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Supplement to the Treatise

WOLFGANG RUNGE: TECHNOLOGY ENTREPRENEURSHIP

How to access the treatise is given at the end of this document.

Reference to this treatise will be made in the following form:
[Runge:page number(s), chapters (A.1.1) or other chunks, such as tables or figures].

To compare the businesses of professional social networks in the US and Germany to a certain degree references often address the case of the US firm LinkedIn Corp.

Wolfgang Runge

Xing AG

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Xing was founded in 2003 as OpenBC GmbH (Open Business Club) by Lars Hinrichs (born 1976 in Hamburg, Germany) [Faltin 2007; Heitze 2007; Schmidt 2007; Tönnesmann 2011; Wikipedia 1]. It was re-branded as Xing in September 2006 as a support of internationalization. In December 2006 Xing had a successful IPO as the first company of the “Web 2.0” category in the world.

From a US point of view it is a “Teutonic version of LinkedIn” [Runge:B.2] founded formally in in December 2002 and officially launched in may 2003. However, concerning Xing’s origin and business model it is a quite different professional social network. Xing is essentially the mapping of the well established concept of the business club into the Internet environment.

The Entrepreneur(s)
The founder, Lars Hinrichs, can be characterized as a serial entrepreneur [Kiss 2008a], business angel and venture capitalist. He always had a bent for technology and accompanied the Internet’s development from the beginning [Heitze 2007; Schmidt 2007].

Excitement for the Internet grabbed him very early. Still a boy, since 1989 he accessed the emerging Internet, beginning with an acoustic coupler and a telephone line and chasing e-mail through the acoustic coupler. After school he earned the bills for telecommunication working for a home building store. He gained experience with computer networking during the early days of applying the technology. Later, when his business sense had emerged, he created on his PC a
concept for an Internet firm, replaced the name of the firm and sold the concept several times [Tönnesmann 2011].

Lars Hinrichs grew up in prosperous condition [Schmidt 2007] in a family of businesspersons with a long history of self-employment. Correspondingly, he wanted always to be his own boss. And he proved how to learn from a sensational flop for a sensational success. For him failure is a “negative success.” [Tönnesmann 2011].

In 1996 he joined the German army at the headquarters in Bonn. While servicing in 1997 he succeeded to complete managing the connection of the German army to the Internet. At that time he met Peer-Arne Böttcher. After having left the army service he himself thought that his next steps towards self-employment and entrepreneurship would be a study at the university.

Succession of the parental business was never an option for him. He wanted to build something independently. Hence, the selection of the discipline followed that logic. He enrolled at the private University at Witten-Herdecke (Germany), but after his first day and (and a meeting with the dean) he left the university.

He wanted to become knowledgeable about macro- and micro economics and about the relationships of the two branches; he wanted to learn about financials and financing for founding his firm. When on the first day the dean asked him why he wants to study and heard the study to serve as a basis for firm’s foundation he explained to Hinrichs that a study is not the prerequisite for firm’s foundation. He demonstrated to him that it is not necessary that one person can do all the stuff necessary associated with firm’s foundation. He explained that there are options to purchase in a large number of functions from outside [Faltin 2007; Heitze 2007].

He internalized this awareness of buying-in people with specialized knowledge to concentrate on own talents.

Being financially independent Hinrichs established and ran a “policy portal”, Wahlkampf98, for the elections in Germany in 1998. The portal collected news from policy and organized chats with politicians [Schmidt 2007]. After the election this was further developed with friends (Lars Hinrichs, Peer-Arne Böttcher und Philipp Stradtmann) into the portal “politik digital” (dealing with Internet and policy).

The platform “politik digital” was founded due to a perceived opportunity as there did not exist any similar offering. And for this portal he got the “Grimme Online Award” for media competency in 2001. Simultaneously, he earned his living from a multi-media agency. But with the platform no money could be made [Heitze 2007; Wikipedia 3].

Therefore, during the excitement of the “New Economy” bubble, in 1999 with investment capital from a state-owned investment firm Hinrichs and Böttcher founded the firm Böttcher Hinrichs AG, a PR and communication agency for various Internet firms which had 40 employees [Heitze 2007] and achieved revenue of €1 million.

But, in record time they burnt €1.5 million (ca DM3 million at that time). Shortly, after the dot-com Internet bubble burst through insolvency the firm was at an end and so was the friendship between the founders. The formal separation was terminated by a court decision in 2001 [Tönnesmann 2011]. Fortunately, the failure with the firm was only relative – not affecting his personal financial status significantly. Hinrichs had invested in other firms [Faltin 2007].

Later Hinrichs called that insolvency the most expensive MBA course and knowledge in humans in the world. But he noted the 100 things that went wrong (and derived 100 rules for his life). This was a key experience and led to one consequence: In his firm there will be only one boss, and that is him [Tönnesmann 2011]. And even with a partner ultimate control of a firm must be by one person [Faltin 2007].

Concerning personal traits, other people characterize Hinrichs as being very sure of himself and demanding. Those people also thought that, after Hinrichs left his startup Xing, the success of his new company HackFwd (see further below) would depend on whether Hinrichs will tolerate equal partners. Business partners say that he is thinking only binary (in German “er tickt binär”) – he
only perceives 0 or 1, black or white, friends or enemies or experts or incompetents [Tönnesmann 2011].

Fundamentally Hinrichs is considered to be linear and integer, representing a “respectable businessman” (in German ehrbarer Kaufmann, an “honorable merchant”). His values are honesty and sincerity [Heitze 2007; Tönnesmann 2011]. In discussions Hinrichs thrives on technical functionalities and looses regularly time spans. He is excited about product developments – in contrast to management of the organization.

He is a businessman per se and could “never” work as an employee. Concerning leadership, as a self-assessment, he can recognize things early and processes which will become important in the future. “I only do things that I do with passion,” he said. This is not only the Internet, but should deal with technology [Schmidt 2007]. His experience from the previous firm was that in that firm he did a lot of projects which he personally did not like. This supported his conviction to need something which he fully agrees to and which he can do with passion [Heitze 2007].

When being asked how he learned to lead a company, Hinrichs’ simple answer was “I just did it.” It was a sort of learning by trial and error with a focus on admitting to have been wrong and correcting a wrong decision [Heitze 2007].

And he continued that “the idea must be scaled via technology,” and “scaling via people will not function.” Ordinary citizens of the street must be able to grasp the idea.” He always strives to either revolutionize a market or create a new market. And his self-assessment that “I can inspire people to work for me” means a strong belief in his communication and leadership talent [Schmidt 2007].

Hinrichs is always open to learning and is well aware about the importance of having the right contacts. Therefore, he views membership in various organizations of entrepreneurs and industry associations to be better than any university education [Heitze 2007]. And he has specified this kind of networking by stating:

“I have studied exactly one day and then founded my first company. Almost everything what I know I have learned from other entrepreneurs.” [Helterhoff 2007]

He acknowledged, in particular, to have learnt very much from his first external investor, William (Bill) Liao, who has accompanied many IPOs and gathered broad experiences around the globe [Heitze 2007]. Hinrichs got to know Liao when he was attending a conference in Southern France and he queued up for a helicopter commuter service for transportation to the Grand Prix in Monaco. Liao was his neighbor in the queue and initiated contact and communication with him [Faltin 2007].

William Liao is exposed as having set up the openBC/Xing platform together with Lars and his wife Daniela Hinrichs (openBC Annual Report 2006). Since 2004 his wife, a communications professional, acted as the leader and Vice President Communications. In 2006 she founded Yellowdine Ventures GmbH and acted as a CEO since then [Schönherr 2011]. In line with his bents and talents, according to the openBC Annual Report 2006 [Xing 2007], Hinrichs took over responsibilities for Corporate Policy, Corporate Strategy, Corporate Communications, Product & Engineering and Marketing.

Hinrichs used €48 million obtained from selling his stake in Xing to found a new firm, HackFwd GmbH & Co. KG. HackFwd GmbH & Co. KG is a venture capital firm specializing in seed/startups. Its headquarters are in Germany, but startups can be located anywhere in Europe. His investments focus on “geeks” (computer freaks knowing a lot about the Internet, but not about business). Geeks will have passion and a concept; they will receive seed capital for a stake and access to experts from the HackFwd-Network [Tönnesmann 2011].

