The Economics of E-commerce and Technology

Case Write-Ups

Feedback from Yelp Write-up

- What makes a good answer?
- Clear structure: bullet points help
- Both sides of an argument: data and numbers
- Your evaluation

- Here are a few examples…

Clear Structure

3. What are Yelp's competitive advantages? Are they sustainable?

User Profiles:

Yelp's implementation of user profiles gives reviews more credibility, giving writers assurance that their reviews are being read and engaged with. It helps to build a sense of community and mutual trust when readers can see reviewers of high ratings. Conversely, many competitors keep reviews rather anonymous which does not allow for these positive externalities.

Gamified Experience:

Yelp also creates fun incentives such as the Elite Squad which attract users towards their site. Users like to be rewarded for doing things, so being invited to Elite Squad parties is a definite plus. Their use of thumbs up signs for useful, funny, or cool reviews further gamifies the experience and creates a seemingly fun and interactive environment.

Focus on reviews:

Yelp focuses on uncensored user reviews more than their competitors which brings an organic and real feel to the establishments they are reviewing.

These advantages can be copied by Yelp's competitors, but since Yelp has already built this brand and reputation with these aspects, competitors who copy their characteristics will seem as exactly that: copycats. Competitors would have to think of ways to improve on these advantages but as said earlier, Yelp has already built up their reputation and will be hard to beat out.

Clear Structure (Cont'd)

3) What are Yelp's competitive advantages? Are they sustainable?

Yelp's competitive advantages include (in no particular order):

- a social network-like sense of community amongst contributors
  - users can comments and endorse other reviews
  - maintain intrigue Elite Squad as high-social value positions that are sought after by giving members special perks (online badges, parties, and keeping the nomination process secret)
  - contributes to trustworthiness of sites, because people aren't paid for reviews
- large number of reviews
  - 25 million in 2011, with exponential growth in previous years
  - good penetration - I've never not found a business on Yelp
  - have a variety of reviews for individual businesses
- has name recognition and reputation as the go-to destination for reviews
  - has supplanted catalogues Yellow Pages/Verizon
  - and has more members than other online reviewers like Zagat
  - people say "Yelp it" just like they'd say "Google it" and "Hand me a Kleenex"

Despite these competitive advantages, Yelp has had a hard time turning a profit online service. At first glance, Yelp is unsustainable; it posted a \$16m loss on \$82m revenues. While discouraging,the competitive advantages listed above suggest that Yelp has both the brand recognition/inertia, user base, and the best product in the industry. With a good monetization strategy, Yelp can follow in the footsteps of Google and other online businesses that began a free services, evolved into offering ads, and then became household names as they expanded further.

Both sides of an argument

4) Should Yelp charge readers?

Charging readers may be an additional source of revenue for Yelp, but it will turn away their customers. According to the case study, about 42% of reviewers were between 18 and 34 years old. Within this age group are college students who cannot afford paying for these services. Casual users will find another website or company offering similar services for free. In 2002, Yelp's competitor Zagat charged a small monthly fee to access the website, but in subsequent years it allowed free access again to user reviews. This implies that charging a fee to access reviews may not have been very effective for Zagat. In addition, Yelp's revenue stream relies on advertising, which covers 70% of revenue from ads sold to local businesses as stated in the study. Advertising can only be effective if there are plenty of viewers, but since charging readers could create a negative externality on the amount of viewers, it could demotivate local businesses from advertising. Nonetheless, there is a possibility that the revenue from charging readers may be enough to compensate from the loss of revenue from ads. Overall, while there is a possibility that charging readers could help improve its financial situation, Yelp should consider alternative monetization strategies first before they charge readers.

Your evaluation

6) How have they tried to monetize so far? What else could they do?

Yelp has tried to monetize in different ways since its creation in 2004. Initially, it started with a pay-per-call and pay-per-visit system. However, these two systems were too complicated for businesses to understand. Consequently, Yelp started to provide establishments with the option to pay for the placement of sponsored search results and ad banners. Finally, in 2008 Yelp rolled out sponsorship programs for businesses to purchase for a monthly fee. With this sponsorship, establishments would have the opportunity to update their profiles, track their reviews, contact Yelp reviewers, and Yelp account managers. Despite Yelp's rapid growth, the company has suffered from substantial operating losses. Going forward, these are our recommendations for monetization:

- Add extra features to the sponsorship program that businesses can add for an additional fee. Features such as integrating with phone GPS/calendar data to recommend complementary businesses, as recommended in Q5. For example, after leaving a movie theater, the Yelp app might recommend a cozy Italian restaurant for the customer to take his or her date.
- To increase their ad revenue, Yelp can also acquire a video and picture platform for reviewers and readers to share their moments and experiences with each other. This will be a good complement to reviews, and a new source for ad revenues.

With a smart monetization strategy, we are confident that Yelp can become profitable and sustainable in the long run.