



THE REPUTATION ECONOMY

YOUR GOOD NAME IS BECOMING THE NEW CURRENCY, AS TECHNOLOGY ENABLES TRUST AMONG STRANGERS

STORY RACHEL BOTSMAN

It would have seemed like a crazy idea a decade ago that people would virtually trade goods with complete strangers. Yet every second of every day, \$2000 worth of items are traded on eBay. You can't physically inspect an item; users are free to choose a trader identity, even a pseudonym. Furthermore, you pay without any guarantees your goods will be posted, let alone be in the condition you expect. How does a system that shuttles vast quantities of used goods among distant strangers work so well?

eBay has proved how the trust we typically form face to face can be built and assigned online, by creating the grandfather of reputation systems, the Feedback Forum. After any

transaction, buyers and sellers can rate each other using a simple points system (1, 0 or -1). Once users reach a certain number of points, they receive a star attached to their screen name, indicating their trustworthiness. The "red shooting star" indicates the highest rating.

But points alone often don't get across the details and subtleties of a transaction. This is why eBay encourages users to leave a short comment explaining their rating, along the lines of "item received as described, thanks". On the flip side, if buyers are not happy with the trade, they post damaging reviews such as "seller is a rip-off" or even more frank: "Lied about condition. Rude, don't buy from! Look at her feedback!"

"Reputation is a summary of one's past actions within ... a specific community, presented in a manner that can help other community members make decisions ... whether and how to relate to the individual," Chrysanthos Dellarocas wrote recently in *MIT Sloan Management Review*. Not surprisingly, on eBay, ratings strongly influence buyer and seller perceptions.

A positive rating becomes equivalent to a first-hand reference from someone we've never actually met, helping us make better decisions about whom to exchange or interact with. People want to buy from sellers with positive ratings and will pay a premium. And many sellers will not accept bids from people with low or few ratings. As a

result, users will often go to great lengths to build and protect their reputations. eBay's peer-policed rating system weeds out the bad behaviours and encourages the good.

THE RUMOUR MILL

The striking thing about the feedback among users on eBay is that it is so positive. Studies have found that about 99 per cent of trades receive a "positive" rating and the 1 per cent rated "negative" or "neutral" are often downgraded for relatively minor reasons, such as "item arrived one week later than expected".

So why do people behave so well? It's pretty simple: users know people will see feedback left about them and that their behaviour will affect their ability to transact. It's the ancient power of word-of-mouth meeting the modern forces of the networked world. As Axel Ockenfels, an economics professor at the University of Cologne, puts it, the reputation system on eBay "functions like an organised rumour mill".

Ratings and reviews built upon the opinions of millions of users ("the wisdom of crowds") are increasingly influencing our consumer behaviour. From the books that we read (Amazon), to the music we download (iTunes), to the restaurants or shops we choose (CitySearch) to the tradespeople we hire (WhoCanDo) to the products we buy (Epinions), we are increasingly relying upon the opinions of peers. But reputation systems are now entering a turbo-charged age of sophistication and they will become more important in building collaboration and trust, peer to peer.

Over the past 20 years, we have literally wired our world to share, creating an unbounded marketplace for exchanges between producer and consumer, seller and buyer, lender and borrower, and neighbour and neighbour.

The old consumer world created a layered interface – otherwise known as the middlemen – between the company and consumer, bridging the gap between production and consumption. But the internet is removing the middlemen, so that everyone from T-shirt designers to musicians can make a living selling peer to peer.

A socio-economic cornerstone of this peer-to-peer economy is reputation. In the old consumer world, our credit rating was far more important than any peer-to-peer review. Nowadays, with every seller we rate on eBay, idea or moment we share on Twitter or Facebook, video we post on YouTube or photo on Flickr, we leave a reputation trail of how well we col-

laborate, and whether or not we can be trusted.