HackFwd followed a path of Hinrichs convictions in that he invited to-be technology entrepreneurs to “connect to great technical talent” and referring to his views about entrepreneurship deficits of Europe: “An MBA without technical skill gets funded in Europe, whereas a great technician with no MBA does not.” [Hinrichs 2011] The Board included other technology and investment entrepreneurs with a track record. HackFwd employed and involved professionals in talent manage-
ment, finance and marketing to serve as guides and support excellence in individual business ideas.

With Eric Schmidt of Google Lars Hinrichs invested in SGN – Social Games Network, a publisher and developer of social mobile games featuring live multiplayer action.

By the end of 2013 Lars Hinrichs was shutting down his startup incubator and pre-seed investment fund HackFwd. The unique incubator in Europe will not accept any new startups for its next program. Instead, Hinrichs will focus on his later-stage investment company Cinco Capital and a real estate project in Hamburg.

It had over 3,000 applications and around €8 million worth of investments in its 16 portfolio companies. Hinrichs published a blog post giving five major reasons the Hamburg-based incubator did not succeed [Kuepper 2013, Hinrichs 2013]. Actually Hinrichs [2013] gave his top ten insights from this experience that he will take with him to his next venture.

- An incubator boom – “literally thousands of accelerators”
  When HackFwd launched in 2010, incubators were few and far between. Today, the landscape is very different. Hinrichs wrote there are now “literally thousands of accelerators; so many that I often wonder if there are more accelerators than angels and more angels than there are entrepreneurs.” The new funding environment made it hard for HackFwd to compete.

- Assuming faster exit times; no exits in sight:
  He had expected exits to come faster: “Within the first couple of years, we realized that, on average, any exit required between five and seven years to be worthwhile, longer than the average time it was hoped and planned for. This stands in sharp contrast to the US, where exits commonly happen within a year due to talent acquisition hires, which is employees having entered the company workforce through an acquisition or merger (“non-organic growth”).

- Too slow to pull the plug on certain startups:
  HackFwd was too slow to pull the plug on businesses that did not work so well, Hinrichs admitted. The incubator had a policy of supporting each team for at least a year – a mistake when companies were not getting enough traction. He also found it difficult to balance nurturing new, young startups, and continuing to help established startups scale.

- Underestimating the bureaucracy:
  Building pan-European startups proved difficult. “Each European country has its own (unnecessarily complex) rules and regulations for setting up a company.” He is now pushing for a European standard for establishing limited companies.

- Spreading focus too thin.
  After founding a company himself, Hinrichs said he found it hard to jump from startup to startup without getting too involved. “It was difficult to constantly switch focus between challenges without feeling like I was short-changing people.

Corporate Culture and Organization

Xing’s (openBC’s) corporate culture was created by Lars Hinrichs and his conviction that, even with a partner, ultimate control of a firm must be by one person – him [Faltin 2007]. Basically, “one must differentiate what is the best for the firm, and what is the best for the employee.” [Schmidt 2007] And, it is important to stop it if something does not function [Heitze 2007]. His direction is not to create jobs for people, but offer jobs with roles which require specific knowledge of details. People are hired if they are excellent for the things needed [Heitze 2007].

According to his personal experience “The time span for a hiring decision is becoming always shorter. Even if it is unpleasant – but when you fire some people – the company is often better off.” Often he replaces the word “to fire” by the expression “to offer the chance to become successful elsewhere.” For the mid of 2007 he noted that Xing has no longer employees who just talk a lot, but only create “noise” [Schmidt 2007].
Hinrichs’ motto is to accept permanent change. His mantra is: “He who stops being better stops at some point to be good.” And additionally, after all, who works for Xing, must match the pace of the boss [Schmidt 2007].

There is tolerance for failure and mistakes. But he said, “Everyone can make a mistake. But the same mistake must not be done twice.” The enforcement of that fundamental operational principle could be seen by the employees. By 2007 Hinrichs had changed almost the whole management team [Schmidt 2007].

Even as these situations seem to describe a very demanding corporate climate Hinrichs emphasized that during the development of Xing over the years with 110 employees by mid of 2007 only five employees left the firm voluntarily. Hence, corporate culture seems to be quite well [Schmidt 2007].

Hinrichs works together with employees in a Spartan open-plan office. He views this constellation with options of direct contacts to facilitate leading and “infecting” people with his ideas and visions [Schmidt 2007].

He managed Xing’s growth and related problems as an organizational issue to be tackled by communication as an answer. At the beginning he held regularly meetings with his employees every Friday for one hour. Every employee was motivated to speak out, what went well and what went wrong – and to make suggestions for betterments.

This worked until the group reached the number of thirty as a threshold because with more people no longer everyone could or would speak up. For people in the firm corresponding meetings were organized by department in a face-to-face manner or for distributed departments via video conferences. Employees’ opinions and attitudes were also collected via questionnaires. Furthermore, the firm was re-organized accordingly [Faltin 2007].

On the other hand, for him growth meant delegating responsibilities and developing appropriate employees. He generally concedes that for certain areas other people are simply better than he is – or want to be better. He appreciates that the continuous improvement of Xing’s offering results from employees and subscribers.

Hinrichs sees himself as a “generalist” and compares his role with that of a conductor. For the orchestration he must empathize with the individual member or the orchestra and roughly know how each instrument functions and what it is able to create [Heitze 2007].

Awards and Publicity

Wikipedia-2 lists awards of Xing and its founder.

2004:
Xing received the media award called “LeadAward”.

2007:
Xing received the “German Internet Award” (Deutschen Internetpreis 2004) of the German Ministry for Economics.

Open BC was nominated for the German Founders Award (Deutscher Gründerpreis) in the category “Climber” [Helterhoff 2007].

2008:
Hinrichs was selected to be “Germany’s Most Important Web Entrepreneur” (“Deutschlands wichtigster Web-Gründer”) by “Deutsche Startups”, an online magazine for entrepreneurs and investors.

Additionally, Lars Hinrichs was elected as a “Young Global Leader” (YGL) by the World Economic Forum.
The Business Idea, Opportunity and Foundation Process

There’s nothing more powerful than an idea whose time has come” - Victor Hugo

As soon as the mind targets a goal a lot will come to meet him. Johann Wolfgang von Goethe

One argument behind giving up a university education was that Hinrichs tracked the development of the Internet and saw this dynamically growing technology with endless possibilities and opportunities which, he said, “I did not want to miss.” [Heitze 2007] And he was fundamentally interested in scalable business models.


Basically, the tipping point is that moment when an idea, trend, fashion or social behavior crosses a threshold, tips, and spreads like wildfire. And Gladwell put forward concepts leading to a tipping point. to understand the phenomenon how ideas, products, messages, and behaviors spread like viruses and how little things can make a big difference (cf. the German saying: small cause – big impact “kleine Ursache, große Wirkung”).

Gladwell focuses on finding the right moment, the right people, and the right cause for action so that everything can change suddenly all at once. He identified three key factors that each plays a role in determining whether a particular trend or movement will “tip” into wide-scale popularity:

- The Law of the Few which actually relates to the well-known “80:20” rule of thumb of General Systems Theory (GST), the “vital few and trivial many rule” stating that for many phenomena: approximately 80 percent of the consequences stem from 20 percent of the causes [Runge:ch. 1.2.1].
- The Stickiness Factor: A quality that compels people to pay close, sustained attention to an idea, concept or product. It relates to characteristics of a message, its “infectiousness” in terms of catching attention, grasping its essentials, influencing attitude and influencing (changing) behavior.
- The Significance of Context (which is also in the thinking of GST).

According to the Law of the Few in social networks a small percentage of people do the majority of the work, a few key types of people must champion an idea, concept, or product before it can reach the tipping point. Gladwell differentiates these people according to their personal characteristics and functionalities.

Connectors: According to Gladwell connectors “manage to occupy many different worlds and subcultures and niches”. They have ties in many different realms and act as conduits between them, helping to engender connections, relationships, “cross-infections” and “cross-fertilization” that otherwise might not have ever occurred. In so far they relate to “gatekeepers” (“boundary spanners”) for innovation and entrepreneurship [Runge:ch. 1.2.3].

They are people with a special gift for bringing the worlds together; they are the kinds of people who know everyone. They like people in a genuine and powerful way, and find the patterns of acquaintanceship and interaction with people fascinating. They are people specialists.

