An Assessment of Social Media Business Models and Strategic Implications for Future Implementation

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Abstract
This paper examines the growth of social media, their usage and value creation with future implications. A review of current social media models and relevant academic literature, supported by interviews with leading social media executives and thought leaders for this paper, shows broad diversity of categories, players and applications.

The paper examines the main categories, business models and usage by different players (social networks, advertisers/brands, businesses), drawing on early industry examples, including those that have failed.

The industry interviews and review of the scholarship on e-business models bring out key themes in social media business models and future directions, and provide different perspectives on what constitutes value in social media. Based on these insights, the paper attempts to assess what value has been created by/to different industry constituents to date.

Key technology, media and organizational (TMO) shifts shaping the industry are analysed and implications drawn for the future of the industry, player strategies, business models and value creation.

The paper concludes that scale, learning, differentiation, (open) innovation and complementary players/resources are critical to sustaining competitive advantage, and will drive sector realignment/consolidation, including across sectors (e.g. social media/mobile). The key threats to current (mainly advertising-based) business models come from monetization challenges and potential user backlash on data privacy issues, which may be fatal for some.

With scale a critical competitive differentiator, the big players will likely get bigger and the small acquired. However, the industry can ultimately only accommodate a few big platform players. Winners will be those who do not only build size but also respond to user needs for ‘global’ connectivity, by offering gateways to other platforms, and take a broader view of value creation than purely short-term financial metrics, as today’s social media space, intrinsically linked with advertising, morphs into a social web which offers much wider value.
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3 List of Abbreviations

Application Programming Interfaces (APIs)
Average Revenue Per User (ARPU)
Corporate Social Responsibility (CSR)
Initial Public Offering (IPO)
Intellectual Property (IP)
Instant messaging (IM)
Resource-Based View (RBV)
Return on Investment (ROI)
Technology, Market, Organisational (TMO)
User-Generated Content (UGC)
User Interface (UI)
4 Discussion

4.1 Introduction

Not long ago, social media were viewed as a phase. Not anymore. The world is being transformed by these new collaborative technologies, which have created a participatory society and new business models on an unimaginable scale.

Over the last decade, social networks have changed communications from one-to-one to many-to-many, shifting the way we consume, produce and interact with information, based on explosive migration to the web. First, we had Directories, then Search, then User-Generated Content (UGC) and now Social Media. Facebook now drives more traffic to websites than Google, shifting the way brands approach online marketing and customer communications.

Facebook has attracted 500 million users worldwide in six years. Twitter has clocked up over 100 million users in four. The ‘Twitter Revolution’ fundamentally changed Iran’s disputed 2009 presidential election. Social media have been credited with winning Barack Obama the 2008 US Presidential election and played a key role in the UK 2010 General Election.

Forrester predicts that the Internet population will hit 2.2 billion people by 2013, a 5-year growth rate of ~45%, and equivalent to nearly 1/3 of the world’s population by then.

Based on the growth of social media to date, soon everything we do on the Web will integrate with our ‘social graph’ from social networking to brand/public communications and business processes.

With mobile internet ramping faster than desktop internet did, growth of Smart devices (iPhone, iPad, Blackberry, Android) and mobile web applications, social media is also strengthening its grip on mobile. Facebook has more than 100m mobile users every month and over half of mobile Internet time today is spent on social networks.

Whilst the future of social media is undisputed, a key question often asked is what value has been created from social media business models to date.

The paper addresses this question in three parts:

1. What categories of social media business models are in use today?
2. What value has been created by which categories and models?
3. What are the key Technology, Market, and Organisational (TMO) shifts shaping the industry, player strategies and business models with implications for the future?

4.2 Research Approach

The paper is based on the following approach:

- application of frameworks and models from the Diploma Course in Advanced Strategy, University of Oxford (Said) Business School (e.g. Porter’s Five Forces; Value-Net Approach; Game Theory; Resource-Based View (RBV); (Open) Technology Innovation, TMO Framework etc);
- a review of relevant academic literature on e-business models;
- where no academic literature exists, a review of relevant (reliable) websites;
- interviews with senior executives at Facebook, Twitter, Vodafone, BSKYB, Boardreader, Blue State Digital (Barack Obama’s Presidential Campaign Digital Media Agency) and industry thought leaders, e.g. the Social Media Influence (SMI);
- ad hoc discussions with social media executives from Starbucks, PepsiCo, Sony, Dell, Nokia, Marks & Spencer and (formerly) Friends Reunited;
- a quantitative and qualitative analysis of available data to assess the value created by different social media models and constituents.
4.3 **What is Social Networking?**

A social network is a social graph made up of individuals tied to each other by commonality (friendship, common interest, likes/dislikes etc). Social networking sites are designed to create communities of people online, building upon that commonality.

Web-based social networking spaces generally offer individuals or groups ways to create personal profiles and share those profiles and status updates with other members of the space. Most sites also enable users to communicate with others in the space through Instant Messaging (IM), chat rooms, e-mail/site mail, blogs, content sharing, discussion groups etc.

Social networking on the Internet is both old and new. Initially, people used the Internet to communicate with or send pictures or post messages to each other in a public forum. In recent years, social networks have become more commercial and user-friendly. For instance, instead of just posting messages and pictures to essentially large servers, social networks are now allowing users to create their own pages, and give them tools to personalize and manipulate how the pages look according to personal preferences.

4.4 **What is Social Media?**

Social media is not limited to social networks. The industry uses the term to describe the general phenomenon of many-to-many communications on the web used by different players in different ways, including to communicate and build relationships, distribute and share content, connect with customers and prospects, gather customer insights, sell products, provide customer service or collaborate with employees or business partners.

4.5 **Key Insights from Interviews**

Many of the themes and ideas examined in this paper are based on interviews and discussions with the social media executives and thought leaders from some of the world’s leading brands listed in Table 1 below.

The interviewees are representative of the broad spectrum of important players within the industry. See Table 1 for interviewee names, roles, organisations and interview duration.

---

**Table 1: Social Media Executives and Thought Leaders Interviewees**

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Role</th>
<th>Organisation</th>
<th>Interview Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernhard Warner</td>
<td>Director</td>
<td>Social Media Influence, UK</td>
<td>1 hour</td>
</tr>
<tr>
<td>Blake Chandlee</td>
<td>VP Sales and Commercial Director</td>
<td>Facebook</td>
<td>2 hours</td>
</tr>
<tr>
<td>Bob Rapp</td>
<td>(former) Head of User Communities</td>
<td>Vodafone Group</td>
<td>1 hour</td>
</tr>
<tr>
<td>David Marutik</td>
<td>User Community Ambassador</td>
<td>Vodafone Group</td>
<td>1 hour</td>
</tr>
<tr>
<td>Maz Nadjm</td>
<td>Head of User Communities</td>
<td>BSKYB</td>
<td>1 hour</td>
</tr>
<tr>
<td>Confidential</td>
<td>Director</td>
<td>Twitter</td>
<td>45 mins</td>
</tr>
<tr>
<td>Steve Dodd</td>
<td>VP Business Development</td>
<td>Effyis/ Boardreader</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>Thomas Gensemer</td>
<td>MD</td>
<td>Blue State Digital</td>
<td>1 hour</td>
</tr>
</tbody>
</table>

**Ad hoc discussions:**

- Adam Brown: Director of Interactive Marketing Communications, Dell
- Alexandra Wheeler: Digital Director, Starbucks
- B.Bonin Bough: Head of Social Media, PepsiCo
- Rob Mogford: Ex-CFO, Friends Reunited
- Ruth Speakman: Head of Consumer PR & Social Media, Sony Europe
The interviews were based on a common, pre-defined questionnaire, which sought to define the main social media categories and business models, industry trends, sources of value creation and key TMO shifts with implications for the future direction of the industry, players and business models. The interview findings have been analysed against the questionnaire and category definitions resulting from the interviews (Table 3) and implications drawn. Table 2 summarises the main interview findings.

