LinkedIn Thought Paper

Akash Udani

INST 620 - Introduction to Strategic Management

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Six Degrees of Separation - the idea that all living things and everything else in the world are six or fewer steps away from each other so that a chain of "a friend of a friend" statements can be made to connect any two people in a maximum of six steps ("Six degrees of separation - Wikipedia," n.d., p. xx).

How intriguing is this theory. It essentially means that through just 5 other people, I am effectively connected to my favorite movie star, the Queen of England, or to a random person living somewhere in Iceland. This goes on to show how connected the world has become today. LinkedIn draws upon this theory of six degrees of separation, to help connect the professionals of the world. LinkedIn operates like the world's biggest search engine 'Google' for professionals, and the world's largest social network 'Facebook' for businesses. Launched in the year 2003, during the period of the economic downturn, LinkedIn has become an example of how companies with a clearly defined long term strategy can eventually succeed if they do not lose focus in spite of the hardships they face early on. As explained by one of the co-founders Konstantin, the need for LinkedIn arose because there was an imbalance among those looking for jobs and those looking to hire, and between those with money to invest and those seeking funding; and LinkedIn acted as a bridge to connect both the sides (Brown, n.d.). It soon became a place to be for many of the sought-after executives of Silicon Valley, and this gave the site a kind of credibility and made it an aspirational brand. One thing that I have observed with all these tech companies that have made it big is that, all of them started off by focusing on the Silicon Valley tech scene. Be it Uber, Airbnb or LinkedIn, all of them targeted the cream crowd of the Silicon Valley to gain the initial traction and gather valuable feedback. This shows why Silicon Valley has become the hub for tech entrepreneurs and the reason behind the mushrooming of hundreds of startup companies in that area. By tapping local business heroes, LinkedIn was able to spark growth and make it a must-have network for Valley employees. From there it spread outward through the connections of the people on the platform (Brown, n.d.).
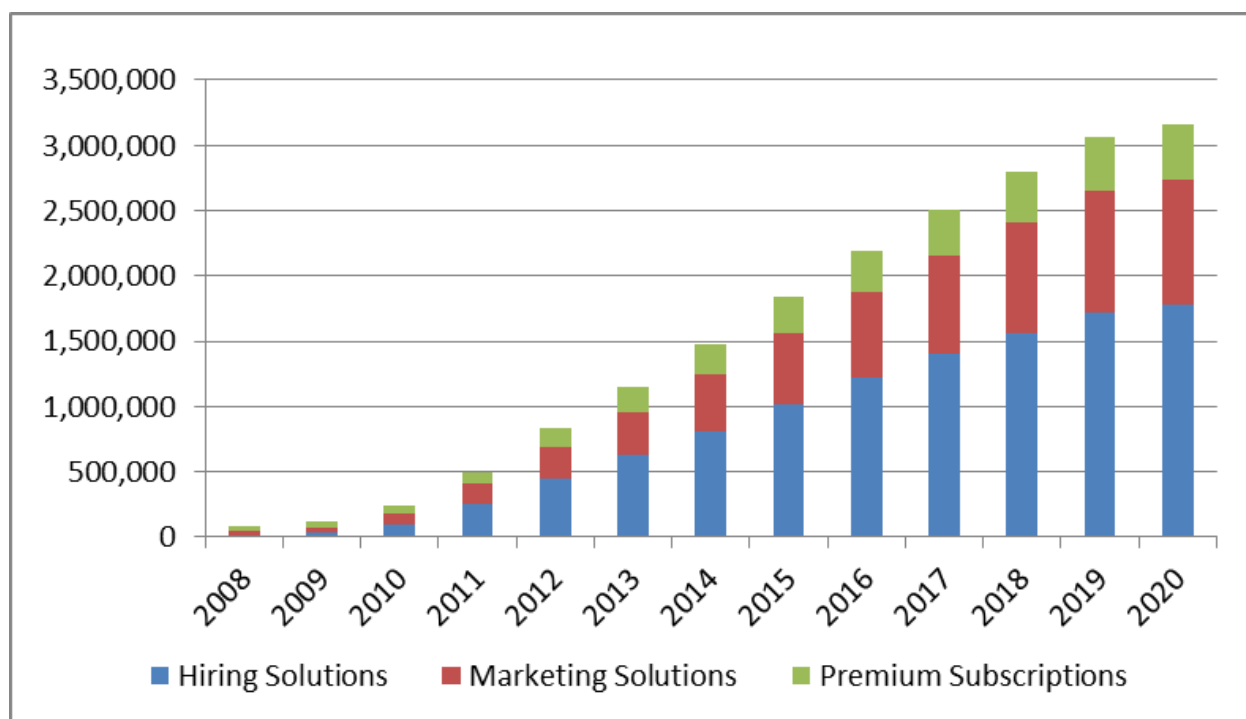
Business Model and Growth