Mavens: A maven is a trusted expert in a particular field, who seeks to pass knowledge on to others. In network theory and sociology, a maven is someone who has a disproportionate influence on other members of the network. Gladwell also suggests that mavens may act most effectively when in collaboration with connectors – that means those people who have a wide network of casual acquaintances by whom they are trusted, often a network that crosses many social boundaries and groups. Connectors can thus easily and widely distribute the advice or insights of a maven [Wikipedia 4].
Salesmen: Salesmen are people whose unusual charisma allows them to be extremely persuasive in inducing others' buying decisions and behaviors.

If individuals covering all three types of characteristics and functionalities endorse and advocate a new idea, it is much more likely that it will tip into exponential success.

Hinrichs became aware that he is one of these types: "After reading Malcolm Gladwell's The Tipping Point, I knew that I was a connector for people and so wanted to do that on my own site and not on a copycat of US sites." [Kiss 2008a] "I always wanted to know the contacts of my contacts. This was the basis of my business idea." [Heitze 2007; Faltin 2007] Particularly, Hinrichs likes to introduce people he knows to others and likes to interconnect people he knows [Faltin 2007]. Consequently, he also read a lot about networks and related concepts and theories which induced his wish to interconnect people on the Internet with a new firm [Faltin 2007].

Moreover, there was the famous rule of Metcalfe. It characterizes many of the network effects of communication technologies and networks, such as the networking of social groups and also the Internet. Originally, stating that the value of a telecommunications network is proportional to the square of the number of connected users of the system ($n^2$), it is now formulated qualitatively: The value of a network increases non-linearly with the number of its users [Wikipedia 5].

Lars Hinrichs was always aware of the potential of the Internet and its technical developments. For instance, he tracked developments of peer-to-peer (P2P) networking on the Internet. He learned about the US firm Friendster (Zynga, Inc. – B.2) which is a portmanteau of "friend" and Napster. Napster at the time was a controversial peer-to-peer (P2P) file sharing Internet service that was launched in 1999 [Faltin 2007]. And Hinrichs was aware of the emergence of "social networks" which differ from P2P networks. The original observations of strong growth of the social networks in terms of membership have materialized. By 2011 social networking accounts for 1 of every 6 minutes spent online [Nelms 2011].

Hinrich's basic concept was a social network for professionals [Runge:p. 552, ch. 3.4.2] allowing membership free-of-charge, but a subscription fee for additional premium services enhancing the potential use of the network. Furthermore, he focused his startup on the way how a first contact occurs. That means getting to know by whom one is addressed will facilitate the first contact [Faltin 2007].

When discussing the idea with friends and other contacts half of the contacts regarded Hinrichs' intention to found an Internet firm in 2003 immediately after the Dot-Com Recession as crazy. And also venture capitalists assessed the idea to have no chances in the market. But, Hinrichs felt that it would succeed (cf. perceptiveness, a feeling of understanding [Runge:p. 821]). On his own and against all advices he took the risk, used €30,000 of own money and hired ten people [Heitze 2007; Schmidt 2007].

Official foundation of the firm Open Business Club GmbH was in Hamburg (Germany) in August 2003. The firm openBC started as a “One-Man-Show”, in the dining room of his apartment. It was totally a virtual company. Everything that could be outsourced was outsourced, such as accounting, support, development, programming and design. And Hinrichs was at the center of all. Only as he saw that the idea will succeed he brought back individual functions into the firm – provided the economics was right. Furthermore, he persuaded fifty friends to provide their contact data as a kernel for the network of the Open Business Club GmbH [Heitze 2007]. In the sense of viral marketing (Gameforge AG, B.2) by the end of the day the network has increased to 472 members [Faltin 2007] and after ninety days the firm was profitable [Tönnessmann 2011]. In November 2003 the platform was started under the name “openBC” in Germany and in the same month also an English version was launched.

Hinrichs entered the market de facto with a relatively well-defined and well-received offering by a sufficiently large test field!

For Hinrichs the first day of launch was striking for his business model, the weirdest business experience: “One of best was the first launch day – when we met our revenue targets. It seemed very unlikely that in 2003 people would pay to access a network of 472 people but they did. They
wanted to see who was showing an interest in them and wanted to connect with people they didn't know." [Kiss 2008a]

The virtual company Hinrichs created, of course, was in need of software, programmers for the Internet environment. Therefore, according to his focus on outcontracting, he addressed four friends who ran their own firm, which later grew and became “epublica GmbH”. This firm was experienced and founded the knowledge portal “wer-weiss-was.de” of the broadcasting firm N24. It was thus right for developing the core technology of openBC.

For their work Hinrichs provided the four friends a stake in his firm and, after openBC went public by the end of 2006 under the new name Xing, epublica kept a stake of 3.6 percent (Open Business_Club AG Geschäftsbericht (Annual Report) 2006).

In essence, Hinrichs determined the direction of the software development and, due to the existence of a small network, epublica could proceed with “rapid prototyping” and testing in the field to get rid of programming mistakes, bugs and add improvements suggested by users. Later, epublica moved to a location in direct neighborhood to Xing which increased communication for ongoing software developments [Faltin 2007].

And it turned out that grasping his opportunity was based on being at the right time, at the right place, with the right people and right offering’s features [Faltin 2007]. In the sense of Gladwell’s tipping point approach Hinrichs’ context was essentially his knowledge, identification of the activities and habits of networking and convictions about future technology developments, in particular,

- The Internet and social networking including experiences from the Dot-Com Recession
- The structural features of and habits of conventional business clubs and probably he knew about social networking of professionals using the restricted domain of corporate Intranets [Runge:ch. 3.3.1, last paragraph]
- The guiding example of the US firm Friendster [Faltin 2007] which was to be a purely social site where friends could introduce one another, match make and date. He was probably also aware of US LinkedIn, which started out in the living room of co-founder Reid Hoffman in 2002 (site officially launched in May 2003; LinkedIn – B.2)
- The availability of programmers with experience in what he was striving for.

A “business club”, often associated with a membership fee, provides physical proximity of members to have face-to-face interconnections. One of its objectives is to educate members about being successful in the world of business, including but not limited to finance, marketing and consulting – and present oneself. A goal to develop new ideas, new skills and profitable processes means that business people overcome their own experience – “we don’t know what we don’t know!”

The club will accomplish this goal also by organizing and sponsoring events pertaining to the business world, conducting mock interviews and inviting speakers to discuss their experiences. The second objective concerns “networking”, facilitating interconnections of various types of people with commercial orientations and facilitating various commercial activities.

Activities include:

- Enhance skills for personal development
- Get support
- Gain new customers or new employees for your firm
- Find new suppliers
- Learn from others’ experiences
- Share ideas and problems.

From a cognitive point of view Hinrichs’ mental state concerning Internet and social networks was in line with the “Zeitgeist” [Runge:ch. 1.2.1] and “cognitive frameworks” [Runge:ch. 3.2].

Generally, faced with a daily myriad of news, people use their value predispositions (such as ethical, political or business beliefs) as perceptual filters, specifically selecting people and news...
outlets and Web sites whose outlooks match their own. Such screening reduces the choices of what to pay attention to and accept as valid.

In this way cognitive frameworks concerning business organize key ideas, defining a controversy to resonate with core values and assumptions. Cognitive frames pare down complex issues by giving some aspects greater emphasis. They allow people to rapidly identify why an issue matters, who might be responsible, and what should or could be done. In this way Gladwell's concept of "stickiness" is related to cognitive frameworks.

Correspondingly, Hinrichs' path to revealing the business opportunity has turned out to be "opportunity recognition" [Runge:ch. 3.2]. He explained that according to the motto of this sub-chapter:

One must be open and want to do something new and you must recognize the opportunity; they are available. It is "in the air." In particular, you must want to recognize them [Heitze 2007]. If you know your goal and if you feel the desire for novelty, then opportunity comes to you. And, importantly, you should go for the opportunity not for money, but for passion – and just start doing it.

For him a good business idea is something that differs totally from current offerings, services or practices of the market [Faltin 2007]. It could also relate to a "paradox of searching": When you don't know what you are looking for, but you recognize it when you find it [Runge:ch. 1.1.2].

After its foundation in 2003 openBC followed a very simple "revenue model." Have users registered free-of-charge ("members") and provide additional functionality for utilizing the network through a monthly fee. The users of such "premium facilities", a type of subscribers, represent the only source of revenue.

Roughly two thirds of new members will register due to an invitation of existing members of the platform.

