

Chapter VI. Business Considerations

Social networking is currently a source of revenue for a large number of companies. Observers have speculated that Facebook, the undisputed leader in Western markets, received between \$600 and \$900 M in advertising sales in 2009. In September 2009 the company declared that it had reached break even and was running profitably.

Revenue Stream	Rumored Run Rate, July 2009	Estimate, EoY 2009
Brand Advertising	\$125,000,000	\$225,000,000
Microsoft Advertising	\$150,000,000	\$50,000,000
Virtual Goods (Credits)	\$75,000,000	\$10,000,000
Performance Advertising	\$200,000,000	\$350,000,000
<i>Total</i>	<i>\$550,000,000</i>	<i>\$635,000,000</i>

InsideFacebook.com

Figure 1. Estimated revenues of Facebook in 2009 Source: Inside Facebook blog March 3, 2010

Tencent, the operator of the Chinese service QQ, announced in May 2010 that it generated \$1.8B in revenues in 2009.

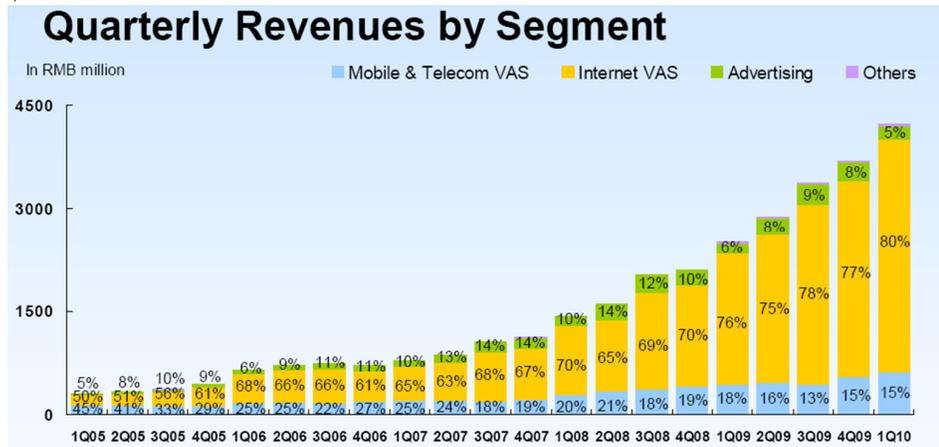


Figure 2. Tencent QQ Quarterly Revenues by Segment, Source: QQ investors fact sheet April 30, 2010.

Judging from the rate of increase in the past 12 months, Tencent can easily be expected to generate double the 2009 revenues in 2010. According to an independent analysis in March 2010, Facebook is on track to exceed \$1B in 2010.¹

There are also revenues generated in the social networking “ecosystem.” For example, mobile network operators upsell smartphones and a greater number of higher margin data plans to people who are avid users of social networks. Application developers generate revenues from engineering services for brands and a wide variety of publishers which want to be available on social networks. Social games, a phenomenon which was already wildly popular in China, Japan and Korea, expanded rapidly on MySpace and Facebook in 2009, creating high valuations and recurring revenues from end users who acquire digital goods and services within games.

¹ <http://www.insidefacebook.com/2010/03/02/facebook-made-up-to-700-million-in-2009-on-track-towards-1-1-billion-in-2010/>

The purpose of the Social Web XG is not to propose or promote solutions which reduce or erode existing and viable businesses. It seeks to explore the introduction of entirely new business models which can complement the current business models. By combining existing and new business models it is more likely that existing social network providers will support the evolution from silos to a Social Web architecture.

Current business models for social networks

On the Web, today and in the future, revenues can be generated from social networking or social applications by:

- (1) users paying from their own pockets,
- (2) corporations purchasing value which they can convert into future business revenues and
- (3) commissions on transactions (a case in which the end user paying for a digital or physical good or service and the vendor/merchant selling that object provide a small percentage of the total cost to the provider of social applications where the transaction happens, similar to a purchase on eBay or Amazon or any digital “store front”).

Some social networks today are only using advertising to generate revenues. Others only have user premium service fees. Some companies are combining two or three business models. For example, mobile social networks such as MeetMoi, Flirtomatic, FunkySexyCool are reliant on both (1) end users paying small premium fees for special options and (2) corporate advertising budgets. Facebook continues to offer its service at no cost to end users and generating its revenues entirely on advertising, although transactions in the platform are enabled and expected to generate increasing revenues in the future.

In Japan, Gree, Mixi and Mobagetown provide their basic service for free and generate revenues from sales of advertisement to brands, sale of premium options to members of the community (e.g., extra UGC storage for photos or a mobile digital novel, a larger virtual “room” for their avatar, a new template for a blog with professional graphics), as well as the sale of digital goods (e.g., a digital diamond ring, a digital red rose, games, wallpaper, accessories for avatars).

New business models

The Social Web XG has explored new architectures, including distributed social networks and data portability between networks, which will meet the new/emerging needs of users as well as businesses on the Social Web. While not the focus of the group members’ discussions, the new business models which could be explored in the future based on the Social Web must be developed further. New Social Web-friendly services to explore include a third party providing to communities and users distributed or centralized identity management services combined with profile management services or separately. In addition, a new category of service provider could host and manage the user’s personal content (UGC) separate from the social networking applications.

The Social Web management service providers will be able to generate revenues by way of users choosing and paying a one time (fixed cost), a monthly subscription cost (flat recurring), or a pay as you use (variable cost) for services provided. Or, an identity management service for Social Web might also generate revenues by way of providing a highly robust identity authentication system. This would be considered a value add to the billing/transaction provider if it is a third party. Or value added to social applications which rely on higher trust.

One of the requirements for new business models on the Social Web is a suite of low cost and highly reliable micropayment systems. Defining the micropayment specifications or standards is not in the scope of this incubator, however we recommend that micropayment work in the future consider the needs of the Social Web.