Companies involved in social technologies (social media such as Facebook and other sites) often focus on the newest bells and whistles, believing this will make their venture succeed or fail. Undoubtedly, a great user experience is critical but a well-designed reputation system driving the right behaviours and community culture can make the difference between a flying success and a miserable flop. Reputation systems build peer transparency and knowledge – of interests, whom users know, personal preferences, past actions – about strangers, thereby taking anonymity out of transactions.

RIDING ON REPUTATION

In the United States and Canada, Zimride is one of the fastest-growing ride-sharing services. It uses social technologies and Google Maps to match riders and drivers taking the same route. The company was founded in 2007 by entrepreneur Logan Green and former Lehman Bro-

thers banker John Zimmer, who wanted to create more sustainable transportation but not go down the route of environmental guilt. They realised the enormous potential of mobile technologies to reinvent an old idea – car pooling. Given that an estimated 20 per cent of all CO₂ emissions come from cars, and about 75 per cent of all car trips in the US and Australia are solo rides, the idea made a lot of sense from a pure green-savings perspective.

But Zimmer and Green's vision was bigger: to turn commutes and errands into a social activity by transforming solitary rides into shared ones. Critical to the success of Zimride – and other ride-sharing platforms just getting started in Australia, such as Needaride or Catchalift – is enabling people who have never met to overcome the understandable wariness of sharing a ride; in other words, using technology to build trust between strangers. There is a Russian proverb, "doveryai, no proveryai," that translates as "trust, but verify".

10 ISSUES TO CONSIDER WHEN DESIGNING A PEER-TO-PEER REPUTATION SYSTEM

- ❖ **Unforgivable behaviour:** Identify the single most important good behaviour that the reputation mechanisms need to encourage. This will simultaneously act as a strong disincentive for bad behaviour.
- ❖ **Decipher:** There is a gap between what people actually care about and what they think they care about. Test your system to clarify the difference.
- ❖ **Competition:** We are innately wired to love being top of the table. Present your user rankings to create healthy competition among peers.
- ❖ **Quality:** Celebrate and reward users who take the time to contribute quality feedback; they should become the benchmark for others.
- ❖ **Signal:** People need to be crystal clear on what they are rating. Identify the main behaviour signal you want users to be able to share, eg like/dislike; satisfied/dissatisfied; trust/distrust; reliable/unreliable, etc.
- ❖ **Sticky ratings:** Pick a primary scoring system (stars, ticks, tiers, thumbs, badges, numerical ratings) and give the ratings sticky names, such as "Power Seller".
- ❖ **Trust dimensions:** People build trust in different ways. Scoring systems are great but they are often binary. Build in qualitative feedback systems based on open-ended questions that anyone can answer and that will prompt people to share something revealing and meaningful about themselves.
- ❖ **People like me:** We like to know, and tend to value, what our friends and people like us think of other people. Integrate "inner-circle" vouching mechanisms (for example, went to the same school, work in the same office) into your reputation system.
- ❖ **Peer-police:** An open reputation system must be peer-policed but if things do go wrong, your organisation needs to be on hand quickly to offer support, resolve disputes and weed out the vandals and abusers.
- ❖ **Mirror reality:** The ultimate goal of your system is to virtually replicate the trust we form face to face. Mirror the questions and dynamics we use in physical reality.

THE eBAY REPUTATION SYSTEM IS LIKE AN ORGANISED RUMOUR MILL BUILT ON THE WISDOM OF CROWDS.

Zimride's founders recognised that different trust features would be necessary to allow their users to build a complete picture of what a driver or rider was really like. The first and most important reputation mechanism on Zimride is "closed networks", which enable ride-sharing within specific communities, such as universities and companies (Wal-Mart and Cigna are users, for example) where people have something in common or can vouch for each other.

The second reputation mechanism is Zimride's integration with Facebook Connect and other social network profiles, so users can learn about the person with whom they might want to share a ride. "The concept is simple," Green says. "Our parents had yearbooks; we have Facebook. Zimride leverages the trust inherent to online social networks to push car pooling to become a mainstream form of transportation."

