



Case Study

ASW.COM – Monetizing Connectivity? (A)

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Abstract:

This case study describes the founding phase of the online social networking platform “aSmallWorld”, an exclusive invitation-only online social network. The case is intended to support teaching on social networks, online social networking, and Web 2.0 business models.

Thomas Langenberg and Alexander Schellong prepared this case under the supervision of Professor David Lazer, Program Director of Harvard University’s Program on Networked Governance as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. We would like to thank Erik and Louise Wachtmeister for their efforts in sharing the necessary information with us. Also, we would like to thank Andrew Feldman, Michael Driscoll & Michael Koeris for copy editing the case.

ASW.COM (A) – Monetizing Connectivity?¹

Growing up as the son of a Swedish career diplomat and, later, as an investment banker, Erik Wachtmeister lived and worked in numerous cities around the globe. In the process, he realized that there was an existing community of people that were, already, directly or indirectly connected and who wanted to stay in touch and share information.

These are people that you constantly see at the same places at the same time of year, over and over again, and they keep running into each other and saying to each other, “Oh, what a small world. What are you doing here?” That was the first aha moment that I had. The second thing is, what they have in common is not only that they know a lot of the same people, but they also have similar needs, tastes, desires, and they constantly want to know who's where and who's doing what. They also crave trusted information, and they get from each other.²

Wachtmeister dreamt of building a global online platform for this community to enable people to stay up-to-date with each other about where they were living and where they were working. In April 2003, he sent a questionnaire to his friends and business partners to investigate the level of interest in his idea. The response was overwhelmingly positive. In fact, within weeks he was offered enough financing to turn this vision into reality.

Whether the site would be a financially successful business, on the other hand, was less certain to Wachtmeister. Despite an existing market need and ample funding, the success of the venture would be dependent on several difficult-to-estimate variables. In particular, accurate revenue models for online social networking are difficult to establish, as is the size of the member base and the level of traffic on the site.

² http://www.hollywoodreporter.com/hr/search/article_display.jsp?vnu_content_id=1003381490

1.0 How and Why Erik Wachtmeister came up with the Idea

After graduating from college, Wachtmeister became an investment banker and developed a large network of private and professional relationships all over the world. But staying in touch with friends and business contacts wasn't easy, particularly since Internet technology was still in its infancy and people often lived in a given city or only a few years before moving on.

Online social networking represented a potential solution. He envisioned a website that would allow members to maintain and expand a network of trusted friends and business partners. Whether one was looking for a nanny, for restaurant or hotel recommendations, or for suggestions about social events, the

"In traveling extensively to the world's social hot spots for many years, I realized there was a community of global nomads who hang out together. I decided to make a business out of helping them meet and find solutions to their common problems."

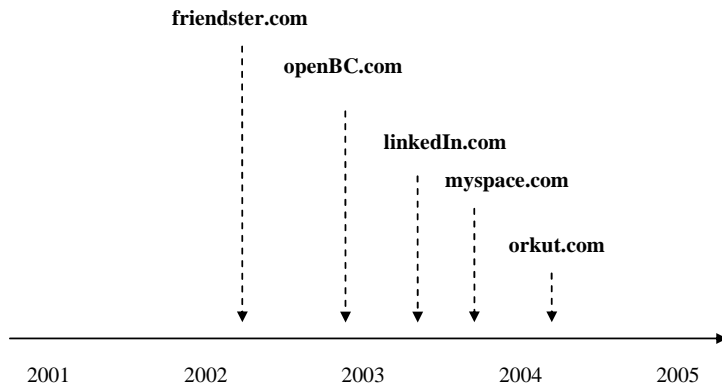
"You can summarize the vision of such a platform as follows: it is a tool which aggregates the most interesting people and the planet with the most interesting information on the planet. It is not just about a lot of people and a lot of information. What you then get is a lot of noise. Instead, what you really want to get is the signal. And the signal, in turn, is what people are interested in. And interesting for people is what they relate to. For instance, when you want to meet somebody, you are more likely to go to an intimate wedding than to the train station."

platform could be a source of information, advice, and help. Members had to build confidence in the platform and make it an important part of their every day's life. .

To create a trusted circle of members and a reliable source of information, Wachtmeister designed the site so that new members could only enter by being invited from an existing member. Moreover, it was intended that each member of aSmallWorld must not be separated by more than three degrees (see Exhibit 6.1). The idea was to target well connected, innovative, and successful 25 to 50 year olds in European and North American.

