

Online Community Report

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Top Ten Trends for Online Communities

by Jim Cashel

The online community sector has negotiated a wrenching twelve months, as played out in each issue of the Online Community Report. While user popularity of online communities continues to swell, the business underpinnings of most efforts have foundered. Contraction and closures have characterized the sector.

Fortunately, there are a number of specific niches within the online community space which are bucking the trend and demonstrating strong revenues, credible earnings (now or forecast), and a promising future. This article reviews ten such areas which, given their financial promise, represent the future of online communities.

First, the Bad News

Before turning to top trends, let's start with the bad news. The classic description of "online community" has centered on online gathering places where thousands or millions of users would discuss issues of importance (or triviality). These gathering places would prove economically potent through a combination of advertising, subscriber fees, e-commerce, and other sources of revenue.

Unfortunately, this vision didn't play out.

While many sites were successful in attracting huge usage, revenue hasn't kept pace. Most online communities are not economically viable. Most never will be due to several tricky issues which conspire against online communities:

Advertising: We all know that online advertising is in the dumps. We also know that advertising will rebound somewhat and certainly play an important role in the future of the web. That said, online communities face two thorny issues with respect to advertising. First, companies are reluctant to advertise on pages with "user generated content"; during due diligence, they invariably find off color remarks that they feel could imperil their brand or public image. Second, users in online communities interact with advertising less than users of content or transaction parts of sites. We can hypothesize why this is, but we certainly see it as an empirical fact. Advertisers know that online communities haven't proven to be a compelling target for their campaigns.

Subscriber Fees: Online community sites have struggled to generate substantial subscriber income. Users don't want to pay simply to talk. This is true in the real world (we'll pay to have a beer or attend a sporting event -- and talk with our friends at the same time -- but won't pay just for a nice place to chat); it is true in cyberspace as well. In addition, if subscriber fees dampen traffic, community dynamics suffer.

Mergers and Acquisitions: Many online communities survived through investor largesse based on the promise that if they grew big enough, they would be acquired based on traffic metrics alone. Some web entrepreneurs became very rich on this promise. In today's environment, however, essentially no companies are willing to pay to acquire page views or unique users alone. My firm has represented a

number of very large, well-run community sites seeking investors or acquirers, and has found extremely little receptivity in past months.

Let's not be in denial (and I apologize for the repetition): Most online community sites are not economically viable and never will be.

And Now the Good News

The good news is that while many online community sites wither financially, a number of niches within the online community space are faring very well, suggesting ten important trends to watch:

1) Search Communities: In a recent [interview](#) with this publication, Classmates.com CEO Michael Schutzler reported a current revenue rate of \$30 million annually. Dating community Match.com also measures annual revenue in the tens of millions of dollars. Jobs community site Monster.com measures annual revenue in the hundreds of millions of dollars. What do these communities have in common? All three are **search** sites: users visit not simply to chat, but to find something (classmate, soul mate, workmate). Users are willing to pay for search. Search communities also enjoy powerful network effects: the larger they are, the more valuable they become (a dynamic not always true with standard online communities).

2) Trading Communities: A close relative of the search communities are the trading communities, led by eBay (\$600 million in revenue, \$18 billion market cap). In addition to successful auction sites, there are numerous new services and information based trading communities such as exp.com and keen.com that show promising revenue growth.

3) Education Communities: Online education is booming. Industry leaders like SmartForce have revenues measured in the hundreds of millions of dollars. Successful online universities, such as the University of Phoenix, measure annual revenues at over a hundred million dollars. Consumers understand the concept of e-learning, and are clearly willing to pay.

4) Scheduled Events Communities: Corporations increasingly are holding gatherings online: conferences, annual meetings, analyst calls, and working meetings. In doing so, they save travel and venue costs, transferring these budget allocations to service companies providing online hosting. Online events firm Webex boasts revenue of over \$50 million; many additional groups compete in this space as it continues to swell.

5) Subscriber-based Communities: While most online communities have struggled mightily with generating subscriber income, a few very large sites are showing some encouraging signs. ezboard is probably the largest freestanding online community site (10m unique users / 500m monthly page views). Its subscriber fees are in the six figures per month and growing. Salon.com and others are speaking publicly of early success, but we'll need to watch to identify the strongest initiatives.

6) Community Consulting Firms: Consulting is possibly the most prosaic aspect of the online community world, but it does generate revenue. Participate.com announced revenue of \$8m last year and \$3m in the first quarter of 2001. LiveWorld and Prospero each have significant consulting revenue. My firm, Forum One Communications, has grown profitably over the past four years principally on consulting revenue.

7) E-mail-based Communities: E-mail continues to be the killer app. I spend far more time every day in my e-mail box than on the web. Despite this, few community sites have yet exploited the power of e-mail. The clear exception is Yahoo Groups with its tens of millions of users and billions of e-mail messages each month (Yahoo doesn't disclose the precise dimensions of Groups). Yahoo will certainly figure out how to wring more revenue out of Groups this year, and others will jump onto the e-mail community bandwagon because of its sheer effectiveness.

8) Advocacy Communities: Many online communities don't seek to be profitable. They have other goals in mind: advocacy, education, politics. Advocacy communities are growing quickly in sophistication, thanks in part to new, powerful tools designed specifically for their needs. Grassroots Enterprise (see Grassroots.com) has wholly reoriented to provide tools for political causes. Kintera seeks to revolutionize how non-profits raise money. Other firms as well have discovered that non-commercial organizations have significant budgets to spend in this realm.

9) CRM Communities: Corporations spend billions of dollars annually on Customer Relationship Management (CRM) programs. Sophisticated online efforts are increasingly involving message boards, Q&A areas, and other community applications. It seems logical that CRM represents a very significant opportunity for online community companies; PeopleLink, CenterWheel, Prospero and others have reoriented strongly in this direction. Despite the promise, however, there has yet to be overwhelming evidence that corporations are willing to spend significantly for online community services within this niche -- but the future is nonetheless (probably) bright.

10) M&A Activities: M&A activities involving online communities have nearly come to a standstill. That said, communities continue to grow larger, more effective, and better managed. As M&A activities across the Internet landscape normalize, the community sector will show somewhat of a renaissance.

In conclusion, there are some very compelling sectors in the online community space providing ample reason for optimism. We are very early still in the game. Many sites enjoy network effects which have yet to accelerate. Best practices are just starting to be emulated. As the business models catch up to the already proven effectiveness and popularity of online communities, we will witness the growth of a potent and promising sector in the future.

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The Online Community Report is a free twice-monthly newsletter covering news and best ideas in online collaboration. Senior Editor: [Jim Cashel](#).

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