Beyond Monetization: Creating Value through Online Social Networks

Article · January 2009
Source: DOAJ

2 authors, including:

J. Tomas Gomez-Arias
California State University, San Bernardino
22 PUBLICATIONS   **655** CITATIONS

BEYOND MONETIZATION: CREATING VALUE THROUGH ONLINE SOCIAL NETWORKS

Jose Tomas Gomez-Arias[*] and Larisa Genin
School of Economics and Business Administration
Saint Mary's College of California
Moraga (CA 94556), USA

ABSTRACT

Social networking sites are typically monetized via side payments, buy-clubs and affiliate programs, access controls, aggregation of content and integrated mobile platforms. However, there are other often untapped ways to create value through social networks, especially those related to enhanced interaction with customers, and knowledge creation and dissemination within organizations. In this article, we shed new light on those new ways to create value and how they differ from conventional revenue streams.

Keywords: Online Social Networks, Monetization, Value Creation, Online Revenue

1. INTRODUCTION

In the past ten years there has been an exponential growth in the use of online networking sites, from Facebook to MySpace to LinkedIn. Following on their popularity, investors, media companies and advertisers alike have dedicated financial and managerial resources to them, trying to take advantage of a potentially large and rewarding business opportunity.

Most of the emphasis has been put on trying to monetize those networks in a number of different ways including subscription fees and advertising, with varying degrees of success. However, there are other often untapped ways to create value through social networks, especially those related to enhanced interaction with customers and knowledge creation and dissemination within organizations. While there has been some research done on monetization, no attention has been paid to routes focusing on non-monetary value creation. The purpose of this article is to shed new light on those new ways to create value and how they differ from conventional revenue streams.

The rest of the article is organized as follows: first we provide definitions for some key concepts; then we show how social networking sites are growing and the main trends they follow; we continue with a categorization of ways in which companies can monetize on social networks and continue with a section on new ways to create value in social networks that do not imply a direct cash stream; we finalize with our conclusions and managerial implications.

2. DEFINITION OF SOCIAL NETWORK SITES

The notion that individual computers linked electronically could form the basis of computer mediated social interaction and networking was suggested back in late 1970s emphasizing how computer-mediated communication -- such as the Internet -- should be developed for this purpose. There were many early efforts to support social networks via computer-mediated communication, including Usenet, bulletin board services (BBS), Arpanet, and EIES [8].

One of the first people who have coined the term "social network" was Professor Barnes. He defined this term as an association of people drawn together by family, work or hobby, usually consisting of about 100 to 150 people [1]. Social network is sometimes referred to as a virtual community, composed of members who share an interest, interact repeatedly, generate shared resources and share cultural norms [13][16].

A social network is a social structure made of nodes (which are generally individuals or organizations) that are tied by one or more specific types of interdependency, such as values, visions, idea, financial exchange, friends, kinship, dislike, conflict, trade, web links, sexual relations, disease transmission, or airline routes.

Nowadays, social network sites are defined as web-based services that allow individuals to construct a profile (public or private) within a bounded system, articulate a list of other users with whom they share a connection and view their list of connections and those made by others with the system [2].

---

[*] **Corresponding author: tgomez@stmarys-ca.edu**

3. GROWTH TRENDS IN ONLINE SOCIAL NETWORKING

The trend of social networking on the web began with people wanting to reconnect with lost school friends. Then it expanded to sharing messages, music, and videos with people sharing pieces of their culture and life interests.

One of the first online social networking websites included Classmates.com (1995), focusing on ties with former schoolmates, SixDegrees.com (1997), focusing on indirect ties, Friendster (2002) focuses on friendships with anyone, not necessarily lost classmates. By 2005, one social networking service MySpace, which originally was founded in 2003, as a social network that initially began to promote independent music and the socialite scene across the globe, was reportedly getting more page views than Google, with Facebook, a competitor, rapidly growing in size.

Today, business and trade professionals are recognizing the profitable advantages of social networking sites, and are seeking niche networks to communicate fluidly with others in their line of work and outside their industry. Some of these advantages to business and trade networking sites are their on demand information, quicker communication than through email, an improved culture at work, and a more personable and trustworthy professional presence with picture, bios, and information for potential partners and clients to access.