2.0 Screening the Market and Defining the Product

While Wachtmeister formulated a more precise design of his site, the first major social networking sites were starting to gain popularity. That included Friendster and Orkut which were targeted to anyone that was interested in online social networking. LinkedIn in turn positioned itself to connect business professionals. Wachtmeister became



Source: the authors' background research for the case (see also Exhibit 6.11)

particularly interested in Google's platform, Orkut, an invitation-only platform. But while Orkut allowed any member to invite anyone else, his intent was to be more selective. (In fact, aSmallWorld would be designed so that someone had to be invited by five different members before

one got the right to invite five new members.)

To finalize the product design, Wachtmeister drew on the results of the questionnaire he sent to several hundred friends in 2003. Each respondent was asked to rate a number of potential website features, to outline travel habits, and to explain how he or she kept in touch with their friends or professional contacts (see Exhibit 6.2). The questionnaire also asked about respondents' willingness to pay for online networking services to help them stay connected. Building on the results, he designed the platform to focus on a small niche of successful professionals. This would differentiate the site from most existing online networking communities which target much broader groups. Other sites that were targeted to similar upwardly-mobile groups, such as Forbes.com for business and Style.com for fashion, focused on providing information rather than on community-building or networking.

3.0 Identifying the Revenue Model

There were three possible revenue models for aSmallWorld: advertising, job search & brokering, transaction fees, and subscription fees for premium services.

Advertising and Job Listing Fees

During this period, advertising dollars began shifting away from newspapers, television, and magazines towards the internet (see Exhibit 6.12). Also, global

consumption of luxury goods, which Erik thought being very interesting for his target audience, increased substantially³. Given the target membership of aSmallWorld, the website could be an appealing environment for luxury brand advertisements. As Wachtmeister put it, "...once those brands start realizing that they need to be advertising online, there will be very few places to go."

In addition, the site was also designed to include a job market section, where members could post job openings for their companies. Drawing on the business model of existing job market sites (e.g., Monster.com), revenue could be generated from fees for these postings (see Exhibit 6.9).

Transaction Fees

Another potential source of revenue was transaction fees where the platform could be used as a sales channel for firms. Once a membership base was established, companies could offer goods to members such as luxury watches, jewelry, boat cruises, or real estate. Revenue is a small percentage of the transaction that was processed through the aSmallWorld website.

Subscription Charges

Finally, subscription charges for premium services on the site represented a third potential revenue stream. But Wachtmeister decided initially not to impose any subscription charges in order to encourage membership growth. However they could be imposed later on.

"Although for now the goal is not to generate revenue, Erik said, the selectivity built into the community would give tremendous leverage with advertisers. We will have statistics showing that our members return to our Web site again and again. This can be monetized. However, we need to avoid conflict of interest because the whole principle of the site is friends helping friends. We want to offer our members great deals on the services and products they really want."

³ <http://www.unitymarketingonline.com/reports2/luxury/luxury1Q2006.html>

4.0 Generating Investment Interest

The first round of funding was relatively simple: About a dozen of Wachtmeister's friends and acquaintances were willing to invest in the project.

“I think a lot of the investors were really investing in me. In fact, I had the passion and drive to do this, which I have had for the last eight years. And you know, this is 30 years of my life that is coming to a conclusion. And I have lived this life spending all this time in Washington, in LA, New York, Paris, London, etc.”

Among others, the investor group consisted of a member of a big Greek shipping company, a member of a prominent German industrial family, and several well-known entrepreneurs and U.S. media experts (see Exhibit 6.6).

“People just thought this would be fun. When I look back at the last year I had an incredible interest in this. We haven't really gone out for money. People have actually come to us.”

5.0 Wachtmeister's Concerns

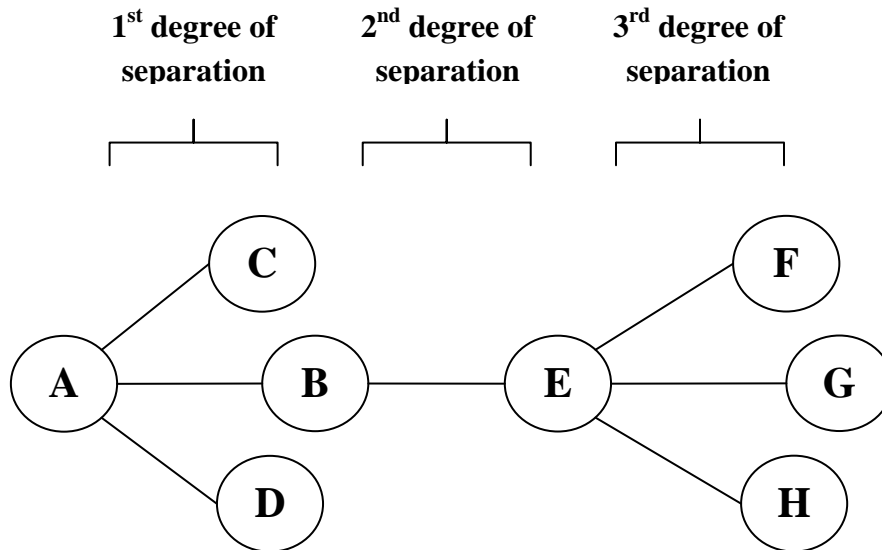
By 2003 the venture had its initial financial backing and the timing of the site's release seemed propitious: online social networking was hot. Some challenges lay ahead, though. First, the majority of Wachtmeister's investors were friends and family. Most of them invested more into Erik's abilities than into the business model itself. Online social networking was hot, however to date there had been no example of a financially successful project like that.