### Table 2: Summary Industry Findings Based on Interviews Conducted

<table>
<thead>
<tr>
<th>Category</th>
<th>Vodafone</th>
<th>Facebook</th>
<th>SMI</th>
<th>Boardreader</th>
<th>BSKYB</th>
<th>Blue State Digital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Media (SM) Space –</td>
<td>Space blurring. Social rules apply to each category</td>
<td>Social media is general term but many categories</td>
<td>Increasing focus on relevance</td>
<td>Not covered</td>
<td>Too many players doing the same things</td>
<td></td>
</tr>
<tr>
<td>Business Models</td>
<td>Mainly advertising (Not Vodafone). Evolving fast</td>
<td>Mainly advertising but many models, incl. revenue</td>
<td>Mainly advertising. Many players using SM for CSR</td>
<td>Advertising but no distinct business models</td>
<td>First traffic, then money. Space moving fast</td>
<td>Advertising main model but under-performing re social context</td>
</tr>
<tr>
<td>Key Trends/Shifts</td>
<td>Measurability</td>
<td>Performance Measurement</td>
<td>Measurability</td>
<td>Measurability (aim is ‘quick buck’)</td>
<td>Simplicity, user experience</td>
<td>Measurability</td>
</tr>
<tr>
<td>User privacy (ref Facebook issues)</td>
<td>User privacy concerns</td>
<td>SM almost perverted by ROI focus</td>
<td>User privacy</td>
<td>User privacy (player handling improving)</td>
<td>User privacy (some users are hyper-sensitive)</td>
<td></td>
</tr>
<tr>
<td>False positives problem: friends do not equal influence</td>
<td>Importance of scale and functionality.</td>
<td>SM can impact a number of areas if done well</td>
<td>More to SM than ads. Pure ad focus loses some value</td>
<td>Users paying for apps they would not pay for online</td>
<td>More interest in people</td>
<td></td>
</tr>
<tr>
<td>Key shift is opening of APIs</td>
<td>Biggest shift is opening of APIs</td>
<td>SM starting to impact brand value</td>
<td>SM fuses all business areas</td>
<td>Real-time becoming more prominent</td>
<td>Usability of smart phones</td>
<td></td>
</tr>
<tr>
<td>SM is cluttered with news stuff.</td>
<td>Need to balance short/long term goals</td>
<td>Bus model change; social context, data</td>
<td>SM integrating into business models</td>
<td>Balance between subscriber models/content is “free” belief</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SM/Mobile</td>
<td>Multiple models/players but no ‘global’ connectivity, (+regionalisation of players)</td>
<td>Over 50% of user time on mobile is on SM. FB has 100m mobile users/day</td>
<td>Not covered</td>
<td>Another but important channel since next data path. Will evolve what is happening today</td>
<td>Location, presence and mobile web replace need for PCs</td>
<td>Mobile is complementary - reinforced online Obama campaign. Struggling with ad model. Smart devices will change things</td>
</tr>
<tr>
<td>Value Creation</td>
<td>Vodafone 360: revenues + better customer service via Twitter. Future source: multiple conversations with many</td>
<td>Mainly ads + some payment revenues. Everything social will win. Developers are key to FB value creation (Figure 4)</td>
<td>Get beyond campaign thinking and ROI focus. Craft full SM strategy. New way of thinking</td>
<td>Measurable top line is sales and ad revenue. Unclear what else - may not have been measured. Value of social web</td>
<td>Connections but tough to measure</td>
<td>Traffic; product sales; content proliferation; ad revenues</td>
</tr>
<tr>
<td>Implications</td>
<td>More connections, potential privacy backlash, some business models (ads) replicable. Others not (content is “free”). Consolidation.</td>
<td>Scale is key; shift to transactional models and ad-networks; Consolidation invol. in mobile.</td>
<td>Value of SM is starting to impact brand value.</td>
<td>SM impact how brands deal with customers. Need to define what value is. Value proposition of social web is wider than SM.</td>
<td>Will iPad change attitude that all is free? Business model implications</td>
<td>Consolidation; hybrid business models; bigger role for mobile but can mobile make money?</td>
</tr>
</tbody>
</table>
A key observation from (Table 2) is the high degree of consistency of interviewee responses as regards definitions of categories, business models, industry trends, evolution of business models (more measurable and transactional formats) and the industry at large (consolidation). Conversely, there is an interesting dichotomy between players increasingly expecting social media value to be transactionally based (Facebook) versus those who argue that value in social media comes from longer term connections with users, with associated indirect benefits but which cannot easily be measured by traditional, short-term business metrics (SMI, Boar-dreader). This divergence probably reflects the differences in the organisations interviewed.

4.6 Overview of Social Media Categories

The Facebook interview stressed that “today, we talk about social media but in reality, there are different categories”9. Table 3 summarises the main categories based on the interviews:

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition</th>
<th>Examples</th>
<th>Goal</th>
<th>Primary Activities</th>
<th>Business model</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Social network</td>
<td>Web-based social network</td>
<td>Facebook, hi5, Friendster</td>
<td>Connect/share with friends/ family</td>
<td>Profiling, status updates, connecting/sharing, commenting, brief conversations</td>
<td>Mainly ad-based, some payment revenue</td>
</tr>
<tr>
<td>2. Professional network</td>
<td>Online professional network</td>
<td>Linkedin, Plaxo</td>
<td>Connect with and manage professional contacts</td>
<td>Build new contacts, career opportunities, get back in touch</td>
<td>Free-to-use, payment for premium services</td>
</tr>
<tr>
<td>3. Content aggregator</td>
<td>Social network focused on content sharing</td>
<td>flickr, bebo, myspace</td>
<td>Connect users and (ad) content</td>
<td>Create profiles, connect with friends, distribute/share/view photos, video, music, links to other websites</td>
<td>Advertising, e.g. Bebo sponsored links (likely to change)</td>
</tr>
<tr>
<td>4. Blogs (“weblog”, incl. RSS feeds)</td>
<td>Personal home page in diary format</td>
<td>Gawker, Blogger, Xanga</td>
<td>Provide commentary on a subject</td>
<td>Commenting</td>
<td>Advertising (mainly sponsored links)</td>
</tr>
<tr>
<td>5. Microblogging</td>
<td>Hybrid between social networks and blogs</td>
<td>Twitter, Facebook, Friendfeed, Jaiku, Alexa, Plurk</td>
<td>Keep in touch with friends</td>
<td>Sharing of short messages and status updates, e.g. Twitter ‘Tweets’ – text based posts up to 140 characters</td>
<td>Mainly advertising e.g. Twitter sponsored Tweets</td>
</tr>
<tr>
<td>6. Social networks on mobile</td>
<td>Social networks on-the-go</td>
<td>Facebook, Twitter, Myspace, Vodafone 360, Brand apps</td>
<td>Connect with friends ‘on the go’</td>
<td>Connecting anywhere, anytime</td>
<td>Various, e.g. ad-based, free-to-use</td>
</tr>
<tr>
<td>7. Brand community (online, mobile)</td>
<td>Real-time Brand engagement</td>
<td>Coca-Cola, PepsiCo, Starbucks, Sony Europe, Dell, Kodak, Webkidz</td>
<td>Brand awareness, sales, real-time feedback/ customer service, CRS etc.</td>
<td>Product ratings, message boards, ‘social CRM’, photo sharing, ideas for new product development</td>
<td>Various, incl. advertising, payment for services, free-to-use</td>
</tr>
<tr>
<td>8. Internal community</td>
<td>Internal business community</td>
<td>IBM, HP, Caterpillar</td>
<td>Collaboration, knowledge sharing</td>
<td>Networking, knowledge sharing, collaboration</td>
<td>N/A</td>
</tr>
<tr>
<td>9. User-generated content, other</td>
<td>UGC, video-sharing sites, online news sites, own-branded sites (like communities without the discussion)</td>
<td>YouTube, Ning, Digg</td>
<td>Content sharing (e.g. YouTube), news/story sharing (e.g. digg, com); own branded sites: users created social network (e.g. Ning)</td>
<td>As goals</td>
<td>Advertising (Ning moving to premium services model)</td>
</tr>
</tbody>
</table>
The categories and players in Table 3 are vying for position with other Web 2.0 players, including internet search giants Google, MSN and Yahoo; e-commerce platforms like Amazon and device makers like Apple, RIM, Microsoft, Nokia and Samsung, increasingly present online. These players have also integrated social media into their ‘smart’ devices. The space is hotly contested. The battle is about user reach, engagement, influence and - increasingly - monetization.

“Categories are blurring and the space is getting fuzzier” (Vodafone interview). Recent years’ mergers between AOL/Bebo (now de-merged); NewsCorp/MySpace.com and Google/YouTube illustrate the point. However, “social rules still apply to each category with implications for business models” (Facebook interview).

4.7 Social Media Business – and Revenue Models

Social media business models are different to traditional models and ever changing. As Table 2 showed, advertising is the main revenue model. However, there are many sub-models (“everyone is playing with advertising but none have distinct business models as yet – probably as they have not fleshed out user requirements”, Boardreader interview).

Table 4 summarises the primary traditional and emerging models, according to the interviews:

Table 4 highlights the trend towards more measurable and creative formats in response to monetization pressures. It also shows that leading players like Facebook and Linked-in are starting to move away from 100% reliance on advertising, e.g. Facebook has added user payments for ‘virtual gifts’ and ‘social gaming’ applications to their revenue models, while Linked-in earns additional revenues from user payment for premium services.

