

# Core >> Perspective

## *Next generation business applications*

*- the business value of having fun*

*Core Perspective is a series of e-books from Core group and Core Venture. The purpose is to introduce new business- and technology trends, as well as to investigate interesting business issues and to present new perspectives on issues related to business- and technology management, specifically in the Technology-, Media- and Telecom-sectors.*

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***”The future is already here,  
it’s just unevenly distributed.”***

*William Gibson*

## **Introduction**

In this e-book, we argue that social media services and gaming practices are disrupting the way humans interact with technology, and that this disruptive change has a tremendous impact on both the software industry and the business environment at large.

Furthermore, we argue that we are still in the beginning of this disruptive process, and that software developers and software companies must change their mindset and focus in order to succeed in the new business environment.

This e-book is an attempt to outline some of the important issues at hand.

We start with a short history lesson.

## From mainframes to social media

In the early days of enterprise computing, a number of large organizations, such as banks, insurance companies and governments, needed computers in order to automate their core business processes.

Vendors of mainframe computers, most notably IBM, sold large integrated contracts, including hardware, software and services, directly to corporate IT- and purchasing departments through their own distribution network.

The competitive environment was relaxed, and successful mainframe vendors experienced healthy profit margins on their systems and services.



In the beginning of the 1990s, client/server technologies became more widespread. With more computing power came new applications and benefits, such as process improvements and productivity increases. The cost reduction potential of office automation and process support was substantial. However, enterprise applications were still expensive and most often sold to medium-sized and large organisations.

The major players at the time included Oracle, Novell and Microsoft. At first, they set up and leveraged their own distribution networks, but have later moved to external distribution channels, such as international, regional and local system integrators.



The world wide web reached critical mass at the end of the 1990s. A large number of software companies from all over the world scrambled to capitalize on perceived first-mover advantages in their chosen segment. Google, Yahoo, eBay and Amazon.com came out on top, while thousands of companies went bankrupt. A significant number of losing companies still continue to operate in the low volume-segments of the market.

With internet distribution, business applications became easily available for small businesses. The potential for information access and web commerce exploded with the expansion of the internet. New business models included internet advertising, subscription-based software-as-a-service and various transaction-based models.





In the last couple of years, yet another shift has taken place. Social media services, such as Facebook, LinkedIn and Twitter, have changed the way individuals interact. So far, the major social media companies have for the most part provided services related to self-promotion, networking and digital content. But there is a clearly observable trend towards supporting business processes, notably collaboration, digital marketing and web commerce.

Social media services are delivered over the internet for free or based on some kind of freemium or open source-based business model. These business models can not carry much distribution cost, so individual users have to distribute the service themselves, often through built-in mechanisms, such as invitations.

## Don't solve yesterdays problems

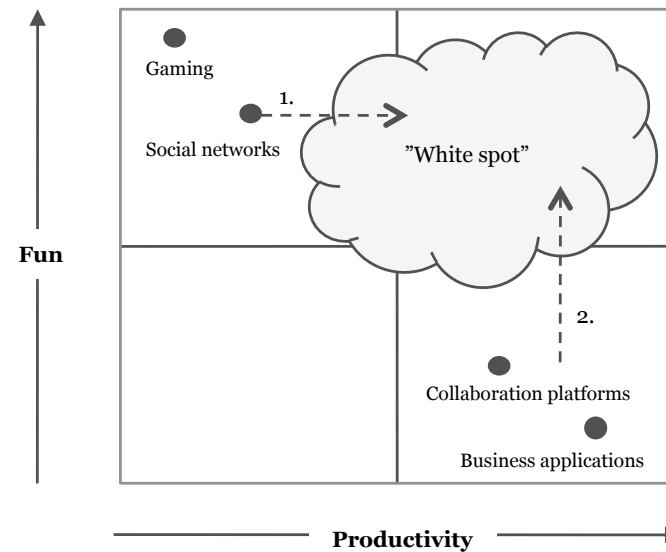
The rapid growth of social media is set to revolutionize both the software and media industries. However, most business software companies, with notable exceptions, face the social media revolution with a traditional web mindset. As a result of this:

- They approach the wrong customers
- They push software through the wrong distribution channels
- They believe that tried and tested pricing models still work
- They assume that added functionality equals increased customer value
- They assume that the purchasing decision is based on a cost/benefit analysis

Instead, they should target the new window of opportunity.