By the end of 2003 the openBC platform was launched in German and English and the first special interest group was set up. In 2004 expansion of the platform concerned other languages. By the end of 2004 openBC was accessible in eleven languages (Spanish, French, Portuguese, Japanese, Finnish, Dutch, Swedish, Chinese and Hungarian). Early in 2005 there were sixteen languages (adding Turkish, Romanian, Polish, Korean, and Italian). Also, with achieving more than 500,000 members, openBC became the largest social network for professionals in Europe.

Xing's user interface is multilingual and for the Search function accounts for members with commonly spoken languages.

According to Lars Hinrichs "Our experience shows that despite globalization, the crucial business is done locally in the markets. To be able to communicate in the own language and networking are the keys to economic success. Via openBC we provide the social infrastructure and advanced applications to make professional networking happen – globally and locally ("Unsere Erfahrung zeigt, dass trotz Globalisierung die entscheidenden Geschäfte lokal in den Märkten gemacht werden. In der eigenen Sprache zu kommunizieren und networken zu können, ist hierbei der Schlüssel zum wirtschaftlichen Erfolg. Wir stellen mit openBC die soziale Infrastruktur und weiterführende Applikationen, um Networking professionell zu machen – weltweit und vor Ort.") [Waschow 2004].

During early development the openBC platform could rely on capital from business angel William Liam and individual investors. For further financing developments Xing looked for several investment firms and business angels including Klaus Hummel's (one of the most prominent investor in Internet firms, such as Skype). In 2005 the firm raised €5.7 million in a venture capital round, led by Wellington Partners. At that time, Wellington took an 18 percent stake in the company (and retained an 8.7 percent stake after the IPO; Figure 1) [Charlton 2006].

Further development of openBC followed organic and non-organic growth, which means takeover or acquisition of a majority stake in another firm [Ihlenfeld 2007]. In China, in 2006 openBC set up openBC China Ltd. (Hong Kong) and openBC Network Technology Co. Ltd (Beijing).

In order to strengthen its own activities in network events openBC added First Tuesday AG (Zurich, Switzerland).
OpenBC showed tremendous growth. After re-branding openBC into XING in September 2006 the successful IPO in December 2006 represented the first Web 2.0 company in the world to go public receiving broad publicity. In the US Xing characterized as a Teutonic version of LinkedIn had been named as one of Web 2.0’s most innovative sites by CNN Money. Xing raised €35.7 million in the IPO. Its market capitalization was about €157 million [Charlton 2006].

A broad characteristic of openBC’s growth is given in Table 1 which shows a tremendous jump of revenue induced by the jump of number of subscribers and that ca. 13 percent of members were subscribers.

The rationale for re-branding openBC into Xing was to position the firm better for international competition and to have a name easily accepted. Moreover, Xing in Chinese means “can do”, functions."

Table 1: Metrics characterizing Xing’s development until its IPO after three years of existence (Source: Xing Reports).

<table>
<thead>
<tr>
<th>Year</th>
<th>20030812-20040630</th>
<th>20040701-20050630</th>
<th>20050701-20060630</th>
<th>20060701-20061231</th>
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<td>1,622</td>
<td>5,994</td>
<td>6,377</td>
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<tr>
<td>Registered Members *)</td>
<td>57,761</td>
<td>394,278</td>
<td>1,170,627</td>
<td>1,690,000</td>
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<tr>
<td>Paying Members,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscribers</td>
<td>6,892</td>
<td>54,299</td>
<td>154,394</td>
<td>222,000</td>
</tr>
<tr>
<td>Employees by Date</td>
<td></td>
<td>20040630</td>
<td>20050630</td>
<td>20060630</td>
</tr>
<tr>
<td>1</td>
<td>14</td>
<td>45</td>
<td>73</td>
<td></td>
</tr>
</tbody>
</table>

*) Members from the DACH region (Germany, Austria, Switzerland): 1.2 mio. in 2006.

The structure of the Xing’s shareholders after the IPO (Figure 1) demonstrates that Lars Hinrichs through his investment firm LH Cinco Capital GmbH still kept the majority and the leading influence on the firm. The other investors’ category comprises a number of individuals with a stake of around 1 percent.

Figure 1: Structure of Xing’s Shareholders by December 2006 (Source: Xing AG).

In September 2007 Xing sold its subsidiary First Tuesday AG (Zurich) in the context of a management buy-out (MBO). During the preceding half of the year First Tuesday was said to have
generated a loss of ca. €500,000. For cost savings relevant main activities of First Tuesday were already transferred to Xing's headquarter in Hamburg (Germany).

In 2007 takeover of two Spanish firms, eConozco and Neurona Networking increased Xing’s members in the Spanish-speaking area by one million. Early in 2008 Xing acquired a majority stake in the Turkish firm cember.net. In the second half of 2008 Xing started (particularly viral) marketing campaigns in the Spanish-speaking area. By own, organic growth and takeovers Xing increased the number of registered members globally from 3.52 million to 6.14 million.

By the end of 2007 Xing appeared as a holding of international firms as displayed in Figure 2.

**Figure 2:** Organizational structure of the Xing Group by end of 2007 [Xing 2008].

Further acquisitions of firms occurred in the subsequent period until 2010.

While in 2006 revenue was generated entirely by paying users (“premium members”) in 2007 two new sources of revenue were introduced: Advertising covering only non-paying members, not subscribers (premium members) and “eCommerce” (“Marketplace”) which is actually addressing the job market (searching for a job or being hired – e-recruiting). The contributions of the various sources of revenue are given in Table 2.

**Table 2:** Xing’s sources of revenue in 2007.

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Item’s Revenue (€, thousand; 12/31/2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribers</td>
<td>17,838 (93.7%)</td>
</tr>
<tr>
<td>Advertising</td>
<td>750 (3.9%)</td>
</tr>
<tr>
<td>eCommerce (“e-recruiting”)</td>
<td>374 (2.0%)</td>
</tr>
<tr>
<td>Other</td>
<td>85 (0.4%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19,047</td>
</tr>
</tbody>
</table>

Overall Xing addressed contacts which are accompanying and supporting profession and career for the whole professional life. Xing aimed to establish new and strengthen existing contacts, discovering new or exciting professional and knowledgeable contacts, jobs, events, special knowledge and social groups and related discussion forums, and including companies (corporate members).
Expansion and Further Diversification

During the (2008 – 2010) period Xing’s development showed a diversification of its functionalities and additional features associated around the core of “contacting people.” Additionally, apart from the Web platform, Xing was also made accessible on mobile devices, such as smartphones (actually apps for iPhone, Android, Windows Phone or BlackBerry).

The period showed a remarkable chasm in Xing’s development – without significantly affecting further development. In January 2009 Hinrichs stepped down as CEO of Xing and changed over to the Supervisory Board. Stefan Groß-Selbeck, the previous boss of Ebay Germany, became the new CEO (from 2008 till 2012).

By November 2009 he sold his stake in Xing via LH Cinco Capital GmbH for €48 million. And he left the Supervisory Board by January 2010 and left the firm [DPA 2008, Wikipedia 2]. At that time there was a controversy in Xing on how to handle and utilize data of Xing members [DPA 2008].

Through its subsidiary Burda Digital the media firm Hubert Burda Media acquired a majority stake of 25.1 percent, which was increased to 29.6 percent in 2011. According to Burda its interest in Xing had a strategic aspect. Social networks are assumed to compensate for coverage losses of classical media, such as TV, newspapers or magazines. According to Xing’s new CEO Stefan Groß-Selbeck “Burda’s strength is the broad coverage. We shall utilize this for Xing.” [Winckler 2009]

By 2012 the Burda publishing house was making a consequential move to get more involved in the Internet and digital sphere and was buying out shareholders in Xing for approximately €140 million. It increased its share via Burda Digital to a majority of 59. percent of Xing’s stock [Kuepper 2012; Dapd 2012].

Irrespective of acquisitions or organizations in Turkey and establishing subsidiaries in Spain, Switzerland and Italy Xing’s revenue model until 2010 relied on subscriptions (premium membership), e-recruiting and advertising.

Through acquisition of Amiando by the end of 2010 for €10.35 million of own cash reserves Xing opened a further source of revenue [Krüger 2011; Kapalschinski 2010a; Wikipedia 1]. Amiando, an event management unit and ticket service, provided a new function of Xing – registration for events and provision of tickets..

