfish gained exposure through RTL's editorial advertising such as the prime time TV announcement. Clipfish's website traffic peaked directly following the announcement in prime time news. They also showed positive loads upon various TV spots.

The success driver **Speed to Market** also had only little relevance. Following MyVideo with a few months delay, Clipfish experienced the tendency of potential users to join the first mover. With Clipfish turning successful despite being late, though, speed to market did not determine success as explicitly as stated in the literature.

## 5 ASSESSMENT AND OUTLOOK

The paper emphasizes the development of the UCDI-venture success driver framework. For illustrative purposes, it reports on a rather exploratory investigation of the success drivers' applicability, which can be determined by retrieving evidence for the occurrence of the success drivers in a practical case.

All five success drivers positively influence the UCDI-venture success. Clipfish, one of three successful online video sharing communities illustrates the applicability of four success drivers, Personal Network and Personal Characteristics of Entrepreneurial Team, Product or Service Idea in Business Model, Available Resources and Capabilities, and Marketing Strategy with Viral Emphasis. Only success driver Speed to Market had less relevance. Missing relevance illustrated by Clipfish's success could possibly be explained with the brand name and reputation of its parent RTL convincing users to join and the considerable resources provided by RTL, allowing Clipfish to catch up quickly.

To further establish the UCDI-venture success drivers in the entrepreneurship literature, future research needs to gather additional evidence of relevance and applicability. We suggest a three step procedure: Firstly, additional exploratory case studies on UCDI-ventures should allow for re-checking the relevance of the five drivers, operationalizing variables as required for a quantitative study, and investigating possible interdependencies and overlaps among the success drivers. Secondly, a survey and subsequent quantitative analysis of survey results aims at validating the drivers. Thirdly, a longitudinal case study on a small number of UCDI-ventures shall examine whether the success drivers remain equally important over time. However, at least the third step requires some patience, as the contemporary UCDI-ventures, of which many were at best founded and launched in 2006, would not allow for any longitudinal investigation before 2011.

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