

Case: halalati.com – harnessing a new paradigm in value creation

Thomas Langenberg, aspiring CEO of halalati.com, could not enjoy the light summer breeze that was blowing through Lausanne. His thoughts were running wild. He and his team envisioned to build a sizeable internet-based service to administer contests of all different kinds and formats. The primary goal was to enable firms to “crowdsource” specific tasks in their value chain through contests. The project was inspired by existing “crowdsourcing” success stories that targeted specific value creating steps, such as R&D in multi-national firms or product design for consumer products. Firms like InnoCentive and threadless showcased the potential of this new business model; and it seemed possible to roll-out “crowdsourcing” on a much broader scale.

Tonight, though, Thomas was no longer sure about their idea. Earlier in the evening the founding team had met with Frank¹, a friend and former colleague, serial entrepreneur and angel investor. To summarize: The first official “halalati pitch” had not exactly been a success. Instead, it had led to a lengthy discussion about the proposed business model. During dinner, Frank had challenged the team with difficult questions; quite a few of which they had not been able to answer.

After the meeting, the most important question remained unsolved: How could the team turn their idea into a profitable business? In particular, how could they make their target customers aware of the offered services? How could they communicate the added value most effectively? And finally, how could they monetize this value?

Value creation through crowdsourcing: A fad gaining ground?

When Jeff Howe first wrote his article on the “Rise of Crowdsourcing” in Wired magazine in June 2006², he proposed that soon corporate R&D problems could be handled by a new “pool of cheap labor”. By now, this rough idea had transformed into a rich source of value creation for both the so called “pool of cheap labor” and the firms using it. For example:

- The Massachusetts-based company InnoCentive offered large multi-national corporations access to a global network of scientists who solved corporate R&D time- and budget-efficient. The value proposition was clear: the multi-nationals, so called challenge providers, saved large investments into R&D, while the so called challenge solvers were awarded attractive prizes.
- Marketing agencies were constantly seeking appealing photographs for communication purposes. Good contract photographers were hard to find and professional photographs were typically expensive. iStockphoto provided a new solution. The web-based repository allowed hobbyists and professionals to upload their photos and sell them as stockphotographs to both professional and private internet users at a reasonable price.

The halalati team was convinced that these examples were just the tip of the iceberg. The potential of crowdsourcing along the value chain of a company was huge, and so far largely untapped.

Halalati – the idea

Searching existing offers, it appeared that there was a fairly significant number of individual websites that challenged individual internet users to perform specific tasks. Once the task was performed, the best performer won a price and the performance helped a firm to solve a specific problem, e.g.;

- To enter the youth market, German winemaker Trollinger launched the Trollinger 2.0 cocktail challenge and looked for winning cocktail recipes³.
- To accelerate the launch and stimulate sales of the new Wii console, Nintendo was looking for Germany’s fastest family on the Wii console⁴.

*This short case has been written by Thomas Langenberg, Kerstin Langenberg, Jana Thiel, and Moritz Hammer for the purpose of class discussion. It does not represent either effective or ineffective management practice.
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However, most of the current websites were created with a lot of manual work from creative agencies. And while most of the websites were nicely structured they did not make use of today's social media opportunities. The halalati team thought to do better: Why not create a standardized software service that allowed firms to establish and launch any sort of contest quickly, be it an idea competition, a business plan contest or a sports competition. Especially small and medium sized companies would benefit as their problems would get solved much faster and more effectively than they could have managed themselves.

Of course, the basic idea was not new. Concepts like user innovation had been around for quite a while, which reduced the barrier of entry for firms to make use of such a service. Maybe this was the right time to offer firms a standardized web-based solution to run contests along their complete value chain, from research and development, to production and marketing and sales.

The next step – developing a viable business model

Having verified the initial idea, and outlined a possible technology platform as well as potential target customers, Thomas and his team started to brainstorm the options they saw for building a successful and sustainable business model.

1) A web-based standardized toolbox—high volume/low price strategy with feature-based subscription options

Halalati.com would offer a standardized toolbox that was at its base free of charge for anybody who wanted to either challenge somebody else or be challenged by him- or herself. With this toolbox internet based contests could be built easily without any proficiency in programming. Revenue would be generated via premium features, i.e., value added modules and services, such as entry fees to participate in the contests, the ability to give away prize money or using extended server capacity. In addition, halalati.com could generate revenue from online advertisements and third party sales programs on the individual contest websites.

2) A web-based service model—low volume/high prize strategy via custom-tailored solutions

Halalati would attract firms that were looking for individuals that would be interested in participating in specific contests or trying to win specific prizes (e.g., the Trollinger cocktail challenge). The firms would be charged a fee for a custom-tailored contest solution and its seamless integration in their existing internet presence (white-labeling). Halalati.com would act as a creative agency, providing additional consulting around the contest and also assuring its targeted marketing through various web channels.

3) A Software package to be integrated in a firm's infrastructure

In this model, halalati would implement software solutions for businesses to run both internal and external contests by themselves. Potential customers could be sports organizations to manage their contests, but also businesses that were seeking to exploit contests internally as a new source of creativity. Halalati would offer a basic software package that could be custom-tailored to the needs of a particular IT-infrastructure. The eventual use and any type of marketing efforts were exclusively with the customer.

As Thomas stood at his favorite place in Ouchy, marveling at the lights on the other side of Lake Geneva, he was wondering if firms would ever run contests at large scale to create value from crowds. Although the idea was intriguing, there were so many reasons to fail: Were individual internet users willing to dedicate their time to firms? Would firms continuously rely on sourcing knowledge, ideas, and services from random people on the internet, and would they pay for a service like halalati to help them do so? Or would the idea of running contests wear out over time?

Which of the outlined options for a business model was the most attractive one? Or were there even more promising options the halalati team should consider?

¹ Name has been disguised.

² http://www.wired.com/wired/archive/14.06/crowds.html?pg=1&topic=crowds&topic_set=

³ <http://www.trollinger2punkt0.de/>

⁴ <http://www.deutschlands-schnellste-familie.de>