Xing (openBC) aimed to minimize barriers for users to get in touch with others. Xing’s (openBC’s) operations followed the line of the founder that, despite globalization, key businesses are done locally in corresponding markets and the key to business success is to communicate and network in one’s (native) language [Waschow 2004]. This is similar to the view of German Gameforge AG (B.2) concerning the role of language for social gaming.

Wishes to contact can be expressed by requests or offers. Establishing a contact requires that a wish to contact is accepted by the partner. The Xing member can decide him-/herself who can see his/her profile and which kind of information of the profile (phone number, e-mail address, date of birth etc.) will be disclosed [Wikipedia 1]. Personal profiles in professional social networks represents a way of controlling one’s “professional identity” online.

Subjects, features, functionalities and services improved or established anew during the period (2008 – 2010) are given in Table 3.

**Table 3:** Subjects, features, functionalities and services of networking with Xing.

<table>
<thead>
<tr>
<th>Main Subjects</th>
<th>Additional Useful Features</th>
<th>Products and Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs &amp; Career</td>
<td>Invite to join XING</td>
<td>Premium Membership</td>
</tr>
<tr>
<td>(Special Interest) Groups</td>
<td>Mobil devices</td>
<td>Recruiter Membership</td>
</tr>
<tr>
<td>Events</td>
<td>Downloads; Newsfeeds</td>
<td>Advertising</td>
</tr>
</tbody>
</table>
Apart from spread meetings Xing members have also other means for interpersonal communication. Any registered user of Xing has an own mailbox accessible only via the Xing portal. Members can also directly use the functions of Instant-Messaging software and the VoIP-software Skype.

**Enterprise groups** comprise communities of employees or members of various organizations or associations including a firm’s stakeholders or alumni. Similar to enterprise social networks Xing’s Enterprise Groups target sharing knowledge among a company’s employees or social networks including customers or target groups.

**Spread meetings**, for instance, include presentations, issuing mindmapping for brainstorming or also remote access to another PC screen. **Shopping** means acquiring various Xing branded items (clothes, accessories etc.).

In essence, **Goldmine Expertpanel** allows to a certain degree market research across the social network. In particular, executives or corporate specialists may be asked to assessing a trend.

The premium membership enables advanced search features on the Web site for finding and networking with other members, receiving references (recommendations) and associating documents with one’s profile. A basic network can be built up (in a similar fashion as on LinkedIn – B.2), via personal invitation e-mails and inviting one’s existing network to come and join Xing. Interactivity is more than just bulletin board-type postings.

As sub-groups of the social network **expert groups, university groups, special interest and regional groups** emerged to share enthusiasm for something, personal preferences and common experiences and thoughts and insights with others. Other group members can be met at special group **events**.

A group on a particular topic which does not exist so far can be created by a user who then becomes the group's moderator. By mid of 2011 there were ca. 40,000 discussion forums which are partly public or for closed groups [Wikipedia 1].

Any official Xing-Event must be related to a particular local or regional group and can be joined by any Xing member.

In particular, on Xing one finds groups focused on entrepreneurship:
Entrepreneur (Existenzgründer) – with a link to a platform dealing with financing a startup (http://www.gruenderzuschuss.de)

Founder (Gründer; Firmengründer)

Foundation Consulting (Gründerberatung)

Foundation Coaching (Gründercoaching).

Furthermore, in Germany a professional social network like Xing may support or even comprise “competence networks” which are often organized across subjects, technologies and industries [Runge: ch. 1.2.6; Figure I.39] including people from public and private research organizations.

Such a man-machine-system as a professional social network is requires a considerable support service by Xing personnel, but also self-organization from within the members of the network around the globe by selected and licensed persons. These XING Ambassadors and Xpert Ambassadors are particular people with dedicated commitment for their role and can become an “ambassador” upon application to represent Xing regionally. They organize regional official events and will be the central, trusted contact for a Xing community as the group moderator.

By mid of 2010 there were 245 (regional) Xing Ambassadors and 63 Xpert Ambassadors who moderate industry-specific groups. Xpert Ambassadors are required to have special knowledge and a reputation among peers [Wikipedia 1].

Xing’s further healthy growth by related indicators over the period 2008 to 2012 is reflected in Table 4.

Table 4: Xing’s recent growth in terms of revenue and number of employees [Wikipedia 1].

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (€, mio.)</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>35.3</td>
<td>174</td>
</tr>
<tr>
<td>2009</td>
<td>45.1</td>
<td>265</td>
</tr>
<tr>
<td>2010</td>
<td>54.3</td>
<td>306</td>
</tr>
<tr>
<td>2011</td>
<td>66.2</td>
<td>456</td>
</tr>
<tr>
<td>2012</td>
<td>73.3</td>
<td>513</td>
</tr>
</tbody>
</table>

Vision/Mission, Business Model and Risks

Xing views itself as being the European business network No. 1. Its vision corresponds to a claim that XING is the social network for professionals by higher education or by professional status tackling profession, career and business. This includes companies as network members and utilizing the network for recruiters.

According to Lars Hinrichs his Xing’s business means [Kiss 2008a]: "It's all about discovery and utility for business and for life. Discovery means finding the right people, rediscovering lost people and finding information never discovered before. You can see people that have common interests, like second-degree business contacts and finding the right people to fill jobs."

Xing surveyed members and 20 percent said they had already made successful business transactions through the site." And making money meant (in 2007): "That's very simple for us. Even when we started in the nuclear winter of the web, we were providing such vital information for businesses that we have been able to charge for premium membership. Another is advertising, that old business model. Last year we doubled revenue to €20m."

Advantages for members (“value proposition”) via subjects, features, functionalities and services (Table 3) include active and passive components of networking and particular member services. For an individual member it is not required to fully fill all the fields when creating the membership profile.

- Get in touch with people to generate contacts which may help you in your career by providing further contacts, offering jobs, or coming up with ideas. Additionally, get new contacts and find experts, friends, colleagues and partners to establish businesses.
Find a job, events, special interest groups, and companies
Get found by recruiters within a professional environment
It is to be noted that profiles of premium members are free from advertisement.

Furthermore, by 2010 XING was the only social network in the world with full SSL encryption as standard.

The revenue model relies on differentiation of paying and non-paying membership for individuals and firms, paying membership meaning a subscription model used broadly by publishers and media. For individuals there is a twofold differentiation (members versus premium members; in 2010 €5.55 per month and more depending on the country). For firms there is a threefold differentiation of company profiles which are regarded to belong to the category of “advertising” rather than membership. Approximate cost levels were:

<table>
<thead>
<tr>
<th>BASIC</th>
<th>STANDARD</th>
<th>PLUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free version</td>
<td>Increased visibility of the firm on Xing and the Internet</td>
<td>Interactions with related target groups</td>
</tr>
<tr>
<td>€0 per month</td>
<td>€24.90 per month</td>
<td>€129 per month</td>
</tr>
</tbody>
</table>

By the end of 2007 Xing’s revenue model included four components (Table 2) with the contribution of paying members providing 94 percent to the revenue and advertising accounting for 4 percent. With the purchase of Amiando AG “Events” has added a further source of revenue (Figure 3). According to Xing’s press release (8/10/2011), at the end of 2010, after acquiring the firm Amiando AG, Events revenues of €1.1 million during the first six months of 2011 led the company to pass the one million marker for the first time.

For e-recuiting firms there are membership fees and Xing follows two different approaches of additional revenues:

- A Pay-per-Click (PPC) mode, an Internet advertising model used to direct traffic to Web sites, where advertisers pay the publisher – typically a Web site owner – when the ad is clicked (currently €0.69 per job click [Groß-Selbeck and Chu 2011]).
- A fixed price per job advertisement (differentiating logo and design).

![Figure 3: Xing’s revenue model by 2011 (Source: [Groß-Selbeck and Chu 2011]).](image-url)
A key approach to advertising is “cost per thousand impressions” (CPM). Following the CPM model refers to advertising bought on the basis of Page Impression, in contrast to the various types of pay-for-performance advertising, whereby payment is only triggered by a mutually agreed upon activity, such as “pay-per-click” (PPC).

Usually a Page Impression is generated every time a user views a page displaying the advertiser’s ad (each time an advertisement loads on a user’s screen) regardless of the number of ads displayed on that page. A page impression corresponds to a request to load a single HTML file (“page”) of an Internet site.

If there are any advertisements on the page, the publishers would also be interested in the number of page views to determine their expected revenue from the ads. For this reason it is a term that is used widely for Internet based marketing and advertising.