The key question is what business – and revenue model(s) have the greatest potential to build sustainable competitive advantage (Porter, 1980) in an increasingly crowded space?

Before we examine that question in more detail, let us consider some early industry examples, including some that have failed, to get some insight into the sources of success (survival) versus failure in the industry, hence what today’s players can learn about the key requirements for a successful business strategy and model going forward.

4.8 Lessons From The Past

One of the earliest social networking sites was SixDegrees.com, launched in 1997, starting the trend of users creating personal profiles and making lists of friends. Six.Degrees.com grew to over one million members but sold its patent to Youthstream Media Networks which later sold it as it was not being used.

LiveJournal launched in 1999 offering users to add friends to their profiles, and grew to 5.5m users but struggled to monetize its open source, subscription based platform so was sold to Blog company ‘Six Apart’ in 2005 but never took off.

Friendster launched in 2002 but failed to scale and lost traffic to newly launched Myspace.com, which did not require membership and offered a richer media proposition. Friendster recovered and grew to 90m users, 90% of whom were in Asia, so was sold to Malaysian MOL Global in 2009. MOL has since struck a deal with Yahoo to integrate product features and cross-promote across both platforms.
<table>
<thead>
<tr>
<th>Definition</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Display advertising</strong> (e.g. banner advertising)</td>
<td>Traditional brand exposure model. Becoming more targeted but less dominant with monetization pressures (e.g. Facebook did not renew banner ad deal with Microsoft)</td>
</tr>
<tr>
<td><strong>Branding within applications</strong></td>
<td>Brands pay application developers for exposure within their applications (e.g. newsfeeds or shopping apps on Facebook/ Twitter). More measurable and lucrative than banner ads and user experience is different (user is not inundated with ads).</td>
</tr>
<tr>
<td><strong>Sponsored Tweets</strong></td>
<td>'Sponsored Tweets' is Twitter's new revenue model: when a user searches on a word, a message appears at the top of the list of tweets returned. The message is “sponsored” (bought) by an advertiser. The tweets returned by the search are continually updated, but the sponsored tweet stays on top highlighted in yellow, e.g. a search for “coffee” produced this promoted tweet by Starbucks:</td>
</tr>
<tr>
<td><strong>Virtual currency</strong></td>
<td>Users and brands use ‘real money’ to buy virtual currencies to spend online (on advertising, goods, resp.) e.g. ‘Facebook Credits’ (purchased via credit cards, PayPal or mobile phone). Virtual currencies are growing fast in gaming and social applications, providing sizeable opportunities for developers/platforms.</td>
</tr>
<tr>
<td><strong>Virtual gifts</strong></td>
<td>Virtual gifts (see image) have become a $1 billion industry in the U.S. and $5 billion worldwide, and are extremely popular in South-East Asia. Virtual gifts are viewed as the next big social media revenue model (Facebook interview).</td>
</tr>
<tr>
<td><strong>Social gaming</strong></td>
<td>Social games are paid-for, multi-player games with contextual rules (take turns). Social games are becoming one of the most popular categories of apps on Facebook and viewed as a huge opportunity for developers/platforms.</td>
</tr>
<tr>
<td><strong>Hybrid models</strong></td>
<td>Hybrid business models combine different models, e.g. free-to-use (ad-supported) with payment for premium services, e.g. LinkedIn.</td>
</tr>
</tbody>
</table>
**Friends Reunited** - an early incarnation of social networking as we know it today – was launched in the UK in 2000 to connect old school friends. Friends Reunited grew to 15m users in 2005, about 50% of UK adult internet users then, having launched outside the UK and expanded users and services to include sports teams, clubs and associations, message boards, dating, job searches and a family tree service through Genes Reunited. Friends Reunited was bought by ITV for £175m in 2005 but ITV failed to develop it into the mass-media platform it had intended. So, users migrated to Facebook, MySpace and Twitter and Friends Reunited was sold to Brightsolid, owned by DC Thomson, in 2009. It has since been repositioned as a genealogy business.

**MySpace.com** launched in 2003 but did not reach critical mass until 2004 when it changed its rules to allow teenagers to join. MySpace was acquired by News Corporation in 2005 and became the most popular social network in the US in 2006. Today, MySpace.com has been overtaken internationally by Facebook and Twitter, despite a late attempt to revive its fortunes through increasing focus on music, arts and publishing (giving it more of a portal flavour than a social network), viewed by many as niche. Most recently, MySpace.com has added links to Facebook and Twitter to its functionality to improve its appeal. However, its future is uncertain and MySpace.com is rumoured to be up for sale, despite NewsCorp’s claims to the contrary.

**Bebo** (‘blog early, blog often’) launched in 2005 and within 12 months, had 21.4m users worldwide. Bebo was acquired by AOL for $850m in 2008 but has struggled to compete effectively against rivals such as Facebook – in the UK user numbers have fallen from 5.8m in 2008 to 1.8m in 2010. After only two years, AOL has sold Bebo to Criterion Capital Partners, a small private investment firm for an undisclosed sum. Criterion’s plans for Bebo are unclear. However, they are believed to see business potential in Bebo as a media platform, based on its user base, worldwide presence, revenue history and infrastructure.

What went wrong? And how does a network that once had over 40m users decline so rapidly? Industry rumours suggest that AOL misjudged what it was buying, believing it was getting a platform with broad appeal like Facebook, rather than a platform for teenagers.

Bebo has also been criticised for lack of technology focus/innovation and having too many vice presidents and not enough developers, in contrast to the engineering cultures of MySpace, Twitter and Facebook – resulting in its failure to offer anything new to the audience that grew up and migrated to Facebook.

When **Ning** announced staff cuts and the closure of its “free” service in April 2010, some questioned whether a crisis is under way in social media or simply an inevitable process of rationalisation with the latest entrants learning and excelling from the mistakes made by the pioneers?

Amongst Brand Communities, ‘**The Hub**’ - Walmart’s attempt at social networking for teens is an infamous example of failure. The need for teens to get permission from their parents to register on the site resulted in many fake profiles, and was widely blamed for its failure, reinforced by unstructured adverts, which cluttered user profiles.

Table 5 compares some of the early social media failures and their potential sources:

<table>
<thead>
<tr>
<th>Network</th>
<th>Potential Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends Reunited</td>
<td>Insufficient focus/innovation, too many vice presidents, not enough developers</td>
</tr>
<tr>
<td>MySpace.com</td>
<td>Too much focus on music, arts and publishing, not enough focus on social networking</td>
</tr>
<tr>
<td>Bebo</td>
<td>Failed to compete effectively against Facebook</td>
</tr>
<tr>
<td>Ning</td>
<td>Poor understanding of the audience, failed to gain permission from parents</td>
</tr>
</tbody>
</table>

So where did the examples in the table go wrong? Do they have anything in common?

Certainly, all the players lacked a clear, compelling value proposition and failed to build or retain critical mass. In the cases of Friends Reunited, MySpace, com and Bebo, users migrated to competing platforms, reinforced by lack of (product) innovation to keep users engaged and non-monetizable business models.
Table 5: Comparison of Social Media Sites That Have Failed

<table>
<thead>
<tr>
<th>Social Media</th>
<th>Potential Source of Failure</th>
<th>Value Proposition</th>
<th>Critical mass/scale</th>
<th>Business Model</th>
<th>Technology</th>
<th>Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live Journal</td>
<td></td>
<td>Unclear value proposition</td>
<td>Failed to build critical mass</td>
<td>Struggled to monetize platform</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friends Reunited</td>
<td></td>
<td>Ceased to offer compelling value proposition</td>
<td>Users migrated to Facebook, MySpace and Twitter</td>
<td>Failed to monetise fee-paying audience – when perceived value to users ran out, people stopped paying and left</td>
<td>Failed to turn closed proprietary platform into intended mass-media platform</td>
<td>Lack of product innovation, low-fi site design/functionality and design of system</td>
</tr>
<tr>
<td>MySpace</td>
<td></td>
<td>Lack of compelling value proposition despite late attempts to introduce music/arts and links to other social networks</td>
<td>Attrition to Facebook. Lack of Global expansion (69.2% of users are from the US (compared to Facebook’s 30%))</td>
<td>Unattractive ads</td>
<td>(Open Model)</td>
<td>Lack of innovation – MySpace has been accused of imitating Facebook, rather than investing in new product innovation</td>
</tr>
<tr>
<td>Bebo</td>
<td></td>
<td>AOL misunderstood Bebo audience and failed to offer compelling value proposition</td>
<td>Users migrated to Facebook, which has broader audience appeal than just teenagers</td>
<td>Failed to monetise young audience (13-24 year olds) through ad-based model</td>
<td>(Open Media Platform)</td>
<td>Lack of product innovation and failure to respond to user needs</td>
</tr>
<tr>
<td>Wal Mart’s “The Hub”</td>
<td></td>
<td>Lacked clear value proposition and had unattractive rules</td>
<td>Failed to attract target audience due to lack of value proposition and unattractive rules</td>
<td>Ad-funded model; myriad of in-your face adverts cluttered user profiles</td>
<td>N/A only existed for a few months</td>
<td>N/A only existed for a few months</td>
</tr>
</tbody>
</table>
Lessons for today’s players are:

- know your audience;
- have a clear purpose;
- offer a crisp, differentiated value proposition to match the needs of your target audience, supported by:
  - an appropriate set of rules for that audience, which at once protect and provide freedom for them, backed by:
  - a suitable business model that can be monetised;
  - continuous technology and product innovation;
  - an easy-to-use, executable and scalable technology platform.