## The window of opportunity is now!

*The race for implementing gaming concepts and technologies into business applications is on*



1. Social networks will move to integrate more business functionality
2. Business applications will take on characteristics from social media and gaming

*The whole buying system is disrupted by the introduction and growth of social media*

## **A brand new mindset**

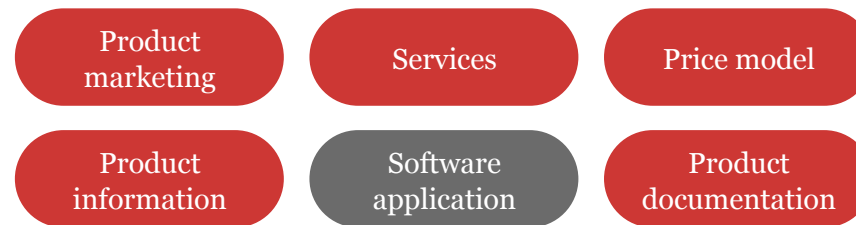
In the traditional web context, gaming and social networks have been all about fun and personal satisfaction, while business applications have focused on employee-, team- and business productivity.

In the new business environment, social networks are increasingly positioned as application platforms for a diverse set of applications, while business applications increasingly take on gaming and social media characteristics.

This shift has profound consequences on product development, business development and marketing since the whole buying system, including the target customer, distribution channel, value proposition and price model, is disrupted.



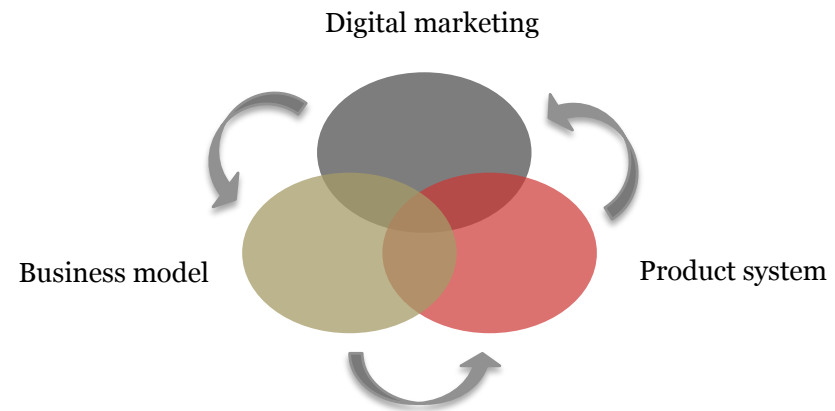
It is important to remember that a software product includes both a software application and a product system. The product system provides a context within which the application is used, including documentation, support, pricing plans and packaging.



For software companies, the product system is essential. Without a strong product system, the product will fail, regardless of the quality of the software application itself.

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Recently, the product system, business model and digital marketing process have come together.



In some cases, the business model is actually implemented in the software.



The most notable example is Google AdWords where Google provides the platform and users service themselves. Another example is Spotify, in which the in-site advertising (or lack of it) is a cornerstone of the business model.

There are also a number of new businesses in which the business model is based directly on a social media service, such as GroupOn, Foursquare and Gowalla.

Other businesses have used or deployed social media services to support idea- and product development. Finn.no and FinnOpp is a well-known example of this kind of social media application.

## Four steps to developing sticky applications

Traditional software development focus on functional, non-functional- and sometimes usability requirements. This is insufficient in the new business environment.

We suggest the following four-step model for a more profitable approach:

- 1. Recruit the right users***
- 2. Make users stick to your solution***
- 3. Convert users into product evangelists***
- 4. Grow the user experience***

In the remainder of this e-book, we will explore each step in more detail.