The average number of monthly page impressions is particularly interesting for providing ads on relevant pages. And it is also interesting how many different users visit a page (“unique visitors”).

By mid of 2010 Xing had 9.63 million users, with 4.07 million users from the German-speaking so-called DACH region (Germany, Austria, Switzerland) which represents Xing’s “core countries” meaning 42 percent. There were 718,000 premium members. But the DACH region contributed 688,000 premium members which means

96 percent of Xing’s revenue is due to its “home market” [Xing 2011b].

Concerning overall membership outside the DACH region Xing has two “focus countries,” Spain and Turkey with 1.42 million or 908,000 members, respectively. Data from 2009 [Xing 2010a] show furthermore that Xing has approximate the same number of members in South America (mostly speaking Spanish) as in Spain. Hence, with a rough distribution of non-paying members of 8 million in the DACH region, Spain, Turkey and South America versus a total of 10 million members Xing’s focus for revenues corresponds to an “80:20 rule”. The emphasis on Turkey is a natural response to the fact that in Germany ca. 3 million people of Turkish origin live and Germany is the biggest trading partner of Turkey.

Despite the Great Recession Xing showed strong growth in its core subscription business and the new business segments e-recruiting and advertising (Figure 4). With 80 percent in 2010 and 85 percent in 2009 subscription contributes the dominating part to Xing’s revenue. E-recruiting provides revenue that depends on economic cycles with to be expected reduction of online job offers.

![Figure 4](https://example.com/figure4.png)

**Figure 4**: Xing’s recession-proven revenue growth (Source: [Groß-Selbeck and Chu 2011]).
Apart from technical issues of soft- and hardware (interruptions, disruptions, bugs, hacker attacks, etc.) Xing is exposed to the following risks in its core and focus countries or area, respectively.

- Basically, strategy and plans represent fundamental challenges for Internet firms as for the Internet a five years horizon is a very large time.
- The market for professional networking could develop slowly or enter a state which is no longer profitable.
- Risks may emerge from existing, but also future acquisitions (cf. the First Tuesday AG acquisition).
- Future legal and regulatory actions concerning privacy of user data could affect negatively acceptance of Xing’s services (processing, storing and using personal data in compliance with governmental regulations and other legal obligations in targeted countries).
- Discontinue keeping users’ trust with respect to their professional reputation and information or users’ interests and excitement (canceling subscriptions; keep low churn rate, at ca. 10 percent).
- Competitors following a business model focusing on revenues essentially from advertisements and recruiting.

Based on own assessments of the market potential for their sources of revenue (Table 5) Xing’s major approaches of its growth strategy is given in Figure 5.

**Table 5:** Xing’s market potential (Source: [Groß-Selbeck and Chu 2011]).

<table>
<thead>
<tr>
<th>Paid Membership</th>
<th>“Verticals”</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium Membership</strong></td>
<td>E-Recruiting</td>
<td>Advertising</td>
</tr>
<tr>
<td>Ca. 19 mio. people</td>
<td>&gt; €200 mil.</td>
<td>Ca. €3.8 bil.</td>
</tr>
</tbody>
</table>

To drive penetration into Xing’s basic membership, for instance, search functionality was optimized or the function “News from My Network” became accessible for all members.

**Figure 5:** Components of Xing’s growth strategy and plans (Source: [Groß-Selbeck and Chu 2011]).
Key Metrics

Key metrics for describing Xing’s development can use as usual number of employees and revenues which, during the first three years of existence, correspond to subscription as the single financial source. In the context of entrepreneurship interest is also on net profit or loss, but not financial performance like EBIT or EBITDA.

On the other hand, when other sources of revenue (particularly, advertising) became significant, data on customers and their access to Xing offerings gained importance. Metrics, hence, includes:

- Number of registered members
- Number of paying members (premium members, subscribers)
- Unique Visitors
- Page Impressions (defined above; for instance, being relevant for revenues from advertisements via the CPM mode).

Data on the last two categories are often provided by digital marketing intelligence services to assess potential impact for advertising, such as the US firm comScore, Inc. comScore’s digital marketing intelligence platform comprises proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity. The platform is founded on data collected from a comScore panel of more than two million Internet users worldwide who have granted the firm explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities.

In Germany there is also the IVW organization (Informationsgemeinschaft zur Feststellung der Verbreitung von Werbeträgern e.V.) which usually certifies corresponding figures of Web sites of print media, such as business newspapers or magazines (like Financial Times Deutschland, Handelsblatt, Wirtschaftswoche or Manager Magazin).

*Page Impression* refers to the number of pages on the Web site that users view during the measurement period.

*Unique Visitors* are users who have visited a particular Web site at least once during a month regardless of whether they are a member, if applies. Usually a 30 or 60 minutes period is blocked for measurement. This means a user coming back to the Web site after ten minutes will not be counted.

Finally, it is interesting to know how often a particular user comes back to a site. Identification of such *Visits*, however, is technically and legally difficult.

Recently, issues of such metrics have been raised, exemplified particularly for Xing’s direct competitor LinkedIn under the heading “How LinkedIn Turns a Profit when ‘Users’ Don’t Use the Site.” (LinkedIn, B.2)

Such indicators are assumed to provide insight whether the site is increasing member engagement and whether members are deriving value from the offerings (applications, tools, information, interconnections, etc.). Correspondingly, higher level member engagement is assumed to increase sales of premium subscriptions, e-recruiting, marketing (advertisement) and event solutions.

To target advertisements, not only the sheer bulk of addressees is important, but also the demographics of the addressees. And it does not refer only to accessing the Xing online platform. Xing also distributes a weekly newsletter. 90 percent of Xing members receive it and 20 percent also open it. The demographics for Xing is given in Figure 6 [Xing 2011c].

According to the firm, by mid of 2011 Xing had 11.1 million members with 4.9 million from the DACH region (Germany, Austria or Switzerland) and 769,000 were premium members as well as 476 million total Visits. For instance, Xing achieved:

- 125 million Page Impressions in November 2005
- 955 million Page Impressions for the third quarter of 2008 (generating revenue of €600,000) [Schmidt 2008]
In March 2010 Xing had more than 28 million Visits and 248.6 million Page Impressions and 2.1 million Unique Users, with the reach certified by IVW [Xing 2011c]. Hence, Xing’s reach for marketing purposes (the total number of different people or households exposed, at least once, to a medium during a given period of time) is associated with a high level target group concerning education, career level (Figure 6) and purchasing power.

![Diagram](image)

**Figure 6:** Demographics of Xing members of the DACH region according to educational level and career level [Xing 2011c].

As Xing is a publicly traded firm on the German stock exchange, data concerning financials, employees and members can be extracted from corresponding annual and business reports and presentations to analysts of Xing.

In Figure 7 the number of members and paying members of Xing is shown. The growth of paying members proceeds almost linearly over the period 2007 to 2010 with a compound annual growth rate (CAGR [Runge: Equation I.10]) of 26 percent. Except for an outlier the development of paying members showed an almost parallel trend.

The notable shift in the proportion of paying members (to 8.0 percent from previously 7.7 and 7.5 percent) in the first half of 2009 observed in Figure 7 may be due to a change of the payment provider [Xing 2010a]. The issue that users registered as paying members who successfully invited others to join Xing are attributed one month free-of-charge could be classified among subscribers in more detail than was possible with the preceding system. Correspondingly, the number reported so far had to be modified. And in 2010 the proportion was back to “normal” 7.5 percent.
Figure 8 displays Xing’s strong growth from 2005 to 2010 in terms of revenue getting a notable momentum in 2008. Here, after the IPO, marketing and sales efforts were increased and e-recruiting and advertising as new sources of revenue were successfully established during the fourth quarter of 2007 [Xing 2009].

Figure 7: Developments of the numbers of the different types of Xing members after the IPO.
With the exception of 2009, when Xing showed a loss of €1.7 million, Xing always earned a net profit. The loss was due to depreciation of €5.4 million resulting from participation in other firms and acquisitions in the last quarter of 2009. Nearest data of net income (profit) were €7.2 million (2010) and €7.3 million (2008).

During the early phase of Xing’s productivity (revenue per employee) increased linearly and boosted at 2008 to €203,000 per employee from otherwise €174.00 per employee between 2007 (after the IPO) and 2010. The jump in number of employees from 109 (2007) to 174 (2008) may be attributed to organizational issues when crossing the “magic number” of 150 employees according to the “10 - 25 - 150” rule of thumb leading generally to a decrease in productivity [Runge:ch. 4.3.1, Table I.72].