One thing that differentiates LinkedIn from many other companies is that they achieved profitability within 3 years of its launch. Compare that with some of the newer companies like Uber, which has been burning investor's cash to gain majority of the market share, or Twitter which is confused about its future course and is still searching for ways to generate revenue. The fact that LinkedIn was able to generate multiple revenue streams, without compromising on growth, is testament to how quickly people adopted to the platform. I really liked one of the things Konstantin said, about the feeling of having created something of value, if certain users were willing to pay for it. He further added that, if a

third party could use their platform to generate revenue, it would be foolish on his part not to be able to do the same using his platform (Brown, n.d.). LinkedIn follows a **Freemium Business Model** where you give a core product away for free to the users and sell the premium products at a price to a smaller fraction of the user base. The free solutions are available to all members at no cost and provide compelling professional benefits. The monetized solutions offer enhanced functionalities designed to simplify every step of corporate functions of hiring, marketing and networking. Also, a major portion of the revenue comes from advertising, apart from the core premium offerings.

An interesting feature in this freemium model is the presence of a high network effect. This implies that addition of a free member not only increases the member base quantitatively, but also results in value addition for all other free and premium members of the site by growing the network through word-of-mouth or connection-request-emails. It also creates a potential to attract new users and upgrade satisfied free users to premium subscribers. Since a large chunk of revenue is contributed by advertising, and the marginal cost of adding new users is low, the additional revenue generated will support the added costs and the freemium model thus thrives.

("Initiating Coverage of LinkedIn at $45 Fair Value - LinkedIn (NYSE:LNKD) | Seeking Alpha," 2011)
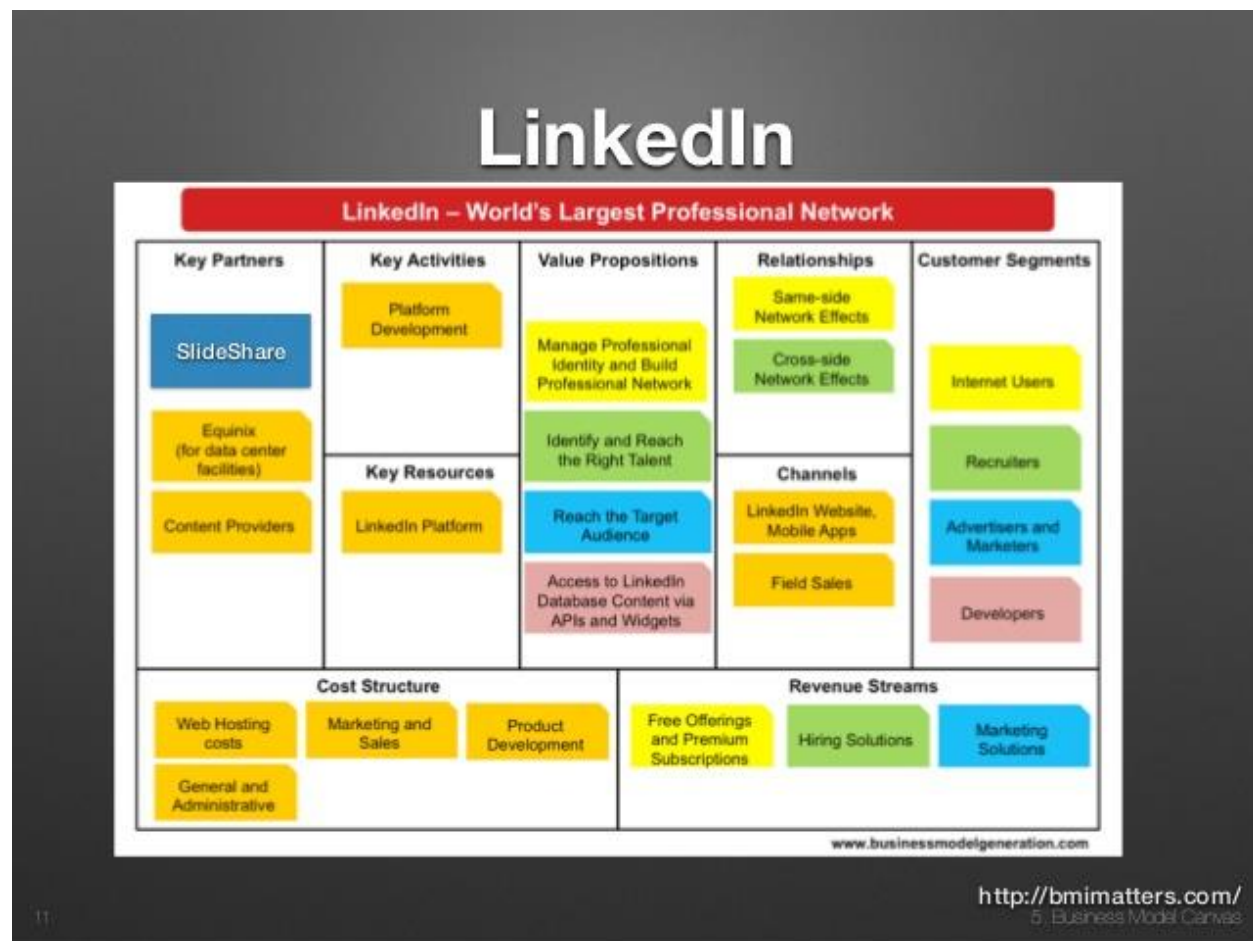
(Understanding LinkedIn Business Model | Understanding Business Models, 2012)