***You are no longer selling business-critical software to companies, but to individuals. This is the Copernican turn in software development***

## **1. Recruit the right users**

Today, individuals have access to all kinds of applications on the internet, either for free or for a small fee.

Software companies can no longer rely on users to pay for basic functionality. Instead, they must actively recruit and motivate individuals to use their applications. If not, individuals with an abundance of choice will quickly move on to solutions that serve their needs and requirements better.

Individuals are motivated by different factors. Some are motivated by a challenge, whereas others need the application to be cool or fun to use or support their identity in some way.



The traditional value proposition for technology companies, is to offer prospective customers some kind of financial benefit, such as process improvements or direct savings, in order to get their business. GroupOn is an example of a social media company using this approach in the B2C space.

But this is not the only viable approach. Companies such as Hipstamatic, Squrl, Trimensional and Instagram make their services fun to use in order to engage and recruit customers. So far, such companies have predominantly targeted personal users, but there is undoubtedly a significant potential for these kinds of services in a more business-related context.

A third approach is to make interaction with company and/or product brands exciting and/or challenging.



Coca Colas introduction of Urge Intense Red Sting in Norway and the movie Rottenetter, both used alternate reality games as a cornerstone of their customer recruitment process.

However, the single most successful motivator for use of social media services is their ability for individuals to connect with others and at the same time strengthen their identity through extensive use of the social network. Well-known examples include Facebook, LinkedIn, Twitter and Gowalla.

These social media services rely on distribution through personal invitations, sometimes in the context of a finished product or service, sometimes in the form of an alpha or beta test version.

***Your toughest competitors  
are just a single mouseclick  
away.***

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Many software companies build barriers around their product, and make it difficult for individuals to become users. Some of the most common barriers include:

- complex registration process
- asking individuals for information that is not needed to provide the service
- complex log on process with strong password protection
- asking individuals who are not yet users for money
- complex payment process

All barriers should be removed, or at the very least limited, in order to facilitate user acquisition.

*Getting users on-board is an important first step, but the real challenge is to make them stay*

## **2. Make users stick to your solution**

The traditional approach focuses on making applications useful. In practice, this involves supporting users and streamlining their tasks and processes.

If an application fails in the marketplace, software developers often attribute the failure to lack of functionality. In our experience, the opposite is the truth. The problem is often too much, not too little functionality. Too much functionality tends to reduce usability and build technical debt.

Research shows that on average only a small percentage of software applications are actively used.



***There is a difference  
between locking in and  
hijacking your users***

A good way to make your products sticky, is to create user lock-in. There are a number of proven ways to achieve this. For instance, you can create lock-in by:

- making the application fun and interesting
- creating applications and experiences that users identify with
- making users invest time and effort in your application
- helping users to utilize and leverage your application
- allowing users to tap into social networks
- making it easy for current users to recruit new users

These mechanisms create learning- and network effects, and are effective tools for building barriers to exit for users of your product.



User lock-in can be strengthened further through the incorporation of gaming concepts into the application. Social networking sites are already using such concepts with great success. Some of the most effective gaming concepts are:

- definition of clear targets and objectives
- tracking progress
- introducing an element of unpredictability
- providing feedback and rewarding performance
- tapping into and leveraging social processes

The objective is to allow users to have fun and get satisfied in several ways while using business applications.

***Software products and services sold through a freemium price model are not profitable when distributed through traditional channels***

### **3. Convert users into product evangelists**

Distributing products for free through traditional distribution channels, such as a direct sales force, value added resellers or software distributors, is not profitable for products targeted at the individual. These distribution channels are too expensive. Future-oriented software companies must find alternative channels in order to become profitable.

The most economical distribution channel is the users themselves. Such user distribution may utilize a diverse set of mechanisms, including invitations, user recommendations, referrals, user-driven marketplaces and blogs.

Another option is to use commerce sites, such as Google Apps Market. However, this alternative may be subject to strong competition, since nothing prevents your competitors from doing the same thing.