Second, although there were potential revenue streams, it was unclear how long it would take for luxury brands to recognize the value of advertising on the site. Raising awareness about the site among luxury brands was a key task (see Exhibit 6.12). Third, if subscription charges or membership fees were to be introduced, there was the question of which types of services users would be willing to pay for.

A fourth challenge was how to manage growth, if and when it occurred. In particular, how could the site ensure that new members fit with the target demographic of aSmallWorld — upwardly mobile professionals? Also, Wachtmeister had to make sure that aSmallWorld became a really active community. This is not easy, because typically only a small share of online community members generate most of the content (see Exhibit 6.13).

6.0 Exhibits

6.1 Exhibit: Three Degrees of Separation



Network node A and network G for instance are separated by three degrees. The first degree is the tie between A and B, the second degree is the tie between B and E, and the third degree is the tie between E and G.

6.2 Exhibit: ASW.COM defining its scope

aSmallWorld is an online community that is not open to the public. It is designed for those who already have strong connections with one another. It allows you to interact more effectively with like-minded individuals who share similar interests, schedules, and friends. The Yellow Pages is becoming the ultimate reference guide for what is best in the world and most relevant to you. It is generated by members who are local experts who rate and rank restaurants, hotels, night-clubs, etc. in 60 major cities and resorts.

The aSmallWorld Forum is a place where trusted friends can exchange secret tips and information, as well as goods and services from vacation homes to collaborations.

6.3 Exhibit: Planned Functionalities of ASW.COM

In the questionnaire, Erik addressed the following tools and functionalities for the first version of the online community.

Functionality	Description
Connectivity	Users is given an opportunity to connect to other network members, to check each member's profile, and to browse through the networks of each member
Discussion Forum	There will be several discussion forums, where members can talk about certain topics. Topics are not limited to but might include: travel, business, and discussion
Birthday Calendar	Members have an overview on the upcoming birthdays in their list of personal contacts
Content Governance	In each section, where users can add content there will be a button to report "Abuse". Members can use this button to report in case there is any content, which seems to be inappropriate.
Instant Messaging/ Chat	The site will contain an individualized instant messaging system, where people get in spontaneous touch with each other. The IM functionality will be webcam-enabled.
eMail Messaging	Besides instant messaging, members will have their own eMail engine to write messages or mails to other members
Info Box	On the first page there will be an information box, where aSmallWorld's management posts information and new regarding the site and the company in general.
Marketplace	The marketplace is section of the site, where members can buy/sell things, exchange idea and advice regarding houses and flats, broker vacancies for shared living, and a fully interactive job market where members can post and apply for interesting positions
Guide	In the guide section, members can get valuable information with respect to the following categories: <ul style="list-style-type: none"> ✦ Hotels ✦ Restaurants ✦ City Guide ✦ Events ✦ Geo-Locator (find out where other members are currently being located)
General	In addition to the special functionalities, the site offers typical functionalities such as an FAQ forum, an about us section, as well as information of how to get in touch with the firm

6.4 Exhibit: ASW.COM policy

Connections

Make the most of connecting to all your friends around the world by browsing and searching. However, do not connect or send messages to people you do not know, unless you have a special reason to do so. Do not accept connection requests from people you do not know, as this may dilute your network. If you accept people in your network they will gain access to your network and your profile.

My Profile

- Stick to factual and personal information in your profile.
- We would love to see an appropriate picture of you in your profile. No other pictures are accepted.

Forum Guidelines

The character of any society is measured by two criteria: what its members do, and what they do not do. The Forum provides aSmallWorld members a place to gather and exchange trusted information and ideas. It's a platform for illuminating, insightful, and instructive conversation. To uphold the value of our community and to secure the rights of all members to enjoy The Forum, here are a few guidelines:

Protocol Principles

- Be sure to choose the correct category.
- We should all limit ourselves to using English only.
- Members should author no more than 3 new threads per week.
- Subject lines should be short and relevant.
- Subject lines should not use all caps, excessive punctuation or exaggerated typography
aSmallWorld disapproves of rude, frivolous or inflammatory threads.
- Hate, racism, intolerance, slander and vulgarity have no place in aSmallWorld.
- Pornographic or overtly sexual discussions are not acceptable.
- Let's all refrain from idle chatter, happy birthdays, and the like.

