In with the in-crowd

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Over the last few years there has been increased interest among start-ups in using Internet-based platforms to crowd-source a wide variety of resources, including funding, labour, design and ideas. Does this approach work?

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Coined by Jeff Howe of *Wired* magazine in 2006, crowdsourcing means taking, "a function once performed by employees and outsourcing it to an undefined (and generally large) network of people." Ostensibly, the primary motivation for companies to go down this road is to reduce costs as well as to harness the skills, collective knowledge and wisdom of the crowds to complement the skills of their employees. The typical approach is to allocate this activity to a specific online crowdsourcing platform, such as Quirky, 99designs, and Innocentive, among many others.

In 2000, the CEO of Goldcorp, Stan McEwen, shocked the gold industry with the Goldcorp Challenge. Mr McEwen wanted new ideas of where to dig for gold, and he figured that if his employees couldn't find the gold, then someone else would be able to. It was a blockbuster success. In all, more than 110 sites were identified of which 50% were previously unknown to the company. Furthermore, more than 80% yielded significant gold

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reserves. What the Internet does is enable crowdsourcing on a scale and at a level of granularity that was previously unimaginable .

Today, small start-ups and massive enterprises alike have embraced crowdsourcing and co-creation to conduct smart business. New online platforms help businesses connect with individuals seeking software development opportunities and thus will pave the way for the virtual offices of tomorrow.

But while entrepreneurs and companies can use crowdsourcing to harvest knowledge and ideas from users, there are challenges, too. Take product design, for example. Hundreds of individuals will have different expectations that can be a challenge to manage, if not ineffective. Start-ups and entrepreneurs also need to be careful about product development. In some situations idea refinement and feedback is very useful in the early stages of a product's lifecycle, when reworking ideas is cheaper. But in many situations when there is a credible threat of plagiarism or some intellectual property contamination by releasing an idea too early, it is better to crowdsource after you have a product, not before.

Another downside of crowdsourcing is the potential influx of a very high volume of half-baked ideas and the resulting overhead cost of evaluation. This breadth of creative input, while attractive in its own right, can often require considerable review to find the best insight. When ideas are not completely thought through they simply create a lot more work, which would be needed to vet and validate the merits of the ideas. This can waste critical resources, especially for start-ups, which are often starved for time and money. To avoid this, some of the more mature crowdsourcing services now have filters and controls to more readily tune the "relative influence" of various types of participants.

For any start-up to successfully crowdsource, one best practice is to build a relationship with the people who actually care about your product or service. This approach starts by adopting a longer-term perspective on returns from crowdsourcing, as opposed to maximising a one-off experience. In fact, academic research has also shown that crowdsourcing is best utilised when it becomes a continuous practice rather than a single event (such as an innovation contest). These studies suggest that users should be engaged in the innovation process throughout the lifecycle without disruptive gaps in their involvement.

Crowdfunding is another form of crowdsourcing where the selection mechanism is such that the crowd votes with its money. Essentially the crowd evaluates and selects projects for funding and, additionally, will often provide suggestions to the fundraiser on how they should implement their product or service. The crowd may well engage in promoting the product or service to help it succeed. However, if the start-up does not respond to their suggestions or deliver the rewards on time, the crowd may turn against it, which will be detrimental in the long run.

In short, the benefits of crowdsourcing can be substantial. According to the MBO Partners' State of Independence in America (see www.mbopartners.com) report,

the number of independent workers is expected to rise to 23 million by 2017. The future of crowdsourcing is unequivocally bright and we expect start-ups to increasingly embrace it in the coming years, especially for many mission-critical tasks.

This excerpt is adapted from an opinion piece by Anindya Ghose published in *The Wall Street Journal*, 27 October 2014. The original piece is available here

References

MBO Partners (2015), State of Independence in America https://www.mbopartners.com/uploads/files/state-of-independence-reports/MBO-SOI-REPORT-FINAL-9-28-2015.pdf