With the benefit of some of that hindsight, Facebook was founded in 2004 (but launched publicly in 2006) and has grown to become the world’s largest social network (Facebook interview). A number of companies including Friendster, Yahoo and Viacom have tried to acquire Facebook, which remains private, although Microsoft took a 1.6% stake ($240m) in 2007, valuing the site at $15bn.

Twitter launched in July 2006. Today, it is a 100m user business valued at $1bn. Facebook attempted to acquire Twitter in November 2009 for $500m.

The key issue for Facebook and Twitter is whether they can sustain their growth AND capture value from it, or whether they will suffer the same fate as the players in Table 5 (for the same reasons)?

Or perhaps the bigger question is whether social networking as we know it today will eventually be killed off by the next ‘disruptive innovation’ or ‘wave of creative destruction’ as social media have (partly) done to traditional (online) communications, and as has happened to many other industries before, which have failed to spot the next wave of disruptive innovation (e.g. Kodak’s failure to spot the move to digital photography).

In the meantime, if Bebo and MySpace go down as the latest examples of an over-hyped social media boom, rumours abound that Facebook is eyeing an Initial Public Offering (IPO), which could value the company at as much as £65 billion. If the IPO does materialise, the flotation would mark one of the biggest technology flotations in recent years. By comparison, Google was valued at £15bn when it listed in 2004.

Then, the question becomes what (innovation) is keeping Facebook – and perhaps Twitter – afloat that others before them have failed to grasp?

I return to these questions below but first, let me examine what the literature on e-business models can add to the lessons learnt from the early industry examples:

### 4.9 Key Themes from the Literature On e-Business Models and Implications for Social Media

#### Theme 1: There is no agreed definition of business models and the impact of the internet

The dot.com bubble and subsequent burst (~2001) reignited the debate on business models, why they matter and the impact of the Internet. However, there is still no generally accepted definition of a business model (Shafer et al. (2005); Osterwalder et al. (2001); Osterwalder, Pigneur, Tucci (2005); Petrovic et al. (2001).

A review of the business model literature (Shafer et al. (2005); Magretta (2002); Linder & Canttrell (2000)) suggests that business models describe how firms create AND capture value. Both are important - players like Yahoo in the early days provide painful reminders of web businesses creating value without capturing it (Osterwalder et al. (2005)).

Afuah and Tuccci (2001) note that “a firm’s business model is critical to its ability to gain and maintain a competitive advantage”, (p73). Finally, Magretta observes that business models should answer the questions:
1. Who is the customer and what does the customer value?

2. How can the business deliver value to customers at an appropriate cost, i.e. so that it offers customers value and profits in the process of doing so.

Table 6 applies the Customer-Value-Profit framework\(^{31}\) to the main social media categories from Table 3:

What does Table 6 tell us about value creation in social media? Let us turn to Theme 2:

**Theme 2: Too many players offering the same products to the same users with identical business models**

Table 6 suggests that all the categories target roughly the same customers\(^{32}\) - Linked-in targets users in a professional capacity, while others 'skew younger demographics', e.g. Bebo, MySpace (Facebook interview).

These customers, in turn, share roughly the same values – connecting and sharing with friends/family/business professionals/other customers, which players respond to by offering connectivity. Players in turn seek to create and capture value mainly through ad revenues, as we have seen. By implication, there is little to differentiate players or value propositions.

In contrast, Magretta (2002) argues that to be successful, businesses must aim to have a better way of creating, delivering and capturing value than the competition, either because it offers more value to a specific customer segment or replaces an old way of doing something with a new type of business model. Shafer et al. (2005) add that "successful firms create substantial value by doing things in ways that differentiate them from the competition", (p.4).

### Table 6: Customer-Value-Profit Paradigm Applied to Current Social Media Models

<table>
<thead>
<tr>
<th>Social Networks/Communities – e.g. Facebook</th>
<th>Who is the Customer?</th>
<th>What does the customer value?</th>
<th>How does the business make money (profit)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>End users – all demographics</td>
<td>Connections and sharing with friends/family</td>
<td>Mainly ad revenues + sale of product/services</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business/Professional Networks – e.g. Linked-in</th>
<th>Who is the Customer?</th>
<th>What does the customer value?</th>
<th>How does the business make money (profit)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business/Professional Users</td>
<td>Connections with other business professionals, job opportunities, access to expertise etc</td>
<td>Hybrid model: Ad revenues + Subscriptions revenue – premium services</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Content Aggregators – e.g. Bebo/Myspace</th>
<th>Who is the Customer?</th>
<th>What does the customer value?</th>
<th>How does the business make money (profit)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>End users – skews young demographics (bebo: 13-16; myspace: 16-24)</td>
<td>Content Sharing with friends</td>
<td>Ad revenues</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Microblogs – e.g. Twitter</th>
<th>Who is the Customer?</th>
<th>What does the customer value?</th>
<th>How does the business make money (profit)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>End Users</td>
<td>Connecting and sharing with friends/family</td>
<td>Free to use + Ad Revenues (Sponsored Tweets on some search pages)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Brand Communities/Internal Communities</th>
<th>Who is the Customer?</th>
<th>What does the customer value?</th>
<th>How does the business make money (profit)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers/ influencers of the business; or if internal application, employees and/or businesses</td>
<td>Connecting with customers/Influencers</td>
<td>Revenue from sale of product (e.g. Dell), cost savings from web-enabled rather than contact centre-enabled customer service</td>
<td></td>
</tr>
</tbody>
</table>
Magretta (2002) also notes that too many fledgling internet retailers offering the same kinds of products with identical business models was a major cause of the dot.com crash.

By implication, the key question for today’s social media players is whether with roughly the same customer-value-profit paradigms, anyone can offer ‘a better way of creating, delivering and capturing value’ or ‘more value to a specific customer segment’ than the competition’?

**Theme 3: There are different approaches to creating a community dynamic**

MIG (a leading consultancy that has done interesting work with clients around customer engagement models) links with Boudreau & Lakhani (2009) in showing different ways of engaging with users.

MIG distinguishes between three basic models (see Figure 1):33

1) **The Broadcast Model (“We tell you”):** the traditional one-to-many, “push” model of communications, associated with traditional media (newspapers, magazines and broadcast TV) offers users ‘passive’ content consumption. The key threats to this model come from competition for ad revenues from new media, audience fragmentation and ‘free’ content on the Internet.

2) **The Interactive Model (“Tell me what you think of what we tell you”)** combines 1) with many-to-many communications, offering users an opportunity to comment on and provide ratings for the broadcast content, e.g. CNN.com, in return for better targeted advertising opportunities. The key threat to this model is competition from even more interactive formats (see below).

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**Figure 1: MIG Business Models**

![Diagram of MIG Business Models](image-url)
3) The Social Media Model (“Tell each other”): changes communications to ‘many-to-many’, offering users tools for active participation, content creation/sharing and a community of trusted co-creators, in return for high participation and loyalty; reduced content creation costs through increased scale, large audience sizes and user recommendations. The key threat to this model is uncertainty of (advertising) revenues and user privacy issues (see below).

By implication, social media players must select a model of customer interaction to match their business – and customer strategy and objectives. MIG link with:

b) Boudreau and Lakhani (2009) who stress the need for ‘Open Innovation’ to stimulate and commercialize new product ideas. The challenge is how to open up product development processes to outsiders, e.g. through external innovators organising themselves as:

- **collaborative communities** motivated by knowledge sharing/joint development (for free, as Apple developers did prior to Apple opening up its Application Programming Interfaces (APIs) or linux open-source software originally)?, or as

- **competitive markets** where profit-seeking innovators develop different products in competition with others for sale to customers on the open market.