Respect for other members

- It's not always easy, but we must respect the right to express opposing opinions.
- Please, let's not attack another member's character, background or profile picture.
- Respect the intent of thread posters; don't indulge in mocking or irrelevant one-liners.

Take personal issues or disagreements off the forum.

- The Forum is not the place to announce that you're drunk, bored or lonely.
- Thread creators should not draw frivolous attention to them or post threads about specific members.
- The Forum is not for commercial sales, promotions, or job hunting.

Copywrited Material

For legal and ethical reasons, text from third-party sources such as other websites or printed publications cannot be posted (e.g. cut and paste) on the forum, unless the member owns the material's copyright. Instead, please provide a website link to the original source. Also, please provide your own thoughts and comments in addition to the link.

Deletion of Threads

aSmallWorld reserves the right to delete threads considered inappropriate. Action against a member account may also be taken. When we do remove a thread, we will inform the member who posted the thread of the reason. Follow-up threads posted about a deleted thread only add confusion. Rather than posting a follow-up thread, please contact the webmaster by PM with your concern.

6.5 Exhibit: ASW.COM management team



Erik Wachtmeister, Chairman and Founder

Erik is the Founder and former CEO of Viking Internet, a UK listed investment vehicle. Has held senior corporate finance positions with Ladenburg, Thalmann in New York and Los Angeles, Rothschild in New York, and Lehman Brothers in London and New York. He received his MBA from INSEAD in 1983, and his BS in Foreign Service from Georgetown University in 1977.



Louise Wachtmeister, Marketing Director and Co-Founder

Prior to aSmallWorld, Louise worked at JKL Group which is a leading PR Company in the Nordic region. In 2001 Louise completed her master thesis on branding at the Stockholm School of Economics. Additionally, Louise is a silver and gold medallist in the Swedish National Track Championships and has a long history of political activism holding elected positions with the Stockholm City Hall and District Court. She also was the President of the largest chapter of the Conservative Youth Party in Stockholm during four years and participated actively in two elections, including the election of Sweden's entry into the European Union in 1994.

6.6 Exhibit: ASW.COM management board

Alex von Furstenberg

Dimitri Gouandris

Renny Harlin

Rob Hersov

Bob Pittman

Nicolas Rachline

Jean-Manuel Rozan

Rolf Sachs

Alexandra Spencer-Churchill

Harvey Weinstein

6.7 Exhibit: ASW.COM screenshots

6.7.1 Start page

aSmallWorld
RECONNECT.

Logout

MyWorld | Messages | Forums | Marketplace | Guide | Help | About | Advertise on aSW?

My Private Page | My Profile | My Network | All Members | Invite

de GRISOGONO
GENEVE

>DISCOVER

Site Tips

Site Tips - FAQ's Help Section

Welcome

Network: **82 members**
Pending connections

Status: **Online**
Appear Offline

Password Profile Bookmarks

MY PRIVATE PAGE

Events

THE OSCARS GO GREEN!

The Global Green Pre-Oscar Party

Personal Message

From	Subject

VIEW ALL

Forum

Subject	
Advice Shopping Shanghai - Peking	16:48
accommodation in Basel (5 rooms)	16:45
Anyone in Venice	16:30
Cape Town Recommendations	16:28
Creative help needed urgently	16:23
equal opportunity employment	16:20
Amazon.com Contact Needed	16:17
London this weekend	16:15

VIEW ALL

Feature

FASHION
J'adore Paris!

Yves Saint Laurent, Chanel, Dior, Balenciaga, Chloe, and more. Check out our wrap up of Paris Fashion Week!

Geo Locator

Where in aSmallWorld are you?

ADD YOUR TRIP TO Not stated

Arrival 2007 03 15

Departure 2007 03 15

Comment

Add Trip

VIEW ALL

Birthdays

Date	Name
Mar 17th	
Mar 21st	
Mar 28th	
Mar 31st	
Apr 1st	

VIEW ALL

Newest Members

Travel Guide


KENYA
Introducing Olonana

Experience the ultimate photo safari, where wildlife, luxury

BE FABULOUS


MOËT & CHANDON
CHAMPAGNE

6.7.2 Geoguide


Logout

MyWorld | Messages | Forums | Marketplace | Guide | Help
About

Buy/Sell | Houses and Flats | Flat Share | Job Search
Advertise on aSW?



