

# Chapter 97

## Developing a New Revenue Business Model in Social Network: A Case Study of Facebook

Te Fu Chen

Lunghwa University of Science and Technology, Taiwan

### ABSTRACT

*This chapter focuses on a new business model in social networking, uses platform strategy to discuss possible business models, evaluates the optimal model for partnering with social networking service providers. This research develops a new revenue business model in social networking with a case study and discusses its potential monetization business model. The chapter reviews five business models including: 1) social media startups; 2) challenges social networks face: must monetize or die; 3) a case study of the new effective social business model – Facebook; 4) monetization: Facebook revenue and business model; and 5) a discussion of monetizing social networks: the four dominant business models and how you should implement them in the future. Through a comprehensive review, the chapter proposes a social media monetization model as the reference for firms to implement new business models of social networking.*

### INTRODUCTION

#### Backgrounds and Motivations

Social networking sites like Facebook have emerged recently as one of the hottest names on the Internet, with daily news reports of new partnerships, advertising initiatives and acquisition activity. Indeed, several of the top six social

networking sites – Twitter, MySpace, Facebook, Hi5, Orkut and Friendster - rank among the top 10 most-visited websites globally. Unsurprisingly, the growth in interest in social networking has led to a number of important deals by major online brands and media firms. These include News Corp's July 2005 acquisition of MySpace for US\$580m and more recently Microsoft's purchase of a 1.6% stake in Facebook for \$240m,

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a purchase price that values the entire company, which has annual revenue of some \$100-150m, at an impressive \$15bn.

A social networking service (SNS) is a platform to build social networks or social relations among people who, for example, share interests, activities, backgrounds, or real-life connections. A social network service consists of a representation of each user (often a profile), his/her social links, and a variety of additional services. Most social network services are Web-based and provide means for users to interact over the Internet, such as e-mail and instant messaging. Online community services are sometimes considered as a social network service, though in a broader sense, social network service usually means an individual-centered service whereas online community services are group-centered. Social networking sites allow users to share ideas, pictures, posts, activities, events, and interests with people in their network. The main types of social networking services are those that contain category places (such as former school year or classmates), means to connect with friends (usually with self-description pages), and a recommendation system linked to trust. Popular methods now combine many of these, with American-based services such as Facebook, Google+, Tumblr and Twitter widely used worldwide. SNS has been a popular field of research for years. Through interacting with others, many people find social network interesting and log in regularly. The explosive growth of social network sites accounts for not only the popularity of Web 2.0, but also the gradual change of online social behaviors through these SNS. The research looks at the social networking business model and analyzes its future, including forecasting the number of social networking members expected globally.

## **Problems**

In this research five problems can be raised:

1. How do social networking services fit into the larger online media landscape today?
2. How are social networking services spreading across the globe?
3. Will advertising, subscription fees or premium, “extra” services dominate the social networking business model?
4. How large is the revenue opportunity?
5. Where and what’s the potential of new business model in a social network? Any potential business model derived?

## **Objectives**

The objective of this research is to:

1. Find out the potential of new business model in social network, and its potential business model. To derive potential business model, the research uses platform strategy<sup>1</sup> to discuss possible business model.
2. Quantify the opportunity in social networking services, and assess your strengths in building an effective strategy to create or expand your social networking-based revenue streams.
3. Evaluate the optimal model for partnering with social networking service providers.
4. Develop a revenue model for social networking services that fits into you larger Web data revenue strategy, examining advertising, subscription fees and premium services.
5. Devise tactics to counter social networking moves by competitors.

## **BACKGROUND**

### **Business Model**

The “Harvard Business Review on Business Model Innovation” charts four basic tenets of a business model: how the company creates and delivers value to its customers, the ways in which the company

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