Which model is ‘right’ depends on the type of innovation in question (new or established technology or customer needs); the motivations of external innovators – financial or collaborative; and the nature of the platform business model.

The business model is particularly important. Boudreau and Lakhani (2009) argue that when a company opens up its innovation to third parties, it essentially transforms its product into a platform, which needs to generate revenues, requiring players to consider what business model is best suited to meet that objective, either:

1) **Integrator platforms** which incorporate outside innovations and sell the final products to customers, which then grants them power over third party developments, revenue streams and the customer interface (e.g. Apple);

2) **Product platforms** which give platform owners less control as external innovators innovate “on top” of the platform and sell their products directly to customers. The platform owner might contract with the outside innovators and have some control over them through the core technology, but the outside innovators transact with end-users, set prices, own the Intellectual Property (IP) over technical developments etc (e.g. Intel Corp’s ‘Intel Inside’ microprocessor strategy); or

3) **Two-sided platforms** which have external innovators and customers transacting directly with one another, e.g. Facebook. The third party apps (widgets) might reside on a separate technical infrastructure, even though the interactions are enabled by e.g. the Facebook platform. Facebook also facilitates the transactions and interactions between the two parties. However, the third party innovators are free to determine the revenue model that best supports their investments, whether ad-supported or fee based. Nonetheless, the developers must abide by contractual and technical rules imposed by the platform (e.g. Facebook), such as determining the level of access to user information.

Applying Boudreau & Lakhani (2009) to the social media space, their models clearly resonate. Whereas most of the early social networks like Friendster and Friends Reunited were based on ‘closed innovation’, ‘walled garden’ platforms, all leading brands and services today from Gmail to Yahoo, Twitter, Bebo, MySpace, Apple and Facebook (to an extent) have embraced (semi-)open innovation models, exposing their APIs to software developers, enabling these to write ‘widgets’ directly to platform users.
Apple’s business model (starting with the iPod, iTunes etc) is one of the most interesting and successful examples of open innovation against Apple’s otherwise closed design philosophy. The iPhone, for instance, started life as a closed shop with only a few applications designed by Apple itself and a few trusted partners. In what proved to be a turning point, outside developers had spotted the opportunity around the iPhone and organized themselves into a web community to share tips on how to hack into the iPhone to create ‘missing’ applications. Before long, the community had written over 100 applications. Rather than attempt to kill them off, Apple decided to embrace them and created a formal, third party developer programme, giving developers the required tools, interfaces, licensing terms and revenue sharing models and adapting the technology to act as an exclusive distribution channel, thereby transforming what started out as a community into a centralized market place under Apple’s (tight) control. Thousands of external software developers and applications later, the iPhone (and now also the iPad) are transforming the lives of many, and creating a flourishing business ecosystem in the process.

An interviewee for this paper suggested that Facebook too was shocked at the number of applications it got when it opened up, compared to being a single source player.

What the Apple and Facebook examples show is not only that open innovation became the cornerstone of their success but also that innovation strategies evolve.

Theme 4: The value-net model

Hamel (2000); Brandenburger and Nalebuff (1995); Shafer et al. (2005) and others note that neither value creation nor value capture occurs in a vacuum but in a value-net of customers, suppliers and complementors (businesses whose products complement the products of other companies in the value net, by adding value to mutual customers), who work together to co-create value.

Osterwalder, Pigneur and Tucci (2005) observe that technology innovation, bandwidth and communication have made it easier for companies to work in value webs, by driving down coordination and transaction costs, unlike in traditional industrial economics, where firms worked alone and value creation meant turning inputs into outputs, which were then sold to customers.

Because value net players depend on each other for value creation, how they choose to play within their value net is an important part of their business model.

The value co-creation framework draws on Von Neuberg and Morgenstern’s work on Game Theory (Brandenburger and Nalebuff (1995)), which helps us think about ways in which players can shape the game they play, to ensure that it is the right game being played in the right way.

In social media, YouTube is an interesting example of value co-creation with users. Like many internet start-ups, YouTube did not have a viable business model at launch in 2005. Advertising was introduced in March 2006. In October 2006, Google acquired YouTube. Today, advertising is YouTube’s main revenue source, so attracting ‘eyeballs’ is YouTube’s primary objective. YouTube users know that their role is not purely as content viewers but very much as content creators, which lies at the heart of YouTube’s popularity and business model – and Google’s willingness to spend $1.6bn to acquire it. YouTube is also very careful to ensure that users understand its interactive strategy, giving them a sense of creating - rather than just acquiring - value. As such, YouTube became a pioneer and game changer on the Internet, in many ways re-writing the rules of competition by essentially re-configuring the roles and relationships of the different actors in its value net. See Figure 2.
Facebook and its complementors depend on each other to build value. Facebook also depends on users in a dual role as ‘prosumers’ - content producers AND consumers, along with other content creators.

The Facebook interview confirmed that Facebook thinks in very similar terms regarding its business model. Figure 4 illustrates Facebook’s two-sided business model.

**Theme 5: Innovators often fail to profit from their innovations**

Teece (1986) draws attention to empirical evidence (Rothaermel and Hill (2005)) which shows that core innovators often fail to profit from their innovations, while owners of complementary assets to support their commercialization benefit.

Facebook gives credence to Teece (1986) with its decision to take a 30% cut of developers’ Facebook Credits revenues (like Apple’s 30% levy to developers in the App Store).

The credits programme is still in beta but includes two of Facebook’s most important developers, social gaming developers Playfish and Zynga — two of the biggest players in the estimated $5 billion global virtual-goods market.

Facebook’s decision is unlikely to find favour with its developer community, which brings out a key point from Game Theory, namely that players should never assume that the other players in their ‘game’ will continue to play the game in the same way (see Theme 6).

Facebook’s announcement did not mention revenue collected on apps outside the credits system — like P&G’s Pampers’ and 1-800-Flowers’ commerce apps — though the virtual goods economy is much more developed. The latter illustrates Facebook’s interest in getting a cut of revenue collected in-house.
Figure 4: Facebook’s Business model: Two Different Businesses

1) Homepage
- Objective: Brand advertising revenue model
- Advertisers (Coke, Nike, Adidas) create brand engagement with 25m daily users (6 x reach of The Sun) in their social contexts
- Future: Strategic opportunity for Facebook is contextual engagement opportunity for brands on a very scalable platform

2) Auction-Online (AO) Model
- Objective: transactional model (self-service platform)
- ~ 15,000 advertisers auction for transaction-focused ads
- Trillions of ads
- ROI driven
- Competes against traditional internet advertising (search, display etc)
- Future: will add social context and engagement formats, e.g. ads served based on friends’ behaviour (Starbucks: bring a mug and get a free cup of coffee - your friends are doing it…’)

Feedback: like this/dislike this, why/why not
Future: HD Video – become a fan
ASUs (Ad space units)

Brand Awareness (top of funnel)
Transactional model
To Teece’s point, developing a platform is not enough, whereas being a place where goods are sold (e-commerce platform) could actually enhance the primary revenue strategy, (i.e. advertising) of many social media players, as adverts on the site will be closer to a potential purchase - moving it from being not just a marketing tool but also a sales tool. That way, it may also help prove how closely social media can be tied to sales. Did some say Amazon.com? The essence is that value net players must consider the value they bring to other players in their ecosystem as well as the value others can bring to them.

Theme 6: Business model innovation is a must

Theme 5 showed that an organization’s business model is never complete. Consequently, the process of making strategic choices and testing business models should be iterative.

Zott and Amit (2004), show empirical evidence that business model innovation matters to the performance of entrepreneurial firms. Their study shows that firms are not only able to innovate by recombining the resources they control but also by harnessing those of their partners, suppliers and customers, who are part of their business model. Fast forward a few years and there are signs of learning: Table 4 showed the trend towards more creative and measurable formats. Facebook Credits is one such example, enabling advertisers to buy adverts and users to buy goods through this virtual currency system powered by PayPal37. Marketers can also test e-commerce applications on their Facebook pages (e.g. P&G sells pampers on Facebook). Facebook is now also selling digital and real gifts in a gift shop, music from Apple’s “lala” brand, flowers, cakes and tickets.

These look to be steps in an overall transformation of Facebook’s business model from a social networking site to a shopping mall? Is Facebook about to become a fully-fledged e-commerce platform?

4.10 What Value Has Been Created from Social Media?

This question poses some challenges. Firstly, “it takes time to build connections. Secondly, how do you measure the value of connections” (BSkyB interview), e.g. friends on Facebook/followers on Twitter? Thirdly, what is value?