A recent research study conducted by Microsoft [14] revealed some of the reasons for using online social networking sites. Some of them included ego as the driving force, people's contribution to increase their social, intellectual, and cultural capital, keeping in touch with family and friends, being "nosey", expressing opinions and views as well as meeting people with similar interests.

In addition, a Microsoft study has revealed that 70% social networking activity occurs in the evening, 37% of participants visit daily and 41% a few times per week. Photos, diaries and music are preferred content to put on user's own pages and personal experiences, movies, family and travel are what people want to see on their friend's blogs or profiles.

DataMonitor [5], a leading marketing research firm, predicts that revenues from social networking sites are expected to reach $965 million this year, when worldwide members will total 230 million, with revenue growing to $2.4 billion in 2012, when membership will plateau. Also, DataMonitor reported that by the end of 2007, Asia Pacific represented 35% of all social network users, followed by Europe, the Middle East and Africa (28%); North America (25%); and Latin America and the Caribbean (12%).

According to a study conducted by comScore [4], more than 1 billion of thee world population (about 6 billion people) are now subscribed to social networking sites, contributing to more than a quarter of all internet traffic. This means that one in six people across the globe have profiles on MySpace ($440 million in revenues in 2007), Facebook (31 million active users), Bebo or one of the other leading networking sites.

According to Hitwise [7], the top 10 social networking sites had a combined market share in terms of visits of about 95%, with MySpace leading the pack with over 72% market share, followed by Facebook with 15% (see Table 1).

Table 1: Market share of U.S. internet visits to top 10 social networking websites

Rank	Name	Jan 2008
1	MySpace	72.70%
2	Facebook	15.04%
3	Classmates	1.17%
4	Bebo	1.11%
5	BlackPlanet.com	1.01%
6	myYearbook	0.94%
7	Gaia Online	0.71%
8	Hi5	0.70%
9	Club Penguin	0.68%
10	Tagged	0.65%

Source: [7]

Much of the growth in social networking sites (e.g. Bebo, Facebook, Friendster, etc) has been fueled by venture capital investments coming from Benchmark Capital, Accel Partners, Sequoia, Kleiner Perkins Caufield, Draper Fisher Juvertson and many others [3].

One of the recent trends has been to move away from general online communities to more specific ones (vertical/niche site), such as country specific, schools/colleges, ethnic groups, musicians, sports, hobbies, demographics (e.g. youth, moms, grandparents, etc), pet lovers, etc. More recently, we have witnessed the appearance of social commerce networks, where the connections are established not between individuals, but between businesses that leverage their connectivity to make themselves more accessible to potential clients [15].

4. SIX ROUTES TO MONETIZING SOCIAL NETWORKS

Despite the extensive attention social networks have received in the last few years, few companies have been able to monetize them, and those who have

done so mainly through selling advertising to companies interested in the captive audiences existing in the network. There are, however, other routes to monetizing social networks:

4.1 Side Payments

Placing advertising in a social networking site is the most common form of side payment and also the most common (for now) source of revenue for social networking sites. Advertising on social networking sites reached $900 million in 2007 and is expected to grow to $2.5 billion in the US alone in 2011 according to Emarketer.com [6] (see Table 2). Outside of the US, figures are still small but growing faster (see Table 3).

Table 2: Social network Ad spending (United States)

Year	Amount ($)
2006	$350 million
2007	$900 million
2008	$1.4 billion
2009	$1.8 billion
2010	$2.2 billion
2011	$2.5 billion

Source: [6]

Table 3: Social network Ad spending (outside the United States)

Year	Amount ($)
2006	$95 million
2007	$335 million
2008	$530 million
2009	$745 million
2010	$970 million
2011	$1.1 billion

Source: [6]

It is the same tried and tested practice used in radio and television. Advertisers find value in gaining exposure to individuals participating in the site who usually spend long periods of time there and share common (and importantly, known) interests. Advertising can thus be easily targeted either to the general interest of the site or in some cases to the activity patterns and profile of individual participants. For example, a MySpace member profile can include a banner ad for a weight loss product and text ads based on the content of the profile. Other sorts of side payments would be revenue sharing and per-transaction programs where members are encouraged to visit other commercial sites that pay either a fixed fee or a percentage of revenue to the originating site.