One of the driving forces behind LinkedIn's growth has been the company's ability to realistically assess what's working and what isn't, and to adjust their approach accordingly. They have constantly pushed for innovation and are testing and refining the ways in which users interact with the site. The 'Double Viral Loop' was a masterstroke to increase the number of new users as well engage the old ones. Introducing features like 'Address Book Uploader', 'Endorsements' and 'Recommendations' further increased the platform's appeal and contributed significantly to the viral growth.

Over the years, LinkedIn has made smart acquisitions that have helped them improve user engagement on the site. Acquisitions like - Rapportive, SlideShare, Pulse and Lynda - are part of a larger effort on LinkedIn's part to become more than a site where people go to find jobs and hire people.

Vision

Apart from being exemplary leaders, one more thing that the founders and CEOs of most of the top tech companies have in common is that they are all visionaries. Jeff''s vision is to be able to use LinkedIn to develop the world's first economic graph. He wants to extend LinkedIn's professional graph into an economic graph by digitally manifesting every economic opportunity in the world; the skills required to obtain those opportunities; the profiles for every company in the world offering those opportunities; the professional profiles for everyone in the global workforce; and subsequently overlay the professional knowledge of those individuals and companies onto the graph (Weiner, 2012). It is almost impossible to imagine all the kinds of possibilities that this kind of economic graph could bring to the front. One example is using the information to understand the skill gap between the professionals and the jobs in an area; and use this to help institutions restructure their curriculum so as to equip locals with the much-needed skills to succeed in their career paths. Jeff understands the power LinkedIn has to change the global economic landscape, and his vision reflects the potential value that the company can generate going forward with the kind of resources and data they have at their disposal.

Going Forward – What the Future holds

If we observe the growth trajectory of any fast-growing company, we see that after the first few years of exponential growth, it hits a plateau. LinkedIn, has reached that phase, where it is desperately trying to keep the users engaged with the platform. LinkedIn has a kind of disadvantage here, because it is not exactly a social network like Facebook or Twitter. Even though it has become the de-facto tool for passive job searches, still it has not woven itself into the social fabric in the same way as Facebook or even Twitter. People are active on LinkedIn, mostly when they are looking for a job change, otherwise they rarely visit the platform. LinkedIn is trying to change this and increase user engagement; the introduction of '**Influencers'** feature was an attempt to increase the time users spent on the site. This worked really well and it certainly increased user visits and time spent per visit. Also, the acquisition of the learning platform **Lynda** is a step in that direction to increase user engagement.

