

Web 2 was a Bust

Will Web 3 Succeed?

Every day we read news stories about the popularity of new social media websites. But unlike the pioneers of Web 1.0, many new social media channels have yet to provide a solid business model that can make money and insure long-term survival. So far Web 2.0 has:

- Financially, not been a big success
- Current economic climate makes success even harder
- Advertising has been overused as a business model

Popular Online Business Models

Online business models have several special characteristics:

- They focus on the demand side, rather than pushing to customers.
- Customers can add value by making their own contributions.
- A business may use a mixture of several models at once.
- The main value may be the business model, not the product or service

Current popular online business models include:

Model	Description	Online Characteristics
Manufacturer	Sell your own stuff	<ul style="list-style-type: none">• Control entire process• Own your customers
Merchant	Sell others' stuff	<ul style="list-style-type: none">• Fixed price or auction models• Digital goods and services offer new opportunities
Affiliate	Pay for a referral	<ul style="list-style-type: none">• Merchant and affiliate networks can be complicated• Works well on the Internet

Model	Description	Online Characteristics
Infomediary	Quickly and efficiently deliver information	<ul style="list-style-type: none"> • Timely and accurate • Privacy issues for consumer data
Community/ Social	Contribute for Personal Reasons	<ul style="list-style-type: none"> • Social media popularity • Only indirect revenue sources
Brokerage	Match buyers and sellers	<ul style="list-style-type: none"> • Big in B2B
Advertising	Display promotional message	<ul style="list-style-type: none"> • Moved from offline world • Overused by many
Subscription	Pay for access	<ul style="list-style-type: none"> • Predictable revenue stream
Utility	Pay for usage	<ul style="list-style-type: none"> • Predictable revenue stream • Issues with service levels, monopoly, regulation
Subsidy	Guaranteed income from sponsor	<ul style="list-style-type: none"> • No need for commercial focus • No market feedback

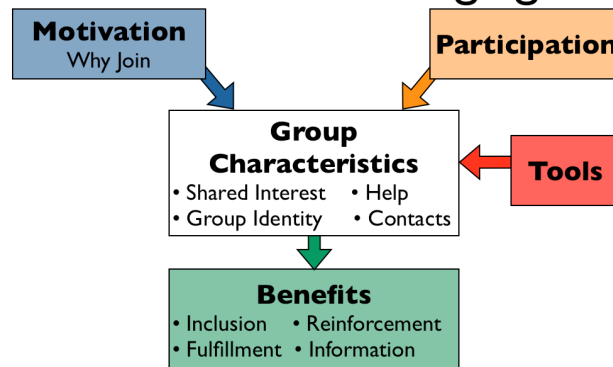
In addition to these business models, one can add several overlays to help differentiate an offering from the competition:

- Freshness - information may be historical or up-to-date
- Quality- there is always a place for a high-quality offering
- Assortment - from narrow to wide
- Price Point - be careful of the “lowest price,” someone else can be lower
- Personalize & Customize - One of the great attributes of the Web. Customers today value these highly.

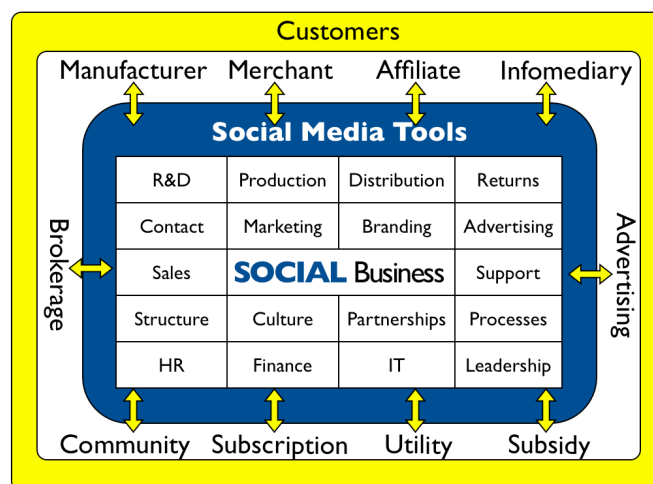
However, of all these business models, only Advertising has been successful when combined with social media, and then under special conditions (i.e. high traffic). Infomediary, Subscription and Subsidy may offer possibilities but they have not yet been widely successful. By looking at social media in terms of creating communities, one can see that social media are actually tools for creating a sense of belonging:

Source: J. Rayport & B Jaworski,
Introduction to e-Commerce, 2nd Ed., 2004

A Sense of Belonging



One can then regard a business as a *social business* where social media tools are used to connect the various parts of the business through its business model(s) to its customers.



Source: Jo Caudorn, One Agency

Managing a Social Business

A model for managing a social business is *portfolio management*, a technique used by venture capitalists. Their objective is to diversify their efforts in order to manage and reduce risk. Using this management model and terms used in venture capital:

1. Invest in Several Companies

A social business will pick several different types of social media and conduct small trials to see which ones work best for them.

2. Actively Participate in Management

Initially a social business will look for existing channels that discuss and promote its goods or services. The social business will then actively participate in these, making valuable contributions to the community. Once the social business has experience, it can then start its own social media channels or partner with others to provide a unique community of its own.

3. Exploit Successes

Set realistic goals when you start and monitor progress as you manage your social business. Be ready to exploit those efforts which are successful.

4. Have an Exit Plan

Before you start, also set points at which you will get out. Not every social media trial will be successful, and you must be ready to admit this and move on to other with more promise. When you do leave, exit gracefully so that you can return in the future if need be.

Success Factors & Cautions

1. Carefully pick the best business model(s) for your venture. But realize that in the online world a business model is hard to defend.
2. Make sure you have sufficient funding to plan and execute. But at best you will have a competitive advantage online for only 2 or 3 years.
3. Make sure you perfectly execute your business. There will be competitors online, and they will be bigger and better funded.



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