City List

Boston

Top Restaurants

Oishii Sushi	+1 617 277 7888
Pinocchio's	+1 617 876 4897
Trattoria Il Panino	+1 617 720 1336
Mistral	+1 617 867 9300
The Bristol Lounge	+1 617 351 2037
Paramount	+1 617 720 1152
Grill 23 & Bar	+1 617 542 2255
The Federalist	+1 617 670 2515
Bricco	+1 617 248 6800
Marcello's	+1 617 536 1004

Top Hotels

Fifteen Beacon	+1 617 670 1500
Eliot Hotel	+1 617 267 1607
Ritz-Carlton	+1 617 536 5700
Ritz-Carlton	+1 617 574 7100
Four Seasons	+1 617 338 4400
Nine Zero Hotel	+1 617 772 5800
Colonnade Hotel	+1 617 424 7000
Marriott At Copley Place	+1 617 236 5800
Fairmont Copley Plaza	+1 617 267 5300
Omni Parker House	+1 617 227 8600

Forum

Subject	Re	Created By	Created
French presidential elections discu...	[3]		14 Mar 08:58
Invitation/ Films at the HFA	[1]		13 Mar 14:06
French Prime Minister Dominique de ...	[1]		13 Mar 10:53
Fashion forward yet not controversi...	[8]		12 Mar 17:26
Party tonight in Boston	[1]		10 Mar 20:38
Jazz clubs in Boston	[8]		9 Mar 16:42
Dinner in Boston Tuesday night?	[22]		9 Mar 13:03
Boston gathering on Friday 16th	[40]		9 Mar 11:54
Embracing Visionaries to adapt to a...	[1]		8 Mar 23:39
Soiree at the Langham Hotel March 2...	[0]		8 Mar 22:34
Tonight in Boston	[2]		8 Mar 16:47
This week-end?	[11]		8 Mar 12:58

Page 1 of 45 1 2 3 4 5 6 7 8 9 > >> Total of 530 threads.

Geo Locator: Also in Boston now

Name	From	To
	Sep 13th 2006	Jul 1st 2007

ASmallWorld
GUIDES
EXPLORE

6.8 Exhibit: Overview on Online Social Networking Sites

Website	Target Audience and Purpose
orkut <i>(invitation only)</i>	Target: provide an intimate environment to interact. Objective: fun/leisure activities Used: Brazil (70%), US, roW
aSmallWorld <i>(invitation only)</i>	Target: global, well traveled and educated elite / jetset Objective: maintain and expand a network of trusted friends and business partners Used: EU, US, Latin America, row (metropolitan areas)
linkedIn	Target: business professionals, who would like to stay in touch with former colleagues. Objective: capitalize on existing ties with colleagues in order to get interesting jobs Used: US, EU
openBC/Xing	Target: heavy emphasis on a vast network of business professionals who share ideas and interests. Objective: space for business professional to interact and develop new businesses together. Used: EU, US, Asia (focus China)
Friendster	Target: anyone Objective: pure social networking site, discuss anything, upload both images/video, blog Used: US, EU, Asia
Facebook	Target: University / high school students Objective: share information on courses, networking, dating, upload images Used: US, Canada, Mexico, UK, Australia, New Zealand
mySpace	Target: Started as platform for young, independent musicians Objective: broadcast music, images, information, marketing, networking, dating Used: US, english speaking countries

6.9 Exhibit: Job Listing Fees on Existing Job Market Sites

1	\$395.00 each
2	\$375.00 each
3	\$350.00 each
4	\$325.00 each
5-9	\$300.00 each
10-24	\$250.00 each
25-49	\$175.00 each
50-99	\$145.00 each

source: <http://hiring.monster.com/products/jobproducts.aspx>

6.10 Exhibit: Development of luxury industry sector

According to Mintel's definition, based on the leading goods companies, the global luxury goods market was worth an estimated €70.0 billion (US\$87.5 billion) in 2005, up 9.2% on 2004. This increase comes despite a further strengthening of the Euro against the dollar during 2005.

LVMH is the leading global luxury goods company with 11% of the market in 2005. LVMH controls some of the strongest and most dynamic luxury brands including the likes of Louis Vuitton, Fendi YSL, Celine and Marc Jacobs.

The main focus of development in terms of distribution is retail, with many of the leading luxury companies looking to dramatically expand their own store networks, whilst cutting back on franchise and (market) licensing deals. The main attractions of retail for the leading luxury companies are higher margins and greater control of how, when and where their products are sold.

There has been much debate about whether luxury brands should be present online and how. This stems from the importance of brand image in this sector, posing the question of how to recreate the brand spirit online. Most brands are used to presenting their product in images in traditional marketing, and have been able to quite easily transfer and extend this online. Indeed, the online media now offers developed technical possibilities such as music, movement, video and interaction. Very few brands have thus far taken the step from simple online display to using the Internet as a sales channel. There is a sense that somehow the open-to-all, catalogue-like, price-tagged shopping environment is too far removed from the essence and spirit of luxury. However, the convenience of online shopping is likely to have marked appeal for those luxury shoppers who are pressed for

time, as well as for those preferring anonymity. At the same time, the online environment removes any perceived obligation to buy, which may deter some consumers visiting a store, and makes the brand accessible to a much wider public geographically.