Side payments take advantage of the size and specific demographic and behavioral characteristics of the network. The larger it is and the more defined its characteristics, the more attractive it is for advertisers. The pages dedicated to BMW enthusiasts at Cardomain.com are especially attractive to makers and distributors of performance and customization kits for BMWs such as MyHotBMW, and Nike advertises can hawk soccer gear in Joga.com, a website for soccer fans.

In economic terms, the members of the network create an externality because of its size, characteristics or interaction that is appropriated by the site and the advertisers. This raises the question of the value for the participants. Since it is not coming from a share of the side payments, it is necessary for the site to either create or facilitate the creation of value for the participants in the form of free valuable content, interaction tools, brand image or services.

4.2 Buy-clubs and Affiliate Programs

One way to solve the problem of creating value for the participants in the network is through affiliate programs or buy clubs where participants themselves are remunerated, sometimes through a points reward system, for recommending specific products, redirecting traffic to particular websites or other activities. The downside of this model is that the whole content of the social site may come to be perceived as driven by commercial interests and therefore irrelevant to the members' need for unbiased and "cool" interaction.

4.3 Access Control

Most social networking websites offer free membership, but some require paid memberships and even those offering a free basic membership often offer paid subscriptions that allow access to premium content or features. Membership in LinkedIn, a business-oriented site, is free, but its premium membership gives more access to the information in the site such as viewing detailed profiles of members outside your network. Enhanced features at Dogster.com, a social networking site for dog lovers, include the elimination of ads from your profile, more photo uploads, access to exclusive forums and "rosettes" to award to any pet.

The main question related to access control is how to communicate the benefits of a paid membership to people who do not have access to it. Therefore, free memberships serve as a trial version of the site to allow potential premium subscribers to test-drive the site and eventually convert to premium members. A very attractive set of free features will bring in subscribers to try the service, but at the same time make it difficult to differentiate it from paid offerings.

At the extreme, some sites like ASmallWorld.net behave like country clubs, restricting access to the club to "invitation only" candidates and focusing on a narrow set of themes and activities, thus justifying the fees they charge.

4.4 Aggregation of Content

The interaction in a social networking site generates large amounts of data. Moms at CafeMom.com discuss all sorts of issues, products and services related to parenting, from baby bottles to diapers to toys. While many companies will certainly benefit from placing their brands in front of this audience, the content generated by them can be at least as valuable. Would P&G benefit from their opinions about Pampers? This is one of the least exploited revenue sources but arguably one with a large potential. It is partly limited at this time by the statistical difficulty in translating unstructured conversations and relational data into relevant intelligence companies are willing to use and pay for [9,11].

Privacy concerns have also been mentioned as a factor limiting the extraction of business intelligence from social networking data. Facebook recently faced a general backlash when it started mining the content of its website and its users' computers and publicizing the products its members had bought. This may be the reason why the best content aggregation happens within organizations that establish internal networks that in turn feed into their knowledge management systems. Privacy is also related to the question of the impact of content aggregation on the value of the network for the members themselves. Some participants may feel that the value of participating in the network decreases if the content of conversations is mined and repackaged for marketing uses. Again, this encourages internal uses within organizations rather than the sale of intelligence to third parties.

4.5 Events

At this point it is unclear how much revenue networking sites are deriving from the organization of offline events, but both MySpace.com, Edmunds.com and others are relying on them as a source of income, as a means to increase awareness through word-of-mouth, to create content, and as a way to increase loyalty and encourage interaction among the members of the site.

4.6 Integrated Mobile Platforms

While customers are generally reluctant to pay for online services, they are willing to pay for mobile content and access to services through their cell phones or other mobile devices. By adding mobile capabilities to the site, social network owners can create an additional source of revenue.

5. OTHER WAYS OF HARNESSING VALUE IN SOCIAL NETWORKS

While turning a social network into a cash generating enterprise is certainly attractive for many companies, some of the best opportunities for social networks lie in the creation and harnessing of value that can be internalized and used internally rather than sold in the marketplace.