Let us consider the social media value-net (see Figure 5):

Figure 5: Social Media Value Net

1a) Platform Owners – Social Networks/Communities

Social networks track the following metrics; User traffic38; User engagement39; Platform metrics40; Advertiser metrics41; Revenues42 and Profits.

User traffic:
We know that Facebook and Twitter have 500m and 100m users worldwide, respectively. Figure 6 shows that Facebook attracted 124m users (43% increase YoY) and Twitter 28m users (36% increase YoY) in May 2010. MySpace, Bebo and Flickr are losing traffic.
Figure 6: Unique Visitors to The Top Social Networks

<table>
<thead>
<tr>
<th>Social Network</th>
<th>Unique Visitors (m)</th>
<th>Monthly change (%)</th>
<th>Yearly change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook.com</td>
<td>123,785</td>
<td>1.71</td>
<td>43.27</td>
</tr>
<tr>
<td>Twitter.com</td>
<td>28,236</td>
<td>1.89</td>
<td>35.67</td>
</tr>
<tr>
<td>My.Space.com</td>
<td>67,626</td>
<td>-4.56</td>
<td>-12.46</td>
</tr>
<tr>
<td>bebo.com</td>
<td>2,105</td>
<td>-5.84</td>
<td>-51.94</td>
</tr>
<tr>
<td>flickr.com</td>
<td>24,897</td>
<td>-0.11</td>
<td>0.7</td>
</tr>
</tbody>
</table>

On this growth trajectory, Facebook looks set to reach 1 billion users by 2012/13, equivalent to ~50% of the web population by then (see Introduction). Twitter is projecting a similar growth path.

**User engagement:**

A key metric in the health of a social network revolves around the activity of the user base – visits per unique visitor, number of friends etc. Facebook demonstrates impressive statistics, e.g. 50% of active Facebook users log on every day, the average user has 130 friends; is connected to 60 pages/groups/events, creates 70 pieces of content each month etc. Sysomos’ recent ‘Inside Twitter’ survey, based on more than 11 million users, shows that only 10% of Twitter users account for 86% of all activity. However, the pattern is changing; according to blog.twitter.com, users were tweeting 5,000 times a day in 2007, whereas today, Twitter is seeing 50 million tweets per day – i.e. an average of 600 tweets per second. The other main sites are losing traffic so are not considered.

**Platform metrics:**

Facebook has over one million developers and 550,000 active applications on the site. Two-thirds of ComScore’s U.S. Top 100 websites and half of its Global Top 100 websites have integrated with Facebook. According to Twitdom, there are some 17,000 applications listed on Twitter and growing, i.e. both sites show significant growth in platform metrics.

**Advertiser metrics:**

According to a recent e-consultancy survey, Facebook is the Web property most commonly used in social media marketing, with 85% of companies using it as part of their marketing strategy, followed by Twitter (77%), LinkedIn (58%) and YouTube (49%).

There is no (aggregate) data on advertiser metrics and returns are hard to measure (see below). Intuitively, since half of people in the UK go on Facebook every day, it is simple for advertisers to work out potential reach. With rapid traffic growth and real-time feedback through Facebook’s ‘like’ button (enabling users to rate the content and make connections to advertiser pages - see Figure 4), Facebook’s ad inventory and value to big brands is increasing rapidly.

The e-consultancy survey shows that Twitter is rapidly gaining ground. However, with ‘sponsored tweets’ a new model, there is no data to assess its success. Going forward, Twitter will measure ‘resonance’, a quality score tracking how effective sponsored tweets are, and how users engage with them to increase its appeal to advertisers and users. Tweets that do not resonate will disappear from the platform and brands will not pay for them.
Revenues:

Facebook is a private company so does not disclose financials. The Wall Street Journal reports that Facebook revenues for 2010 could be as much as $1.2-$2 billion against reported revenues of $900m in 2009, i.e. a doubling YoY. The Facebook interview suggested that the company is planning for substantial revenue growth over the next five years with payment revenues, potentially matching or exceeding ad revenues.

Twitter is also a private company, so does not disclose financials. Twitter grew its user base substantially in 2009 but is not believed to have generated significant revenues. That said, leaked, internal February 2009 forecasts point to projected revenues of $400,000 for third quarter 2009 and $4m in fourth quarter, i.e. full year projections of $4.4m for 2009. The same forecasts predict that Twitter expects to generate full 2010 revenues of $140m and 2013 revenues of $1.54bn. Twitter says it has already signed up well-known brands such as Starbucks, Sony, Virgin America airline, US retailer Best Buy etc to its ‘Promoted Tweets’. Time will tell if the ad model finds resonance with users and developers and scales to generate revenues of $1.54bn by the end of this year?

Profitability:

Facebook does not disclose profits. However, in 2009, it commented that it was generating enough income to cover its operating expenses, as well as its capital spending needs, thereby resulting in making a net profit of several million dollars. Twitter’s (leaked) forecasts suggest it expects to generate net earnings of $1.1bn by 2013.

In summary, Facebook and Twitter are growing traffic, user engagement and complementor value rapidly. Facebook also appears to be growing revenues fast and has effectively declared that it is profitable. We only have leaked projections for Twitter. If these are to be believed, and current growth continues, we may conclude that both Facebook and Twitter are creating AND capturing value, whereas the other social networks are doing neither.

1b) Platform Owners – Brand Communities

Social media open new ways for brands to connect with customers/prospects. Brands like Starbucks, Sony, Coca-Cola, PepsiCo, Dell, P&G and Kodak all have brand communities on their websites. Others have Facebook or Twitter pages. Some have both. Objectives are many and varied, e.g.:

- Dell sells products on its community site and is reputed to sell $3m worth of hardware on Twitter and other social media (Boardreader interview);
- Dell and Microsoft have ‘Social CRM’ communities, where users collaborate to solve problems in relation to their products. Dell has delivered a turnaround in customer service through ‘crowdsourcing’, while Microsoft awards credits to users for ‘social CRM’ services (Boardreader interview);
- Vodafone monitors tweets from customers and delivers instant responses to their queries in return, have web-enabled customer service teams etc. (Vodafone interview);
- Kodak offers customers to connect with friends and family, through an online photosharing service;
- Coca-cola collects feedback on products through online user ratings amongst many other social activities;
- Nestle, Mars, Boots, PepsiCo and others use social media monitoring tools to ‘listen in on’ user conversations on the web to assess brand impact;
- Starbucks engages customers in a range of social activities from product co-creation to charitable events (Starbucks discussion); while
- At PepsiCo, “social media have changed the way the company thinks” (Head of Social Media, PepsiCo);
- Finally, pharmaceutical companies like Novartis tweet about lab activities to learn what the public care about, amongst a growing trend of companies using social media in support of Corporate Social Responsibility (CSR) objectives, coining the concept of the ‘social’ company (SMI interview).
Viral brand marketing activities in users’ social context on Facebook and Twitter have already been discussed.

Some of these activities have measurable outputs (revenues from Dell product sales; improved customer service at Dell and Microsoft etc.).

Beyond these, the question is what value brands derive from their social media activities, what is value and how you measure it?

“Social media is increasingly being held accountable for the links with advertising or how you sell something that can be measured by short-term financial metrics. But social media suffer from a ‘false positives problem’: just because you are in a social circle many algorithms away does not mean you can influence your ‘friends’ friends’ decisions plus people only have max 140 friends, not thousands” (Vodafone interview).

There is ample evidence of brands struggling to measure returns from social media spending (ref eConsultancy survey). A key challenge is that social media do not just impact one business area but fuse entire businesses with important implications for how companies deal with their customers, e.g. people may dislike being advertised to. However, according to Starbucks’ Digital Director, 93% of consumers seek opinions of others before they buy. The question is how to measure social media influence?

According to Bernhard Warner, SMI, the problem lies in attempting to measure the Return on Investment (ROI) from social media:

“Social media have become almost perverted by marketers with their focus on ROI, which doesn’t truly exploit its potential. Marketers can slice up costs/revenues per lead; no of followers to their accounts and add them up. But is that a true measure of value or a remarkable injustice to the potential of social media and the people who spend their time? Consumers don’t think in terms of three-month campaigns. The idea is to build a group of users you can engage with, which takes longer than three months. Companies should not be too focused on the number of followers they have but on listening to consumer dialogue… which speaks to the value of having a social media presence”.

The last quote illustrates that attempting to measure the value of social media by traditional, short-term business metrics is problematic, including to social media executives who need to justify the ROI on social media budgets in the same way as traditional budgets.

Bernhard Warner adds: “Social media make a substantial contribution to fostering a whole different value-net. The biggest missteps by companies is when they seek to manipulate social conversation to achieve short-term goals like higher click-throughs or page views, when in fact they ought to focus on creating longer term value. The most enlightened companies appreciate that social media are not about a quick fix but that fostering communications and conversations between people has inherent value”.