Europe is the largest regional luxury goods market, but it is also the most mature. Europe accounted for 37% of the market in 2005. The European economy has underperformed other regions of the world in recent years, and this has impacted the luxury goods sector. The Asia-Pacific region which accounts for 32% of the total market and North America which accounts for 27%, have both been growing at a faster rate than Europe, due to strong consumer demand for luxury products and a background of strong macro-economic growth.

While we anticipate that the strong growth experienced in the first quarter of 2006 will slow slightly during the rest of the year, we are forecasting strong growth of 11% for 2006. We expect growth to slow in 2007, but looking at the longer-term trend we forecast that the market will grow by approximately a third in the period to 2010.

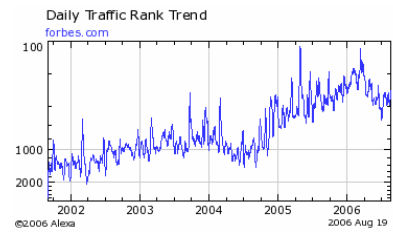
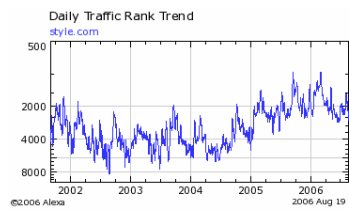
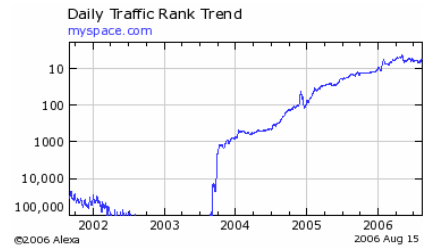
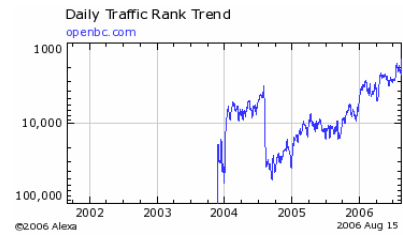
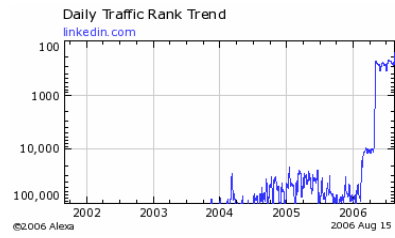
6.10.1 Global luxury goods market: Estimated value breakdown by region, 2005

Region	2005 sales (€bn, excl. sales tax)	2005 sales (\$bn, excl. sales tax)
Europe	25.7	32.2
North America	18.9	23.6
Asia-Pacific	22.7	28.3
Other	2.7	3.4
Total	70.0	87.5