In 2011 XING AG increased its revenues across all business lines. Total revenues rose by 22 percent from €54.3 million in 2010 to €66.2 million in 2011. In terms of social recruiting, XING expanded its market leadership in DACH with e-Recruiting revenues of €11.7 million, an increase of 65 percent compared to €7.1 million in 2010.

Advertising revenues rose by 35 percent from €3.9 million in 2010 to €5.3 million in 2011. Revenues from Events, which were reported for the first time in the Company’s history, totaled €2.5 million. Revenues from Premium memberships grew by seven percent from €42.4 million in 2010 to €45.6 million in 2011. Xing had 11.7 million members by December 2011.

Timeline

The following timeline represents key development steps of Xing from the beginning in 2003 [Gehlken].

August 2003 Official foundation of the firm in Hamburg (Germany) by Lars Hinrichs
November 2003 Start of the platform named openBC in Germany; launch of an English version
December 2003 Launch of the first Xing groups
February 2004 The first official openBC event (organized by Martin Bockelmann and Johannes Woll)
March 2004 until The platform is extended to eleven different languages (adding Spanish,
December 2004  French, Portuguese, Japanese, Finnish, Dutch, Swedish, Chinese and Hungarian
November 2004  Rewarded by the German Internet Prize of 2004
January 2005  The open BC platform is extended to sixteen different languages adding Turkish, Romanian, Polish, Korean, and Italian
June 2005  With more than 500,000 members the platform becomes the largest social network for professionals in Europe
November 2005  For the first time 125 million Page Impressions are achieved
May 2006  Red Herring Award for a leading firm in technology and innovation
July 2006  “Tagging” function introduced to allow particular specifications of personal profiles
September 2006  openBC re-branded to Xing
December 2006  Successful IPO as the first Web 2.0 company worldwide
March 2007  Acquisition of eConozco, a leading Spanish contact network, and parts of the business of the Spanish firm Grupo Galenicom TI, S.L.
April 2007  The marker of two million members exceeded
May 2007  Start of ‘Xing Jobs” (Marketplace) with thousands of job offers
June 2007  Strengthening of market leadership in Spain and Latin America through acquisition of the contact network Neurona and of Spanish Grupo Intercom Factory S.L.
August 2007  Relaunch of the Xing Mobile-Port allowing faster and easier navigation on Internet-related mobile phones
January 2008  Strengthening the European market leadership by acquisition of cember.net, the leading professional network in Turkey
February 2008  The marker of four million members exceeded
April 2008  Integration of Google Maps allows display of personal contacts on a map of the environment
August 2008  Start of official Xing Seminars in Germany for companies and private persons
September 2008  The threshold of 500,000 premium members is exceeded; no business network has globally more paying members
December 2008  Acquisition of Socialmedia, Inc. in New York to integrate news relevant for members
April 2009  Profiles of companies show up
July 2009  Xing Partner Ecosystem starts with 16 OpenSocial-Applications with 13 partners
August 2009  The marker of nine million members exceeded out of which 3.4 million are from the German-speaking DACH region

October 2010  10 million users are reached

**Competition**

The general challenge for Xing, as viewed already in 2008, was “that social networking is one of the hottest web topics, and we are one of very many web companies. But we see a clear difference between more fun and leisure sites, like Facebook, MySpace and Bebo, and professional sites like LinkedIn.” “We are a publicly listed company, so are very transparent in how our business works.” “In that business space, LinkedIn is our nearest competition.” [Kiss 2008a] Facebook is not seen as competing with XING. They perceive Facebook as complementing Xing, for private matters there is Facebook, for professional matters there is Xing (In German: Für Privates gibt’s Facebook, für Berufliches gibt’s XING!) [Krüger 2011].

Xing learned rather early about the difficulties of internationalizing social networks. Social networks, due to major effects of local languages, their appearance, acceptance and use are strongly determined by national culture and, hence, professional social networks are affected by national business culture and, if interconnections for transnational business are sought, require special considerations and multi-cultural competencies on the side of the initiator.

Consequently, expanding internationally does not necessarily translate into related (commercial) success. There seems to be a sort of “80:20” rule concerning membership of social networks: 80 percent in the top 10 countries account for 80 percent of the members [Verde 2011].

This effect was striking for Xing concerning English-speaking countries which additionally follow an Anglo-Saxon type of capitalism. Furthermore, disregarding Facebook, it seems that social networks have chances only in those markets in which they were early active [Kapalschinski 2010b].

Already in 2008 Xing was eclipsed by LinkedIn in the UK. Xing was “cranking up its London marketing activity … with 400 London billboards and ads in the Metro, clearly targeting London's commuting business people, and an online campaign to boot. The strapline is "Start Networking, not just Linkin." It faced “a typically tough battle to build UK usership: It has done well outside the English-speaking online world but US services translate more easily to the UK market than European rivals. How many of the social networks and Web services offered in the UK are European in origin, rather than US? Very few.” [Kiss 2008b] By that time LinkedIn had already ca. 5 – 6 million members in UK (in 2011 ca. 6.9 million [Verde 2011]) – far exceeding even the number of Xing’s members in the DACH region. By December 2009 LinkedIn derived 10 percent of revenue from customers in the UK.


However, Xing does not see any competition in its key markets, the German-speaking DACH region as well as Spain and Latin America as well as Turkey and has a strong position in Europe. This self-confidence is not even touched by the fact that LinkedIn successfully went public in 2011 with the IPO corresponding to a market capitalization of $8.9 billion. At $8.9 billion its market capitalization is 578 times 2010 profit (LinkedIn Corp., B.2).

Even the direct attack of LinkedIn on Xing’s home market does not seem to impress Xing significantly. Its self-confidence is fed by closely tracking the market [Krüger 2011]. In 2011 LinkedIn
opened the sixth European office in Munich (Germany), others being in London, Dublin, Amsterdam, Paris and Stockholm [DPA 2011]. As of August 4, 2011, LinkedIn reported “1m+ members in the DACH region (Germany, Austria and Switzerland).”

Xing emphasizes three aspects as the basis for its business model and competitive strength or advantage, respectively (Table 6, Figure 10):

- The services emphasizing interconnections.
- The differentiating business model.

In particular, Xing perceives a very good potential for further growth in Germany which still is available to be exploited. In Germany only 5 percent of the population is active in a social network for professionals. In the US, UK or the Netherlands the corresponding proportion is ten to fifteen percent.

According to Xing CEO Groß-Selbeck in Germany the understanding of networking is different. There are segments with networking among professionals to be self-evident, where in many traditional branches it is not. Xing aims to change that. Accordingly Xing perceives the different between the above cited five and fifteen percent to represent its growth potential (cf. Table 5) [Krüger 2011].

Xing claimed to grow faster in the DACH region than any other social network for professionals [Krüger 2011]. Indeed, by August 2011 there was no significant change in the positions of LinkedIn-Germany versus Xing as measured by Unique Visitors: 4,719,000 (Xing), 2,095,000 (LinkedIn). In July 2010 corresponding figures were 3,714,000 Unique Visitors for Xing and 1,024,000 for LinkedIn in Germany. Similar developments – on a lower level, are also observed for Austria [Rajiv Shah 2011].

Concerning interconnecting people Xing has a network philosophy which is (was?) different from that of all other competitors. The emphasis is on managing contacts between people who so far did not have contacts, but for whom a contact is meaningful as a starting point for businesses. This requires every member to be able to see the profiles of another member and then to contact the other person easily.

Additionally, with Xing networking does not only proceeds “electronically” but also locally face-to-face – reflecting its roots in a business club concept. In 2010 members ran 180,000 events locally, organized by Xing. Hence, online and offline networking is a significant driver of the platform [Krüger 2011]. A test report corroborates this situation: “Xing has a very similar user experience to LinkedIn, although perhaps with easier paths to network with people you don’t know when using the upgraded Premium Membership.” [Adin 2011]

Specifically Xing has a business model which is quite different from that of LinkedIn. The fundamental strength of Xing is its basis of premium (paying) members. Ca. 80 percent of Xing’s revenue stems from paying members (Table 6). This means, Xing has a basis for planning according to a subscription model and can use that to introduce new and more expensive offerings for target groups [Kapalschinski 2010b].

