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INSIDE INNOVATION -- IN PROGRESS

Crowdsourcing

Milk the masses for inspiration

A Japanese paper fan unfolds across a television screen, mysteriously hiding the white-painted face of a woman. When it folds up, the face reappears, this time with theatrical green eye shadow. Fade to black beneath the slogan: *Find color in confidence. L'Oréal Paris*. It's a flashy, high-concept ad that resonates with the consumer. It was created by a consumer.

If produced in-house, this ad could cost L'Oréal \$164,200, the going production price for a glossy 30-second TV spot. Instead, the beauty product company turned to Current TV, the cable television station that relies on user-generated content for much of its programming. Current TV has built a social network where viewers can create and upload five-minute media segments, post comments on other viewer-made clips, and vote on which ones should be aired. This spring, Current TV opened the process to ads, posting assignments for people to work on. After making a sponsorship deal with Current TV, L'Oréal paid the ad's producer, who uses the handle "spicytuna," \$1,000 for her creative endeavors. Do the math.

Companies have been outsourcing to India and China for years. Now they are taking it to another level by using social networks such as MySpace, Second Life, and a multitude of virtual communities to solve their most gnarly business problems. Business model innovation is happening at a lightning clip. First there was outsourcing, then open-sourcing, and now crowdsourcing.

Who's into crowdsourcing? Getty Images recently paid \$50 million for iStockphoto, a Web site where more than 23,000 amateur photographers upload and distribute their stock photographs. Hipster clothing company Threadless.com prints and sells t-shirts designed by people on its Web site. Linden Lab's 3-D virtual world, Second Life, allows people to create and retain the intellectual property rights on new businesses, brands, and personalities. John Fluevog Boots & Shoes' Open Source Footwear site invites fans to submit and vote on new shoe designs. Ducati Motor Holding builds fanatical brand loyalty and brings customer insights into designing new motorcycles through Ducati.com.

But in their rush to capitalize on the wisdom of the masses, many companies are making big mistakes. Kraft was lambasted on the Web for not really "getting" web collaboration when it simply posted a digital suggestion box on its Web site. Though Kraft said critics misunderstood their effort, which was part of a larger strategy of open innovation, the danger remains that companies will rush to set up consumer communities without carefully considering what they're after and how they plan to use it. It is very easy for crowds to generate the lowest common denominator among solutions.

Smart crowdsourcing is about how we winnow the wisdom from the wash, and what we choose to do with it. Here are some key guidelines to follow:

1. BE FOCUSED Vaguely defined problems get vague answers. Current TV is explicit about the goal of its viewer-created ad messages (v-cam's): to develop new advertising to run online and on the cable network. And it allows companies such as L'Oreal or Sony ([SNE](#)) to mine the v-cams for fresh advertising ideas.

The more infrastructure you build into the creative process, the more success you will have. Current TV has clear rails to support social networkers. It provides a specific focus such as the one for Sony Ericsson's Walkman Phone: "With a Sony Ericsson Walkman Phone you're always connected to your music. The question is: where will it take you?" It also provides a Sony Ericsson logo and a smattering of graphics, as well as instructions that include a time limit -- up to three minutes -- and a deadline -- September 8. Current TV also spells out directly in its rules that the network retains the power to reject anything that paints the brand in a negative light.

2. GET YOUR FILTERS RIGHT Crowdsourcing often produces a wealth of ideas, and companies need effective filters to pick the gems. Consider IBM's ([IBM](#)) innovation jam, a two-part brainstorming session launched in July designed to tap the collective minds of employees, family members, and customers to target potential areas for innovation. CEO Sam Palmisano will put \$100 million into promising ideas.

IBM identified four large themes, providing interactive background information on each one, employing moderators to keep conversations focused, and setting a 72-hour time limit for the first session. By the end of it, IBM had collected 37,000 ideas. IBM will use its own crowd to filter the ideas. The company has made transcripts available to the 140,000 people who logged in to the first session and teams will review the posts. In early September, the company will host a second session, where everyone will again log on to the jam session to vote on the ideas with the most potential. Then senior executives will sift through this short list to make recommendations about which should be funded. Palmisano will have a hand in making the final choices.

3. TAP THE RIGHT CROWDS At YouTube and probably within any new social network, only 1% of the users are active content creators. Another 10% interact with the content and change it. The remaining 89% passively observe. Smart companies want to assemble the crowds with the most sophisticated knowledge about their business problems to maximize the impact of the small percentage of idea generators within them. Consider InnoCentive, a social network created by Eli Lilly ([LLY](#)) where companies like Procter & Gamble ([PG](#)) and Boeing ([BA](#)) can pay a steep fee to post the knotty problems they can't solve internally -- like a process for the extraction of trace metal impurities, for example. The idea is that individual problem solvers -- retired scientists, obsessive hobbyists, university students -- might be able to lend a hand. If they solve the problem, they receive a hefty cash reward.

This network is dependent on a crowd of extremely talented scientists with highly specific skills. To attract them, InnoCentive recruits at universities, where young, smart minds have not yet entered the workforce. To date, the network has signed agreements with 25 Chinese universities, including the prestigious Chinese Academy of Sciences and the National Natural Science Foundation of China. The network also promotes itself at industry events and advertises in trade publications.

Also key, Innocentive's rewards for solutions are sizable. Crowdsourcing is not cheap. Just as in corporate America, top talent is expensive, and companies will have the most luck when they are willing to pay up for the inventions that lead to potential innovations.

4. BUILD COMMUNITY INTO SOCIAL NETWORKS Cash is key to getting people to participate, but successful crowdsourcing taps into a well of passion about a product that stretches beyond monetary incentives. Cambrian House, a software company founded by Michael Sikorsky, relies entirely on crowdsourcing. Everyone who contributes an idea receives royalty points, which function as equity in the final product and can eventually be cashed in for stock. But Sikorsky has also created glory points, which reward members who collaborate. He says one key element in keeping people engaged long-term is for them to build friendships with other members. It's not so different from the eBay ([EBAY](#)) model, where buyers and sellers rate each other and offer commentary. These interactions foster trust and keep people active in the community.

Crowdsourcing is a new and nascent business tool for innovation. Used properly, it can generate new ideas, shorten research and development time, cut development costs, and create a direct, emotional connection with customers. Used improperly, it can produce silly or wasteful results. Crowds can be wise, but they can also be stupid.

By Jessi Hempel

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