NB: Totals may not sum due to rounding

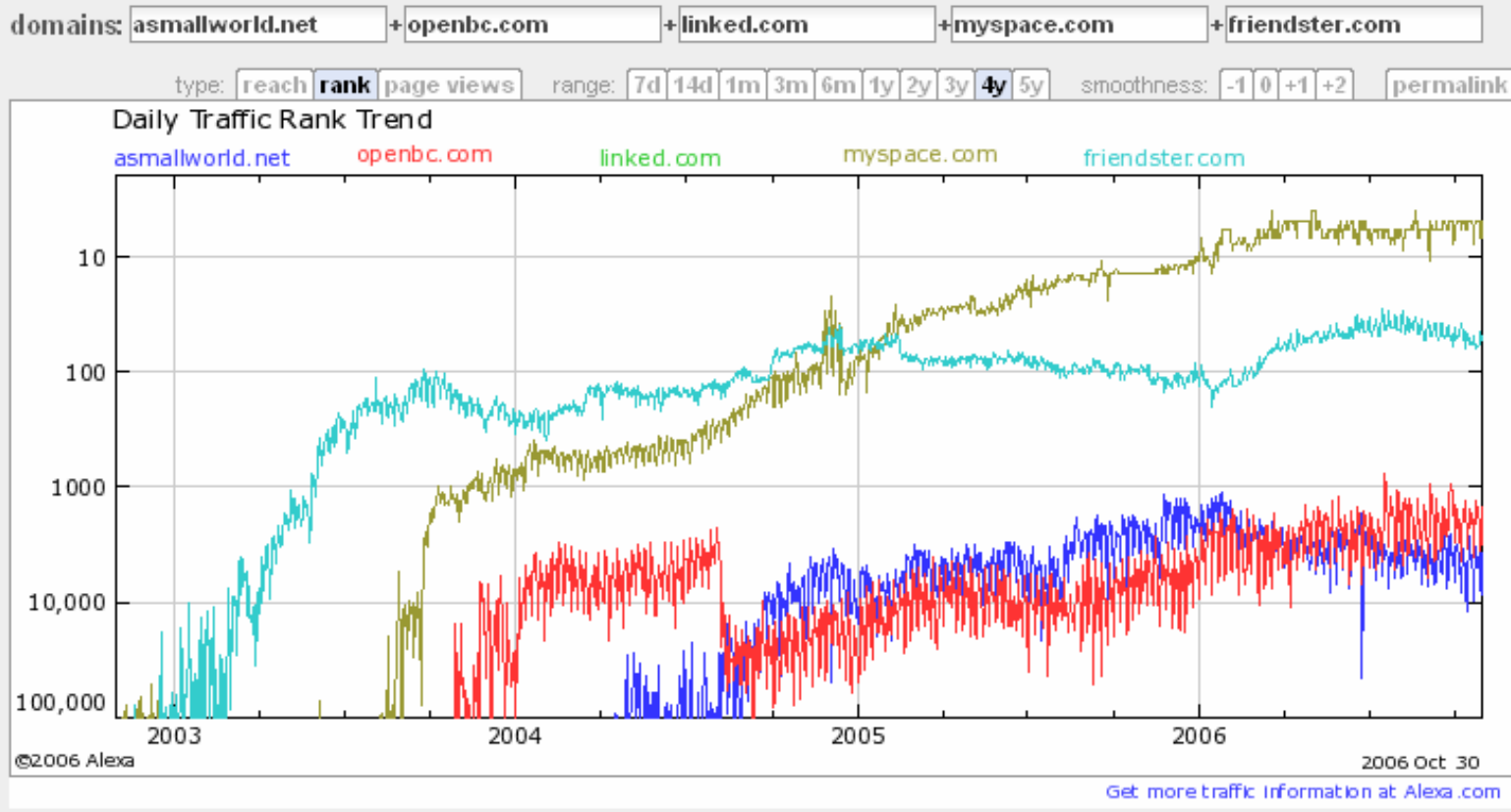
Source: Mintel 2007

6.11 Exhibit: Development of Traffic in Online Communities



source: <http://www.alexa.com>, Alexa web search

website traffic graphs comparing asmallworld.net, openbc.com, linked.com, myspace.com and friendster.com

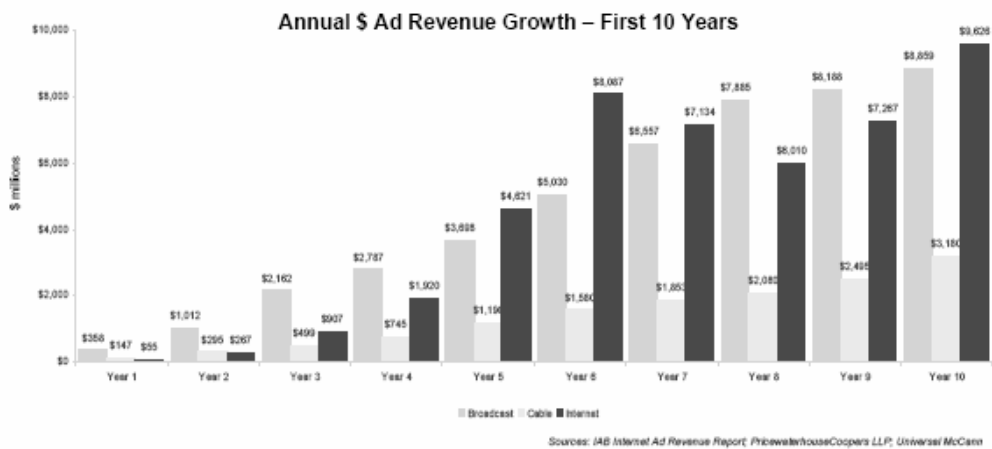


source: <http://www.alexaholic.com/asmallworld.net+openbc.com+linked.com+myspace.com+friendster.com>

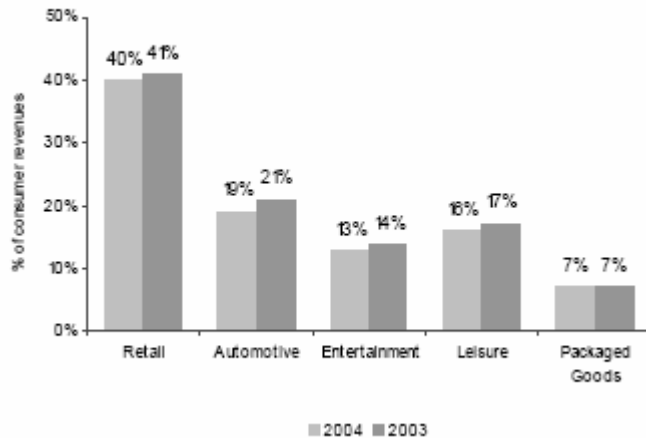
6.12 Exhibit: Web-based Advertisement in the U.S. between 1999 and 2004