Revenue growth by subscription has to consider the churn rate and the retention rate measured for a given time period:

- Churn Rate (%) = Lost Customers / Total Customers
- Retention Rate (%) = Repeat Customers / Total Customers.

The churn rate is a measure of customer (or employee) attrition. Hence, overall growth is related to new customers, repeat customers and lost customers. Xing’s churn rate, for instance, of paying users is ca. 10 percent [Groß-Selbeck and Chu 2011].

Xing’s strategy to keep its competitive position means keeping or increasing its proportion of paying members and, particularly for its German-speaking region, not to disturb users by too
much advertisement [Kapalschinski 2010b]. Close qualitative and quantitative tracking of the market demonstrates Xing to be the No. 1 in the German-speaking DACH region [Krüger 2011]. Table 6 provides a comparison of key operational data for Xing and LinkedIn, its closest competitor, reflecting two entrepreneurial firms with seven years of existence. It is always amazing for a European how much money (investment capital) and effort (employees) it takes in the US to achieve a certain amount of net income for a new firm. After the same year of existence of the firm LinkedIn just made $6 million more than Xing after seven years. But obviously also people in the US are amazed. “Revenue more than doubled to $243.1 million last year, as user growth and new monetization efforts kicked in. Profitability isn’t very scintillating. After years of losses LinkedIn squeezed out a modest profit of $15.4 million last year.” [Aristotle 2011].

LinkedIn as other Internet firms appear to take major advantages from the fact that Americans can refer to huge home markets and English-speaking markets, huge investments and huge numbers of people for development driving the pace of innovation. Furthermore, they can implement huge marketing and sales efforts and can utilize the very broad attention they get in the media [Kapalschinski 2010b]. Finally, there is as well very much interest, attention and wave-like commitment of an existing community of investors whose investment firms are ready to spend $50-100 million rather than €1-10 million investors provide in Germany. And there is a level of tremendous technology speculation not seen in Germany.

**Table 6: Key operational data for Xing and LinkedIn, its closest competitor. *)**

<table>
<thead>
<tr>
<th>Key Characteristics 2010</th>
<th>Xing AG</th>
<th>LinkedIn Corp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of Official Foundation</td>
<td>2003</td>
<td>2003</td>
</tr>
<tr>
<td>Members</td>
<td>10 mio. (reached in October 2010)</td>
<td>90 mio.</td>
</tr>
<tr>
<td>Premium (paying) members</td>
<td>718,000 (first half of 2010), 7.5% of all members</td>
<td>170,000 (LinkedIn, B.2), 245,000 (estimated [Woirhaye 2011], ca. 0.3% of all members)</td>
</tr>
<tr>
<td>Time spent per visit by members (min)</td>
<td>9:30 [Woirhaye 2011]</td>
<td>9:30 [Woirhaye 2011]</td>
</tr>
<tr>
<td>Employees</td>
<td>306</td>
<td>990</td>
</tr>
<tr>
<td>Revenue (mio.)</td>
<td>€54.3 ($73.3); (€66.2, 2011)</td>
<td>$243 ($522.2, 2011)</td>
</tr>
<tr>
<td>Net Income (mio.)</td>
<td>€7.2 ($9.7)</td>
<td>$15.4 ($11.9; 2011)</td>
</tr>
<tr>
<td>Productivity: Revenue per Employee</td>
<td>€177,450 ($240,000; 2008)</td>
<td>$245,450</td>
</tr>
<tr>
<td>Market Focus by Country</td>
<td>DACH region (ca. 80% of revenue), Turkey, Spain, South America and Latin America</td>
<td>US (ca. 68% of revenue), India, UK, Brazil, Canada, France, Australia; (ca. 40% in 2011) [Verde 2011]</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>€157 mil. (IPO, Dec. 2006); is 22 times 2010 profit; ca. €210 (2010) [Groß-Selbeck and Chu 2011]</td>
<td>$8.9 bil. (IPO May 2011); is 578 times 2010 profit; $2 billion in 2010</td>
</tr>
</tbody>
</table>
Table 6, continued.

<table>
<thead>
<tr>
<th>Sources of Revenue:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium (paying) members</td>
<td>€42.4 (78%)</td>
<td>$61.9 mio. (25%)</td>
</tr>
<tr>
<td>Advertisements, marketing</td>
<td>€3.9 (7%)</td>
<td>$79.3 mio. (33%)</td>
</tr>
<tr>
<td>E-recruiting, hiring solutions</td>
<td>€7.1 (13%)</td>
<td>$101.8 mio. (42%)</td>
</tr>
</tbody>
</table>

* Data from 2010 if not stated otherwise.

There is a marked difference of the revenues' origins of the German and US competitors: whereas Xing gets ca. 80 percent of revenue by subscribers, LinkedIn makes almost 80 percent of revenue by advertisement and hiring solutions.

The overall competitive advantage of Xing in the DACH region is quantified in Table 7.

Table 7: Comparison of Xing versus the closest or next (right figure) competitors in Germany [Groß-Selbeck and Chu 2011].

<table>
<thead>
<tr>
<th>Member Base</th>
<th>4 : 1</th>
<th>Net Promoter Score Social Networks (SN) (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Members</td>
<td>3 : 1</td>
<td>XING 10</td>
</tr>
<tr>
<td>Activity – Page Impressions</td>
<td>17 : 1</td>
<td>Other DE SN -3</td>
</tr>
<tr>
<td>Attitude: “I prefer the product”</td>
<td>5 : 1</td>
<td>Other US SN -40</td>
</tr>
<tr>
<td>Brand awareness</td>
<td>5 : 1</td>
<td>Other US SN -42</td>
</tr>
</tbody>
</table>

Finally, Xing may also take advantage from the strongly growing market for “hiring solutions” (HR services, e-recruiting). Social media tools are one of the top three most powerful recruiting tools, along with referral programs and mobile technologies.

In the US, for instance, a majority of businesses said they are increasingly turning to social media in their search for the company's next star employee. More than 80 percent of surveyed HR professionals said they are using social networks to help them recruit candidates. Specifically, 79 percent search LinkedIn, 65 percent have a company page on LinkedIn, and 63 percent have a dedicated Facebook page established for jobs and careers [Brooks 2011].

Apart from Twitter and YouTube it is interesting to note that Facebook ranks higher than the three functionally closest competitors of Xing and take the lowest position concerning intention to use. Particularly, Figure 9 shows that social media are intimately related to language, national and business culture of the particular country or region, respectively.
Figure 9: In the DACH region: What kind of social media HR services are you going to use in the future (in percent)? [Groß-Selbeck and Chu 2011]

Table 8 repeats essentially the order of Xing, Twitter, studyVZ and LinkedIn concerning the most popular social networks in Germany shown in Figure 9.

Table 8: The 20 most popular social networks in Germany in 2011 [Nikolov 2011].

<table>
<thead>
<tr>
<th>Rank</th>
<th>Social Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Facebook.com</td>
</tr>
<tr>
<td>2</td>
<td>wer-kennt-wen.de</td>
</tr>
<tr>
<td>3</td>
<td>Jappy.de</td>
</tr>
<tr>
<td>4</td>
<td>odnoklassniki.ru</td>
</tr>
<tr>
<td>5</td>
<td>meinVZ.net</td>
</tr>
<tr>
<td>6</td>
<td>schuelerVZ.net</td>
</tr>
<tr>
<td>7</td>
<td>Stayfriends.de</td>
</tr>
<tr>
<td>8</td>
<td>Xing.de</td>
</tr>
<tr>
<td>9</td>
<td>Twitter.com</td>
</tr>
<tr>
<td>14</td>
<td>studiVZ.de</td>
</tr>
<tr>
<td>15</td>
<td>lokalisten.de</td>
</tr>
<tr>
<td>16</td>
<td>LinkedIn.com</td>
</tr>
</tbody>
</table>

A comparison between Xing and LinkedIn emphasizes that Xing provides perhaps an “easier path to network with people you don’t know when using the upgraded Premium Membership.” Furthermore, “If you are interested in business networking with professionals located in Central Europe then this forum can be useful. Xing’s email support comes from Hamburg.” [Admin 2011]

Figure 10 illustrates how Xing views its overall competitive advantage in its core market.
**Figure 10:** Xing’s key features providing a competitive advantage in its core markets [Gross-Selbeck et al. 2010].
References


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