We have found that there are two basic ways for corporations to do this: customer interaction and knowledge management.

5.1 Customer Interaction

Harley Davidson is one of the first companies to understand the value of social networks, both off-line and on-line, in creating, sustaining and enhancing customer loyalty and brand equity. Every purchaser of a Harley Davidson motorcycle, whether new or used, can (and in a very high percentage of cases do and for a fee) become a member of the Harley Owners Group (H.O.G.). This gives them access to not only information about the company and its products (from new launches to customization tips), but also contacts with other Harley owners, off-line events and exclusive merchandise. As a consequence H.O.G. members develop trust and feel embedded in the company like part of the organization and become more loyal to the brand and willing to share information and participate in new product development. In addition, Harley Davidson has access to first-hand information about how customers use its products, their preferences and new ideas for new product and service innovation.

Success for this type of corporate-sponsored networks hinges on providing not only exclusive and relevant content for customers, but also tools to fit their customer experience to their particular needs (a clothing retailer could have a tool for creating and managing wardrobes) and connect them to the experiences of other customers (in the same example, comparing or rating potential wardrobes could be possible), the creation of trust through member embededness [12], and the ability to use user-generated information for corporate decision making. The key here is to use social networking to use social networking to create personal connections among users of the brand and with the brand itself, thus increasing customer loyalty, harnessing their creativity [10] and ultimately enhancing the brand's revenue potential.

5.2 Knowledge Management

Leading knowledge-based companies such as McKinsey or the Boston Consulting Group pay special attention not only to the social networks that

connect clients to their companies, but also the social networks within the organization, connecting employees from different offices or different functional areas and giving them access to the knowledge resources in the whole company. These knowledge resources are contained not only in their formal knowledge management systems, but very importantly in the minds of employees and it is their interaction that elicits this knowledge in a usable form. In these companies, consultants can share their experiences in certain types of projects or with certain clients, ideas about research techniques or best practices, or even the best restaurant in a remote location where a consulting assignment will take place. Also, consultants can become acquainted with each other and their work before they become members of a team for a particular assignment, thus creating social capital [17] and speeding the team building process and maximizing productivity. For companies to harness the full value of these internal social networks, an additional element is necessary: companies have to integrate the content of the social interaction into their corporatewide knowledge management systems in order to make it available to the relevant individuals in the organizations. Only in this way will this knowledge increase both employee and organizational productivity.

Social networks are also being adopted by healthcare professionals in health care organizations as a means to manage institutional knowledge, disseminate peer to peer knowledge and to highlight individual physicians and institutions. Ultimately, the social network is used to build intellectual property, an asset that can be used to generate incremental revenue.

5.3 A Model beyond Monetization

Standard models to monetize the value in social networks (side payments, buy-clubs and affiliate programs, access controls, aggregation of content and integrated mobile platforms) rely on the transfer of all or some of that value to third parties in exchange for cash or other compensation. For example, in side payments an advertiser pays for the right to position its brand in front of the members of the social network. Since that value is marketed directly to a third party, it has a unit multiplier.

In turn, models that go beyond monetization, such as knowledge management, allow the owner of the social network to leverage that value in its own production process or its relationship with its customers, thus attaining social network value multipliers higher than one. We can see these models as a particular instance of vertical integration where the value of the social network is not sold but leveraged internally, creating a higher profit potential.

6. CONCLUSIONS AND MANAGERIAL IMPLICATIONS

We have shown how creating value through social networking sites is more than just generating a revenue stream. While that is indeed important, and we have shown a number of ways to do it (including side payments, buy-clubs and affiliate programs, access controls, aggregation of content and integrated mobile platforms), there are ways to create non-monetary value that can be at least as important and rewarding for the companies using them. The main ones are using social networks to improve customer interaction, thus increasing brand loyalty and enhancing customer feedback; and knowledge management, facilitating the interaction among employees (current and former) and gathering the knowledge created by that interaction and distributing it in meaningful ways to the relevant users.

Future research initiatives could focus on industry-specific studies and on ascertaining the relative effectiveness of different methods of value creation or their combinations.