True to their nature, LinkedIn should keep trying new things to retain user interest. Apart from providing job listings which even other sites like Glassdoor have started doing, LinkedIn could try to integrate features like video resumes and photos and videos of employer's offices. **Video resumes** would be a novel way for recruiters to get a measure of potential employee's personality.

LinkedIn could move towards becoming a full-fledged portal that provides **test-taking abilities** that recruiters can use for screening employees. Normally, many companies

require candidates to give some sort of an aptitude test on a third-party test taking platform; as a preliminary screening round. LinkedIn could build this test-taking feature as part of its platform, making it convenient for both the recruiters and the job seekers. Also, after integration with Microsoft, it could be used as a internal training portal for its employees.

Another feature that LinkedIn could incorporate is something called as **'Badges'**; wherein users who complete training videos related to specific skills on its Learning portal (Lynda), and successfully clear a small knowledge test, would receive badges that will be added to their profiles. This would be helpful to both the users as well as the recruiters; it would add credibility to the users' profiles and the recruiters would know that the user is not faking a particular skill in his/her profile. For LinkedIn, it would be more user engagement and potentially more business.

I would love to see an interactive scheduling system turning LinkedIn into a true **CRM system**. Some kind of truly usable CRM system to help us organize, connect with, time and schedule communications with our entire LinkedIn Network, not just our first levels, would be a tool I would pay some money for.

In its efforts to expand its base as a knowledge sharing and learning platform, LinkedIn could think about acquiring Quora. Quora has a loyal user base which is increasing every day; since it is a platform where people usually ask questions and get them answered, LinkedIn could somehow think of integrating it with their platform.

One of the things I appreciate about LinkedIn is that there are not hundreds of thousands of third party apps to sift through like you have with Facebook and Twitter. This means less potential for hackers and worms, but it also means less potential usability. I don't care who creates the applications, third party or LinkedIn itself, but a few more apps and a slightly more open API would be nice.

Acquisition by Microsoft

The acquisition of LinkedIn by Microsoft last year for $26.2 billion raised quite a few eyebrows in the tech circles. People have been speculating several different reasons for this deal. Here are a few reasons why LinkedIn gave in to this deal.

- **LinkedIn's stock was struggling** since mid-2015. Being a publicly traded company, it is answerable to its investors. Microsoft bought LinkedIn for $196 a share, which was a very nice bump from its share price at the time of purchase.
- **LinkedIn's ad business was slowing down.** In other words, LinkedIn wasn't selling ads the way people expected it to. And joining forces with Microsoft would help, since LinkedIn would be able to sell ads alongside Microsoft Office's suite of

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products that reach a lot more people than LinkedIn's current user base. Or, at the very least, Microsoft may be able to drive more users to LinkedIn, giving the company more eyeballs to entice marketers.

- **LinkedIn's growth was a concern.** As per claims by Weiner and Nadella, the deal should be able to help grow LinkedIn's audience through a combination of integrations with Microsoft Office and a possible subscription tie-up.
(Wagner, 2016)

This acquisition is a very smart move by Microsoft; this deal means Microsoft can embed LinkedIn with Skype, its email system and other enterprise products so that, in the words of one Silicon Valley expert, it will be able 'to recreate the connective tissue for enterprises' (Feller, 2016). With this acquisition, it is betting on the idea that millions of people who work in business will pour personal information into the network, in ways that are economically useful to Microsoft. Microsoft has an entire ecosystem of products, that can be integrated with LinkedIn, and access LinkedIn's vast troves of professional data about people and where they work.

The acquisition by Microsoft has opened newer avenues for LinkedIn to explore and venture into. They no longer have to worry about the monetization aspect, and have much better chances of surviving as part of Microsoft than as an independent entity. Having access to Microsoft's deep pockets and resources, will allow them to pursue innovation and not worry about competition. In my opinion, the sun has started shining much brighter for LinkedIn under the shadow of Microsoft.

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