Finally, Zimride features a feedback system where riders and drivers leave reviews after a trip is completed, eBay style.

It would seem Zimmer and Logan got their reputation system right; they have built a community of 350,000 users. Two years after launching, they have a sustainable, fast-growing business – companies and universities pay a subscription to use the platform. Zimride is a powerful example of how the trust we establish through virtual tools can be taken offline to transform a service and create a new sector.

There are local examples applying the same principles. Findababysitter.com.au (now part of Fairfax Media, publisher of *The Australian Financial Review* and *AFR BOSS*), allows parents, babysitters and nannies to find each other. The site, established in 2005 by Delia Timms and Jeff Bonnes, uses a star-rating system to provide feedback on childcare workers.

Freelancer.com.au links small businesses with workers or firms to complete projects. Once the jobs are done, the site allows the employer and freelancer to rate each other, on a scale of one to 10 stars, and provide detailed feedback. Users get two ratings – one as an employer and one as a freelancer. There is also a list of the site's top 50 members, rewarding good behaviour.

BANK ON IT

Reputation capital is becoming so important that it will act as a secondary currency, one that claims "you can trust me". It is shaping up as a cornerstone of the 21st-century economy. People might eventually have a "reputation bank account" alongside their financial accounts.

At the moment, it is difficult to transfer trust information and reputation scores from one business to another. If you have invested time building your reputation on eBay, why would

you want to start from scratch on a new platform? Reputation systems are designed to be confined to a specific context because this helps companies sustain loyalty. However, it is only a matter of time before there will be some form of network that aggregates your reputation capital across peer-to-peer platforms. We'll be able to perform a Google-like search to see a complete picture of how people behave and the degree to which they can be trusted, whether it's around products they swap and trade, money they lend or borrow or cars they share. As Craig Newmark, the founder of craigslist, recently commented: "By the end of this decade, power and influence will shift largely to those people with the best reputations and trust networks." **B**

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TAPPING ONLINE COMMUNITIES FOR BACKGROUND CHECKS



BUSINESS PEERS PITCH IN

When you hire an employee, do you ask for references, do a Google search and check their Facebook profile, yet still find yourself wondering what this person will be like to work with?

That's where Duedil (short for "due diligence") comes in. It's a browser application now in development (Duedil.com) for profiles on the professional network LinkedIn.

Users are prompted to answer two questions: "What is this person best at?" and "How could they improve?" You and others can reply to the reviews written about you by deeming them "fair" or "unfair".

The big idea behind Duedil is to

build a 360-degree, trustworthy picture of your reputation through transparent, crowd-sourced opinions.



SCREEN THE BABYSITTER

Findababysitter.com helps parents locate nannies, after-school carers and babysitters. It connects people directly, cutting out the fees of typical agencies.

The site has more than 73,300 carers to choose from, but how do parents know which ones to trust with their kids? Not only are experience, skills, hourly rates, drivers' licences, first-aid qualifications, police checks and references all readily available but Findababysitter.com also

uses a peer-to-peer reputation system (just like on eBay). Other parents award a star rating out of five and provide reviews such as "I have no hesitation in recommending X for any babysitting job", which are visible to everyone. The best and most reliable carers quickly rise to the top.



SING YOUR OWN PRAISES

The "reputation statement of account" was designed by Jason Tester, a researcher at the California-based Institute for the Future, to measure social capital by contributions to peer communities from Flickr to Wikipedia.

Rachel Botsman

GUIDE TO THE TWITTERVERSE

The world of social media can be daunting to the uninitiated, but the immense and growing popularity of social sites means the corporate world can no longer avoid engaging with it. The trouble is working out how – and why – an organisation can derive a business benefit from investing in such activity.

Social media and business communications expert Lee Hopkins has worked with companies such as IBM and Telstra to sharpen their media strategies. "The trick is to understand the medium," he says. "Communication is all about culture change and it must be aimed at meeting a specific business objective. If a specific tool does not support a business goal then it has no place existing."