REFERENCES

1. Barnes, J. A., 1972, "Social networks," *Addison-Wesley Module in Anthropology*, Vol. 26, pp. 1-29.
2. Boyd, D. H. and Ellison, N. B., 2007, "Social network sites: Definition, history and scholarship," *Journal of Computer-mediated Communication*, Vol. 13, No. 1, http://jcmc.indiana.edu/vol13/issue1/boyd.ellison.html.
3. Brooks, M., 2006, "Who's funding who - ultimate list of online personals VC's," http://onlinepersonalswatch.typepad.com/news/2006/06/whos_funding_wh.html.
4. Comscore Inc, 2007, Comscore Report.
5. Data Monitor, 2007, *The Outlook for Social Networks*.
6. Emarketer.com, 2007, "Ten key online predictions for 2008," http://www.marketingcharts.com/direct/ten-key-online-predictions-for-2008-2924.
7. Hitwise, 2008, *Hitwise US Social Networking Report*.
8. Hiltz, S. R. and Turoff, S. R., 1993, *The Network Nation*, MIT Press, Cambridge, MA.
9. Breiger, R. L., Carley, K. M. and Pattison, P., 2003, "Data mining in social networks," *Dynamic Social Network Modeling and Analysis: Workshop Summary and Papers*, The National Academies Press, Washington D.C.
10. Kozinets, R. V., Hemetsberger, A. and Jensen Schau, H., 2008, "The wisdom of crowds. collective innovation in the age of networked

marketing," *Journal of Macromarketing*, Vol. 28, No. 4, pp. 339-354.

11. Neville, J. and Jensen, D., 2007, "Relational dependency networks," *Journal of Machine Learning Research*, Vol. 8, pp. 653-692.

12. Porter, C. E. and Donthu, N., 2007, "Customer relationship management in virtual communities," *Working Paper Series*, No. 4, Marketing Science Institute, pp. 25-47.

13. Preece, J., 2000, *Online Communities: Designing Usability, Supporting Sociability,* John Wiley & Sons, Chichester, UK.

14. Steckler, M, 2007, *Keynote Address at Blogging 4 Business 2007*, London, UK.

15. Stephen, A. T. and Toubia, O., 2009, "Deriving value from social commerce networks," *Journal of Marketing Research* (forthcoming).

16. Stockdale, R. and Borovicka, M., 2006, "Developing an online business community: A travel industry case study," *The 39th Annual Hawaii International Conference on System Sciences, Washington, DC: IEEE Computer Society*.

17. Tsai, W. and Ghoshal, S. 1998, "Social capital and value creation: The role of intrafirm networks," *Academy of Management Journal*, Vol. 41, No. 4, pp. 464-476.

ABOUT THE AUTHORS

Jose Tomas Gomez-Arias is a Transamerica Associate Professor of Marketing and Global Business at Saint Mary's College of California. He received his Ph.D. from the University of Leon. His research interests are Business-to-Business Marketing, Retail Management, Brand Equity, International Business, Greater China Economies, and New Products and Services

Larisa Genin is an Associate Professor of Marketing at Saint Mary's College of California. She received her Doctorate in Business Administration from Golden Gate University. Her research interests include, Customer Relationship Management, Brand Management, Purchasing Behavior on the Internet, Effect of the Internet on New Product Development and Marketing Education**.**

非貨幣化方法：在線上社交網路中創造價值

Jose Tomas Gomez-Arias[*] and Larisa Genin
School of Economics and Business Administration
Saint Mary's College of California
Moraga (CA 94556), USA

摘要

附加報酬、購物中心、會員機制、權利控管，創意整合以及整合通訊平台是社交網站典型的貨幣化方法。然而，尚有其他未開發的方法可藉由社交網路去創造價值，特別是有關於加強客戶間之交流，知識創造，及組織內資訊的流通。在這篇論文，我們令這些新方法有可能從社交網路中創造價值，並比較他們與傳統營收流之差異。

關鍵詞：線上社交網路、貨幣化、價值創造、網路營收
（[*]聯絡人：tgomez@stmarys-ca.edu）