

## Chapter 2.17

# Virtual Community Models in Relation to E-Business Models

**Lee Moh Shan**

*National University of Singapore, Singapore*

**Juliana Sutanto**

*National University of Singapore, Singapore*

**Atreyi Kankanhalli**

*National University of Singapore, Singapore*

**Bernard C. Y. Tan**

*National University of Singapore, Singapore*

### INTRODUCTION

Virtual communities were initially recognized as social phenomena. This is evident from the definition of virtual community as “a social aggregation that emerges from the Net when enough people carry on public discussions long enough, with sufficient human feeling, to form webs of personal relationships in cyberspace” (Rheingold, 2000, p. 5). The idea of a virtual community as a profitable business model was subsequently raised by Hagel and Armstrong (1996, 1997) who claimed that the benefits of a virtual community would arise from two aspects: from the unique capabilities of the digital medium where the virtual community is located in and from the

virtual community model itself. The latter aspect is what differentiates virtual communities from other online Web sites. Unlike other online Web sites, a virtual community is intended to create a “sense of community” that binds individuals to the Web site and serves as the “push” factor for repeat visits. Table 1 summarizes some of the proposed business benefits stemming from a virtual community (Bank & Daus, 2002; Hagel & Armstrong, 1996, 1997).

Although the startup cost of a virtual community is comparatively low, the costs of maintaining it are significantly higher (Hagel & Armstrong, 1997; Kim, 2000). Therefore the decision of whether to create a virtual community in support of an e-commerce Web site is not to be taken

Table 1. Potential business benefits resulting from a virtual community

- **Increase purchasing intention.** A virtual community containing a wide range of information and options for customers can reduce customers' risk perception involved in making a purchase. Current customers sharing their positive opinions can also influence potential customers to make purchases.
- **Access to customer opinions.** A virtual community can provide valuable feedback to the company about its products and services, and how these compare with rival companies.
- **Greater ability to meet customers' demands.** A virtual community can connect companies to their customers in order to work together in developing products that meet customers' needs.
- **Additional sources of revenue.** A virtual community provides a means for the company to gather detailed information on customer profiles. This information could be used to attract advertisers or sold to marketing companies. Alternatively, if the community is of substantial value to the customer, the company could charge subscription or membership fees.
- **Lower customer service costs.** A virtual community can help reduce the costs associated with customer service personnel as community spirit could prompt members to help each other with product advice and thus save on customer service costs otherwise incurred by the company.

lightly. Critics have also questioned the validity of the suggested benefits of a virtual community, particularly since there are no clear-cut measures to verify that these benefits can be attributed to the virtual community. Additionally, the fundamental premise which the virtual community relies on for its success, that is, its unique capacity for interaction amongst members and/or with the company (Balasubramanian & Mahajan, 2001; Lechner & Hummel, 2002; Mynatt, O'Day, Adler, & Ito, 1997), is subject to high risks of failure. This is because customers can always turn this capability to the company's disadvantage by spreading adverse comments about the company's products and services. Hence, a virtual community actually has the means to work both for as well as against the company sustaining it. This article seeks to explain how virtual communities can be made to work for the organization by proposing a fit between the virtual community model to be adopted and the company's e-business goals.

## VIRTUAL COMMUNITY CLASSIFICATIONS AND E-COMMERCE BUSINESS MODELS

There is no single predominant classification of virtual community models. Several suggested classifications for virtual communities and other pseudo-like online structures (e.g., virtual publics and online communities) from previous literature are listed in Table 2. A widely used taxonomy of e-commerce models (Laudon & Traver, 2004), together with their primary sources of revenue is shown in Table 3.

There does not appear to be explicit research studying the relationship between the type of virtual community and its possible effects on the various e-business models. Although it has been recognized that no single classification of virtual communities is adequate and appropriate in every situation (Lee, Vogel, & Limayem, 2003), no classification that considers virtual communities with business objectives in mind, in particular, to create economic value for the e-commerce site, has been proposed.

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