In any case, it is necessary to create incentives for users to distribute the product. One option is to facilitate sharing of documents, pictures, music, videos or other digital content. Another alternative is to provide collaboration functionality and lock collaborators into the solution.

Successful social media companies, such as Facebook, Spotify and Vodder have leveraged social processes in order to achieve rapid distribution. Still, it took Facebook more than four years to recruit the first 100 million members. The second 100 million members took 225 days, and the third 100 million members only 143 days.

Recently, Google + have had an astonishing adoption rate, more than 25 mill. users have signed up in just one month!



In viral successes there is usually an element of coolness or exclusivity. When the first version of Gmail was launched, only a select set of individuals were allowed to access free accounts. The demand for such accounts soared, and at some point individuals were willing to pay \$200 on eBay for a free Gmail-account.

***People seemed to be willing to give their left arm for a free Gmail-account***

However, not all companies have the brand value or the capability to execute this kind of distribution strategy. For some it may be necessary to complement the viral campaign with other digital- or traditional marketing initiatives in order to strengthen the company or product brand.

*When the users love the application, it is time to get paid, not before*

## 4. Grow the user experience

It is essential to build a strong user base, but this does not necessarily enable companies to make a profit. They must also find a way to monetize on the user base. In some cases, advertising may be a good alternative. However, many successful social media- and software companies, supplement advertising revenues with other revenue streams, such as premium pricing for increased convenience or added product features.

In order to convert users into customers, it is important to understand what motivates them to make the transition. Digital- and social media companies collect all kinds of information about user- and customer behaviour. This information, often combined with other data- and analytics, provides excellent decision support for user-to-customer migration.



The logical next step for software companies is to tap into an existing application distribution ecosystem, such as iTunes or Google Apps Market in order to benefit from total process integration - from marketing, to purchase, payment and re-purchase.

Fortunately, it is no longer necessary to spend a great deal of resources on making the technology delivery platform robust, scalable, agile, secure and easy to administrate.

With the spread of cloud computing, these issues can increasingly be handled by a provider of cloud computing, such as Amazon Web Services, IBM and Verizon.

*Where some see a threat,  
others see an opportunity*

## Conclusion

Software and media industries are currently experiencing a major shift. The focus of attention is rapidly changing from the company to the individual. Nevertheless, many software companies continue to develop applications with a traditional mindset. They will be leapfrogged.

In this e-book, we have presented a framework for software development that fits the new business landscape. We have also pointed out the need to consider the whole product system, rather than the software application in isolation. Furthermore, we have explored the integration between product system, digital marketing, business models and business ecosystems.

In order to be successful in the current business environment, software and media companies should act on this knowledge sooner rather than later.

## Selected links and references

Definitions of alternate reality games and gamification:

[en.wikipedia.org/wiki/Gamification](http://en.wikipedia.org/wiki/Gamification)

[en.wikipedia.org/wiki/Alternate\\_reality\\_game](http://en.wikipedia.org/wiki/Alternate_reality_game)

Discussions on gamification:

[www.hideandseek.net/2010/10/06/cant-play-wont-play/](http://www.hideandseek.net/2010/10/06/cant-play-wont-play/)

[radar.oreilly.com/2011/04/gamification-purpose-marketing.html](http://radar.oreilly.com/2011/04/gamification-purpose-marketing.html)

Case study of Rottenetter-campaign: [www.hyperinteraktiv.no/rottenetter/](http://www.hyperinteraktiv.no/rottenetter/)

Case movies of Red Sting-campaign: [www.hyperinteraktiv.no/redsting/](http://www.hyperinteraktiv.no/redsting/)

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## About Core group

Core group delivers commercialisation- and transformation services to companies in the technology, media and telecom industries based on our cross-industry capabilities.

We support our clients from strategy to implementation. Our business model is value-based, and we share both risks and rewards with our clients.

Core group is based in Oslo, Norway.

Get more information on [www.coregroup.no](http://www.coregroup.no)