The message resonates with some players: Facebook for one asserts that user, developer and advertiser metrics have higher priority than revenues and profits – for now.

“Companies need to consider what they are looking for from social web, rather than just accessing someone to throw advertising at them” (Boardreader interview).

“Social media, if done well, can impact a number of areas and business metrics over time” (SMI interview).

Key business areas which social media is likely to impact include customer insight, R&D, product development and customer service hence indirectly revenues, costs and profits.

The above discussion shows that value has multiple meanings in the context of how social media impact businesses. The challenge for companies is to decide what they want social media to deliver by when and how to measure it.
1C) Internal Communities

Companies like IBM deploy online collaboration tools such as Lotus Live – a social network for businesses, to enhance networking, knowledge sharing and collaboration. Towers Perrin’s ‘2007-8 Global Workforce Study’ shows that such employee engagement impacts the bottom line: The companies with high employee engagement had a 19% increase in operating income and 28% growth in earnings per share. Conversely, companies with low levels of engagement saw operating income drop more than 32% and earnings per share decline 11%.60

2) Complementors

Over a million developers have built sustainable businesses on Facebook61. Brands and advertisers derive value in several ways as shown. Payment processors like PayPal and Zong derive value from enabling Facebook Credits, and thereby create value for Facebook.

3) Users

Value to users comes from connecting and sharing with friends/ family/business contacts and being part of a community of trusted co-creators. However, Bernard Warner, SMI warns that:

“There is growing evidence that users dislike being neglected by big brands, dislike being used as ‘campaign tools’ only to be abandoned once the marketing blitz runs its course.”

4.11 Why are Facebook and Twitter ‘Winning’?

From a social network perspective, Facebook and Twitter appear to be ‘winning’, whereas others are falling behind. Why?

The RBV states that a firm’s competitive advantage derives from application of strategic resources – in contrast to Michael Porter’s Five Forces analysis which highlights the importance of positioning a firm in the ‘right’ industry62.

According to the RBV, for a firm to turn its short-run competitive advantage into a sustainable one, its strategic resources must be difficult to copy/replicate. So what are Facebook’s and Twitter’s inimitable and non-replicable resources?

Well, both appear to have learnt from the early industry examples in Table 5 and have built:

A clear value proposition: Facebook is a ‘zero content social utility’, which allows people to connect and share with friends and family, underpinned by a sophisticated technology platform63. Twitter is the ‘SMS of the internet64’.

Source of differentiation: A simple user interface (UI) has been the cornerstone of both Facebook and Twitter’s advantage. Facebook has reinforced that by giving users tools to personalize their experiences. Beyond a simple UI, twitter’s differentiation is that it has taught the world real-time communications in less than 140 characters and has built all its momentum around that” (BSKYB Interview).

Having won the battle for users by providing a simple, intuitive and easy-to-use experience, the below factors have enabled Facebook and Twitter to maintain their edge. MySpace had a lot of what is below, but was too complex to use (Vodafone interview).

A monetizable business model: Facebook has doubled its revenues every year, thereby showing that its business model is monetizable. Twitter has built connectivity and popularity first, and taken its time over its monetization strategy but appears to be making progress.
Scale and functionality: Both Facebook and Twitter are offering users increasing scale and functionality to keep them engaged.

Innovation: Amongst Facebook’s key strengths is its commitment to innovation. Specifically, its decision to open up its APIs to developers has secured a constant stream of new applications to keep users engaged (about a dozen new products a week), whilst Facebook’s continuing business model innovation, including experimentation with new ad formats, such as the Facebook ‘community and complementary ad space to promote it have earned it the label as the hottest ticket in brand marketing. Twitter, too, has invested heavily in technology, product and business model innovation.

Social Graph: Facebook has proven that the core asset on which all of its services are built - the social graph - is much more defensible and powerful than many anticipated, adding to its differentiation.

The above strategic resources give Facebook and Twitter competitive advantage in their own right. However, what has earned both sustainable competitive advantage and differentiation (ref Magretta (2002)) hitherto is the way each player has combined these strategic resources into a complex business model, which is hard to imitate or replicate, thereby validating the RBV. Will Facebook and Twitter continue to grow or be replaced? Let us examine the key shifts shaping the industry at large with implications.

4.12 Key Industry Shifts

Table 7 summarises the key TMO shifts shaping the social media space.

4.13 Implications For the Future Social Media Space

The need for scale and continued investment in infrastructure and product innovation to drive differentiation will favour large players with financial muscle, making industry realignment and consolidation both inevitable and logical (Vodafone interview). Facebook has built critical mass and will continue to dominate. AOL has sold Bebo (reminding other players of their vulnerability to sudden drops in popularity). News Corporation may sell MySpace; “Smaller local players like ‘hi5’ will likely get snapped up by the likes of Facebook” (Boardreader interview). Even Twitter may get acquired as has already been attempted. Flickr will stay while advertising is around (Blue State Digital media interview). Platform owners and brands will invest in mobile, driving new acquisitions and strategic alliances, e.g. by platform owners and/or retailers.

“The intersection between mobile and social will become huge providing ‘global’ connectivity to users, given mobile’s unique role as a ‘data capture point’” (Vodafone interview).

“Brands will increasingly want to engage with customers on mobile but focus will be on whether they can make money” (Blue State Digital Media interview).

Brands will increase spend on social media initiatives overall; their own communities will focus on transactions in response to business pressures. Other social media activities will transfer to social networks offering scale and reach.

Developers will continue to build scale and businesses on large platforms. Social gaming players like Playfish may get acquired by platform owners, keen to take advantage of the next big ‘thing’ on the Internet, namely video games.
Table 7: TMO Shifts Shaping the Social Media Space

<table>
<thead>
<tr>
<th>TMO Shifts</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a) Technology shifts</strong></td>
<td></td>
</tr>
<tr>
<td>Increasingly open innovation: Added pressure on players to innovate and open up</td>
<td>Creation of platforms and scale for products (ref app store). In mobile, shift from ‘walled garden’ will require improved innovation and programming models.</td>
</tr>
<tr>
<td>Investment in scale and functionality**: including in the cloud</td>
<td>Google and Facebook have shown that infrastructure, economies of scale and new functionality are vital to keep users engaged but require size and financial muscle.</td>
</tr>
<tr>
<td>Intersection of Social &amp; “Smart Mobile”**: combination of mobile web (real-time), smart devices with integrated social media, mobile applications and aggregator models (e.g. Vodafone 360) is game-changing</td>
<td>Location, presence and mobile web replace the need for PCs, make mobile the primary device, change user experiences and boost brand investment in mobile applications/advertising (with social context), to engage with customers in new ways, e.g. product offers while shopping (M&amp;S mobile shopping site**). User willingness to pay for apps on the iPad may change beliefs that content is ‘free’, hence business models.</td>
</tr>
<tr>
<td><strong>b) Market-related shifts</strong></td>
<td></td>
</tr>
<tr>
<td>Need for Aggregation: as highlighted by Vodafone interview</td>
<td>The next wave of social media will see people connecting more, including through cross-postings (Twitter/LinkedIn, Facebook email, IM in Facebook). In mobile, status messages will take off, including links between updates across social networks. Increased connectivity will enhance value to users BUT increase pressure on players to simplify and control experiences. (Vodafone interview).</td>
</tr>
<tr>
<td>Importance and value of data: increasingly creative revenue models depend on access to detailed user data</td>
<td>High value puts a premium on user data. Twitter, Facebook, Apple and Google are all investing in data centres at high cost (requires size and finance). Beyond that, will companies start charging for user data to cover the cost of content, e.g. Twitter selling data to Google for $1bn investment? And does Twitter investment in data centres imply a departure from its connectivity engine focus? Will building rich clients put developers out of business? What are the business model and value net implications?</td>
</tr>
<tr>
<td>Increasing concern about privacy issues: e.g. Google collection of personal data from WiFi networks for its Street View application; Facebook’s cancellation of its friends-supported adds and overhaul of its privacy settings, following intensifying criticism of its alleged failure to explain who has access to user data etc.</td>
<td>Implications differ in different countries given different privacy laws but issue will force players to reconsider their strategies and business models. Will consumers start to claw back access to their personal data if they sense industry abuse or “demand an explicit contract with players…if you do something bad to me………then?” (Vodafone interview). Will business models shift ‘back’ to subscription models as users withhold their data?</td>
</tr>
<tr>
<td><strong>c) Organisational (type of organisation (size, open/closed, business model) more likely to create value)</strong>*</td>
<td></td>
</tr>
<tr>
<td>Openness: Business model innovation and social context will require businesses to open up further</td>
<td>Further blurring of industry boundaries, strategic partnerships and cross-sector consolidation, e.g. social networks/mobile/retailers.</td>
</tr>
<tr>
<td>Size: Need for scale and continued investment in technology and business models</td>
<td>Plays to the strength of large players with implications for industry structure.</td>
</tr>
<tr>
<td>Business model innovation a) advertising is dominant model but is predicated on volume (advertising spend follows eyeballs) which carries risks measurability and accountability becoming more important gradual realisation that social media is about more than advertising shift from 100% reliance on advertising and single mode models</td>
<td>a) Bebo reminds us that all social networking sites are in danger of falling victim to the ‘volume’ problem (Facebook and Twitter must remember that all face the same risk of dropping popularity) b) Move to more measurable formats: ad model: behavioural advertising, social context and ad networks (given need for size). Otherwise, increasing focus on transactional-models (payment for goods/services) c) Search for ‘happy medium’ between pursuit of short-term business goals through social media and awareness that ‘social’ is about deeper and longer-term value c) Move towards hybrid models and multiple revenue streams, e.g. advertising with payment for premium services and goods/services, incl. social gaming or virtual gifts.</td>
</tr>
</tbody>
</table>
Overall, the big will get bigger and we will see cross-sector integration. The question is how many large players the industry can accommodate. Expect to see “a few successful industry-specific networks like Linked-in and a few general ones like Facebook and Twitter” (Blue State Digital interview).