Initial Year Growth Comparisons – Internet Advertising vs. Broadcast and Cable Television

- The first 10 years of Internet Advertising (1995-2004) were charted against broadcast television (1949-1958) and cable television (1980-1989), presented in current dollars.
- Internet advertising revenues surpassed cable television revenues in its third year of growth, and broadcast television revenues in its fifth year of growth. Internet dipped below broadcast television in years eight and nine, and surpassed it again in year 10.



2004 Full Year vs. 2003 Full Year



Performance-Based Pricing Remains Strong

- Survey participants reported 46 percent of 2004 fourth-quarter revenues were priced on a performance basis (e.g., cost-per-click, sale, lead or straight revenue share), up from 41 percent for the same period in 2003.
- Approximately 38 percent of 2004 fourth-quarter revenues were priced on a CPM or impression basis (includes sponsorships), down slightly from 40 percent reported for the fourth quarter of 2003.
- Approximately 16 percent of 2004 fourth-quarter revenues were priced on a hybrid basis, declining from the 19 percent reported for the same period in 2003.

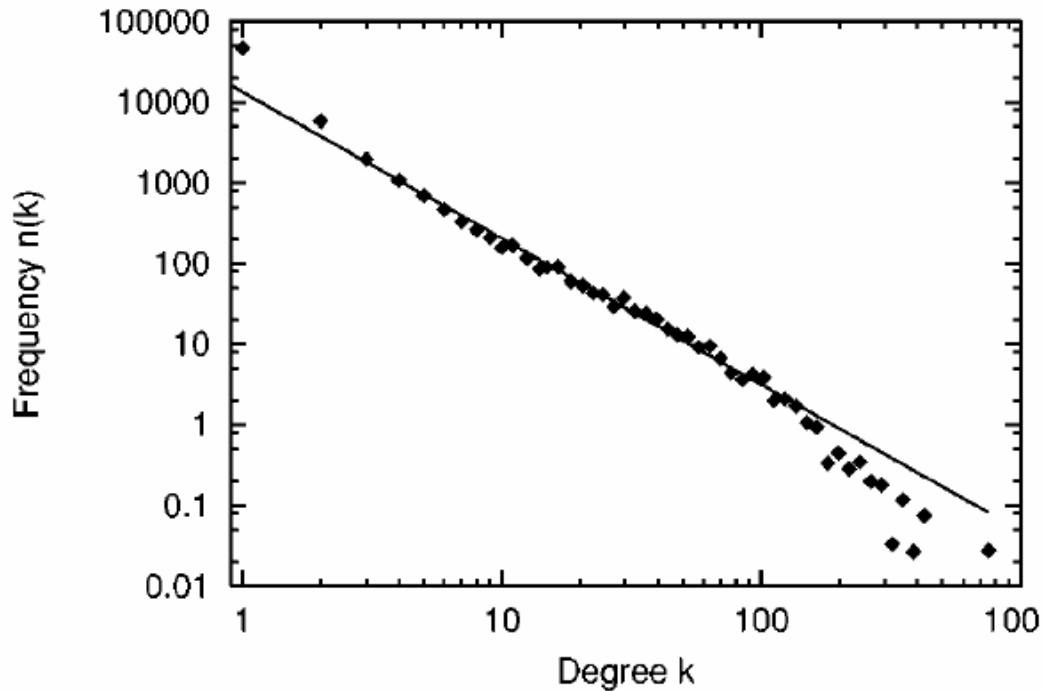
Internet Ad Revenues by Pricing Model



source: PriceWaterhouseCoopers, 2004, IAB Internet Advertising Revenue Report

6.13 Exhibit: Power Law in eMail Networks⁴

The curve describes a power law distribution of eMail exchange in an eMail network. The double logarithmic plot shows the number of eMail addresses which a node in the network exchanges eMails with. While “degree k ” represents the number of eMail addresses a network node exchanges eMails with, Frequency $n(k)$ accounts for the number of nodes that exchange eMails with a specific amount of network nodes.



The graph depicts the typical behavior of members in an online community network. It shows that a few members produce most of the eMails, while most of the members write only a few eMails.

⁴ <http://prola.aps.org.ezp1.harvard.edu/pdf/PRE/v66/i3/e035103>