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Firm Cultivates Online Communities for Feedback

MARKETING: Passenger helps clients test products with customer base.

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Remember the focus group?

Companies may still put people in a room to watch them try their products while marketing executives watch from behind one-way glass. But the old-fashioned marketing concept is quickly turning virtual.

Passenger, a tech company on L.A.'s Miracle Mile, builds online communities that give feedback to large corporations. In most cases, the communities are formed from the customer base and are designed to provide the company with insight and feedback about its products.

"These aren't projects, they're not campaigns, but an ongoing part of the business process," said Justin Cooper, co-founder of Passenger. "For a marketer looking at a multimillion dollar decision, it's a great competitive advantage."

For Chrysler LLC, Passenger created a "customer advisory council" to help test new auto features and promotional offers. Other Passenger clients include Coca-Cola Co., ABC, American Express and Fox Broadcasting.

"It's like having a consumer sit in a room with us and participate in the process," said Melva Benoit, senior vice-president of audience intelligence and research strategy at Fox. "So far, we're pretty happy with the results."

The online community is filling a role that was traditionally played by focus groups.

Benoit pointed out that her collaboration group only includes people who regularly watch Fox. When the network brings out a new show, it wants to attract people who don't watch the network. That's an audience that Passenger doesn't reach.

"I'm only talking to people who watch our shows," she said. "You can't really generalize it to the U.S. population."

Companies recruit members of their online communities from existing databases of faithful customers. In the case of Fox, the network specifically targets the 18- to 40-year-old demographic, so younger teenagers and more mature audiences are not invited to join the online community.

Passenger provides software and a team of consultants to manage the community. Clients pay an annual subscription fee. Communities can vary in size, but they usually include thousands of customers.

To use the system, a client puts a product demo online and monitors the conversation, both between customers and with the sponsoring corporation. ABC might post a full 45-minute video, or Chrysler a rendering of a new interior. Companies can post the material at a scheduled time – such as the screening of a TV pilot – or just place a video online and allow the members to view it at their convenience.

Paying people to answer questions is common in market research, but Passenger discourages the practice.



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Patched In: Passenger's Justin Cooper.

"Incentives for participation dilute the process," Cooper said. "You end up with a high rate of churn and people who are in it for the wrong reasons. The way they are rewarded is empowerment, such as access to a TV studio they care about."

Online groups have inherent limitations. Carlos Garcia of Garcia Research in Burbank, a market research firm that conducts traditional focus groups, said that people who don't have Internet access are immediately excluded from these communities. That means that population isn't reached. Also, face-to-face contact often yields responses that aren't generated by online discussions.

"A lot of what you're looking for isn't an answer – it's a feeling, and feelings don't communicate well online," Garcia explained. "A good moderator can tell if the person is uncomfortable and will ask a follow-up question. It's hard to read subtle emotions like that online."

Since start-up in 2005, Passenger has retained every client it has landed. It currently has 65 employees at offices in L.A., New York and Palo Alto, California. Revenues have doubled in the last year.

Passenger currently has 24 clients and most run multiple communities. The company has been concentrating its efforts on high-profile brands, but will now try to sell its services to smaller clients.

"We have efforts in our R&D group in Palo Alto to go after the secondary and tertiary markets," he said.

Cooper and a partner self-funded the company's startup until L.A.-based Shelter Capital made a venture investment. Later, the company gained a second round of funding through Steamboat Ventures, a unit of **Walt Disney Co.** Passenger recently ended its third

round of financing with StarVest Partners as the lead investor.

To grow the company, Cooper plans to open an office in the United Kingdom. Also, Passenger has started to expand to non-customer communities, such as employees and business partners.

For example, **WellPoint Inc.** has built a community of independent insurance brokers who give feedback on how the health care giant can provide better policies and services. One computer manufacturer uses the software to connect with retailers.

Besides signing on new customers, Cooper expects to grow revenue by expanding services to existing clients.

"I don't know what the next several years will bring, but one thing we're good at is listening to our customer's needs," he said. "We practice what we preach."