4.14 Implications for Future Player Strategies

Players will seek to build scale, functionality and differentiation. Winners will not only have size but offer the biggest gateways to other platforms and users in response to user demand for increased connectivity. Trends towards performance-based formats in advertising will trigger the emergence of ad networks as individual players struggle to deliver (economies of) scale. For Twitter, the question is whether its new monetisation strategy is scalable, which depends on how users react to privacy issues and whether developers can make money.

Increasing transactional focus will steer large players with scale, traffic, functionality and payment mechanisms (Facebook) in the direction of e-commerce platforms.

Even if Facebook’s global dominance is almost complete with Russia, Japan, China and Japan the only countries where Facebook is not yet the dominant social network.

Friendster and Bebo remind us that global reach should not be taken for granted, given differences in cultures - Friendster is only dominant in South-East-Asia, Bebo never got traction in the US.

“Brands are evaluating their performance on social media. Even if they are not making money, they want to be there because their customers are. Twitter is changing the ways corporations provide customer service. CSR will become more important.” (Blue State Digital interview). Social media activities will evolve from experimental to ‘full’ strategies, integrated into business processes, e.g. R&D, product innovation, sales and customer service. Social media will also feature more prominently in corporate internal communications.

Overall, strategies will be more open and differentiated, as illustrated by MySpace.com’s decision to enable linkages between social networks.

To some, “the biggest differentiator will be the level of partnerships – aggregation rather than building own social media, recognising that individuals have already made their choices” (Vodafone Interview). Facebook is helped by its expanding range of developers continuously injecting new functionality, whilst relying on Facebook and users to build differentiation and scale.

Further opening may also challenge players, including Facebook, as illustrated by recent high-profile web leaders quitting the site, in protest of the alleged high degree of control Facebook exercises over users and developers.

Privacy issues will be at the heart of player strategies - as illustrated by Facebook’s recent privacy policy changes, Vodafone expectations of user complaints about changes to ‘social rules’ to allow cross-postings etc. Getting the balance right will be fundamental to the future of the industry, and in some cases determine the success or failure of players.

Overall, Facebook is well positioned to become the future hub for social network integration and web socialization. Facebook will support and take a leading role in developing the distributed, interoperable social Web. As Facebook continues to grow and outnumber other social networks, this interoperability will become critical to its success and survival and that of other social networks, communication channels and media sites.

Other social networks will continue to develop, seek further adoption and specializations with communication or content areas, but Facebook will represent a common denominator for all of them. Twitter has one or two technical issues to worry about to stay stable (recent site crash) and improve some key things and they will sail on.
For Facebook and Twitter, returning to Boudreau and Lakhani’s two-sided business model, the key success criteria are whether their two-sided platforms scale and generate revenues and profits with the help of complementors and users.

### 4.15 What Will be The Dominant Business Models in Social Media Going Forward (3-5 years)?

Advertising will dominate for the foreseeable future but evolve to more results-driven formats, in response to growing pressures to ‘show me the money’. “Video and behavioural ads will grow but the biggest shift will be towards social context and brand engagement through the social graph " (Facebook interview). Scale will be a key differentiator and trigger ad networks – Facebook has scale, traffic, and payment capabilities and could become an ad network offering brands an alternative value proposition. Taking a leap forward, so could Apple, which is a subscription model today.

Transactional models will become more prominent (social networks and Brands), alone or as part of hybrid models, in line with move away from 100% reliance on advertising.

Early lessons from the iPad suggest users are prepared to pay for widgets (if subjected to less advertising?) which may give rise to more subscription models. The question is whether hybrid models are replicable for non-specifics (will general consumers of the Facebook ilk pay a subscription fee?). User privacy concerns will make all ad-models permission based.

In mobile, real-time, location presence and social context will boost ad revenues, supported by payment for premium services.

Overall, players are learning fast. Business models with customers beyond advertising. Impact on individual players will depend on the category, model and role of the company. Facebook will have to maintain front-runner status as the industry evolves faster than ever. For all players, the key success criteria are monetization and scale.

### 4.16 Where Will Value Come From?

In the short term, most social network value will come from advertising. However, advertising is still only 10% of total marketing spend online and social media only a small proportion of that (Facebook interview), so players will top up ad-revenues with payment revenues for products/applications. Brands will mainly get value from product sales balanced with social media impact on business areas like R&D, user insight, product innovation (co-creation) and customer service indirectly impacting revenue, costs and profits. Users will derive value from increasingly connected Social Media; developers from increasing scale and traction. Overall, today’s focus on ‘social media’, intrinsically linked with advertising, will shift to ‘social web’ and the tracking of consumer discussions for many reasons and purposes, which offers a much wider value proposition.

### 4.17 Conclusion

Social media have revolutionized communications and taught users the value of participation and brands the art of listening rather than speaking. This paper has reviewed current social media models and trends, academic literature on e-business models and insights from industry interviews highlighting key themes in social media business models, which will shape the future direction of the industry, player strategies and value creation.

Social networking is now outpacing search. The space is still nascent and it is impossible to predict exactly where the industry will be in five years time. The safest bet is to say that social media are here to stay but the future is unwritten.
5 References

Acknowledgments
I am deeply appreciative of the time, insights and quotes from the interviewees listed in Table 1.

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End Notes

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9 Source: Facebook interview

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17 Source: discussions with Rob Mogford, ex-CFO, Friends Reunited

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23 See note 21

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Source: Facebook interview

Source: Bower, J. L., Christensen, C. M. (1995): Disruptive innovation is a term coined by Clayton Christensen to describe innovations that improve a product or service in ways that the market does not expect, typically by lowering the price or designing for a different set of consumers. According to Clayton Christensen, incumbents often fail to spot disruptive innovations because of their focus on existing customers and technologies

Source: Aghion, P., Howitt, P. (1990): The term Creative Destruction was coined by Joseph Schumpeter to describe the process of transformation that accompanies radical innovation. In Schumpeter’s vision of capitalism, innovative entry by entrepreneurs was the force that sustained long-term economic growth, even as it destroyed the value of established companies that enjoyed some degree of monopoly power.

Source: Victor Seidel, Oxford University (Said) Business School, Lecture material

Consistent with Blue State Digital’s assessment that too many players are trying to do the same things with too few speciality players (See Table 2)

Source: “Management Innovation Group (Consultancy): Tree models of customer engagement (methodology)


52 Source: Facebook interview


54 Source: Twitter interview

55 Source: see note 51


57 Source: Discussions with Digital/Social Media executives in these organisations (see Table 1)

58 Source: Discussion with Alexandra Wheeler, Digital Director, Starbucks, at the SMI Conference in London, June 22 (see below)

59 Source: Twitter and Facebook interviews


61 Source: Facebook interview

62 Source: Michael E. Porter, “Competitive Strategy”, lecture notes (RBV)

63 Source: Facebook interview

64 Source: Twitter interview

65 Source: The TMO framework is based on course content from the Diploma in Advanced Strategy Programme, specifically lecture material prepared by Dr Victor Seidel

66 Definition: Scale is taken to mean doing everything in a bigger way


68 Source; http://www.guardian.co.uk/media/2010/jun/23/mark-zuckerberg-facebook-cannes-lions