Many large organisations are starting to use internal social tools to change the way they communicate with their own staff. Giam Swiegers is the Australian chief executive of Deloitte, which has created the largest enterprise-based Yammer community in the world. Yammer uses a short messaging system similar to Twitter, but for closed communities. A company can establish an account and its employees can exchange ideas, ask questions and source answers from anywhere and anyone in the organisation.

"I use Yammer at least once a week," Swiegers says. "It has allowed me to connect with young people in a far more effective way than before."

Swiegers also keeps a close eye on Deloitte TV, an internal YouTube-type channel. "It's a great place for our employees to express themselves and share their ideas."

YouTube is the second most used search engine in the world behind Google – users view about 13 billion video clips every month on the video-sharing network. Hopkins says video is fast emerging as a powerful tool for businesses across many different levels. "View as many as you can to get a feel for what can be achieved within your budget," he recommends. "Video can be used for corporate training, marketing, product pitches, or meetings."

Michael Smith, managing director for Optus's consumer division, says social media sites such as Twitter and Facebook have provided his organisation with new ways of interacting with its customers. "In mid-2009, we established a dedicated team to monitor and respond to customer queries through the official @optus Twitter account," he says. "The team includes

customer service staff who have been trained on how best to engage with our customers using this medium."

Smith says the account has more than 6000 followers. Customers use it for product information, billing enquires, technical questions and general feedback.

On a personal level Smith uses tools that analyse social media sites, like Summizer, to monitor comments and get a feel for trends. "I will also comment directly in an individual blog on behalf of Optus if a customer is having an issue," he says.

Social media campaigns don't have to be expensive, but they do take a fair time commitment to work properly, says Peter Strong, execu-

tive director of the Council of Small Business. He describes social media as "great equaliser" for small and medium businesses, who can now play alongside the big dogs.

But he says it is important to know what you're trying to achieve. "Ask yourself, what do I want?" he suggests. "Do I want more people in my shop? Do I want more people to purchase off my website? Do I want more people to be aware of my brand and my location? If you do put in the time and create a campaign, be prepared for it to be successful. If people respond positively you need to be ready to fulfil the campaign's promise, otherwise you risk losing those customers forever." **B**

Rachael Bolton and Kimberley Church



- **DAVID BURDEN** CEO at technology and marketing company Webfirm
- Self-confessed social media junkie
- Uses: Facebook, Twitter, LinkedIn, Skype

Burden likes to keep personal and professional separate in the social network sphere. "I use LinkedIn in for business. We're fielding for a CFO at the moment. I find it interesting to see how [prospective hires] are using social media." He uses Skype to call colleagues and clients, and Twitter to observe – he has sent fewer than 100 tweets. In the Twitterverse the shorter your personal moniker, the better your cred – it means you got in early – and Burden's is a ripper. "I have the name @DJB," he says. "There are a lot of DJs [disc jockies] in the US who use 'DJ' in their Twitter names. One offered me \$US10,000 for my hashtag – but I wouldn't sell."



- **GREG MCAWEENEY** general manager at RaboPlus, the online division of Rabobank
- Prolific tweeter
- Uses: LinkedIn, Twitter, Facebook, Skype, blog

McAweeney has posted more than 1000 messages on Twitter, mixing business and personal messages in his feed. "Off to the #Leinster game in the Heineken Cup today. Trips back home always seem to coincide with #rugby," tweeted the native Irishman recently. His top topics of social network conversation are Ireland, France, South Africa, rugby, bank and Wales.



- **GIAM SWIEGERS** CEO at Deloitte Australia
- Social media mystery
- Uses: LinkedIn, Yammer, Facebook, video blogs

Swiegers has a Twitter account with one solitary tweet, directed at global chief executive officer Jim Quigley: "This is the sort of stuff partners will like to hear." What, we wonder? Unfortunately, Quigley's tweets are protected, and he has only 10 followers. Swiegers' Facebook account is also blocked off to the public, apart from his favourite quote: "The average never wins."