



Stanford eCorner

Network Effect in Web-based Companies

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Video URL: <http://ecorner.stanford.edu/videos/1710/Network-Effect-in-Web-based-Companies>

Jung talks about the importance of empowering an entrepreneur's target audience in acquiring customers. Viral marketing is one of the ways to acquire and build loyal customers at a low cost, he adds.



Transcript

The question is, given that web companies have a low cost of entry, what is the best way to create a proprietary brand? You know, the web was created around a network effect. And the network effect really means that each individual that joins the network benefits the collective. Which means the collective is better off for that $n+1$ person joining the network. So you want to think about a network model. The best way to build a brand is viral marketing by your audience. Especially if you're a start-up with low cost entry. It may be low cost to start the company, but there hopefully are low costs for customer acquisition. And the way you get that is to develop a service, a utility that unlocks and empowers the audience to build the brand for you. Because they will. How many dollars did MySpace, or Facebook or Photobucket, or YouTube really spent on direct marketing, building a brand, as opposed to the attraction of the service creating a brand in itself? So what you really need to think about is, how do I get the users of my service to promote and market what they have? And I'll say one thing to close on that, which is: there has to be a vested interest for them to want to do that.

You just can't rely on the fact that, "Hey, they're nice guys or girls, and they're just going to do it because they're altruistic." You have to key in to what it is that drives them to want to promote. The more ownership they have of your service, the more ownership they have of the product and services that they use, the more it links to their own ego, their own desire for self-promotion, the more likely they're going to pour their heart and soul into it and promote what it is that you have. So, leave it at that.