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VALUE CREATION MODELS WITHIN SOCIAL MEDIA ENTERPRISES

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ABSTRACT

The main focus of this article is the economic value creation within social media enterprises. This article will examine different models within this domain. The work has not only identified the main strengths and weaknesses of each model, but also highlighted the differences and similarities between them.

KEYWORDS

Social Media, Value Creation, Models, Social Media Enterprise.

1. INTRODUCTION

Social media have assumed unprecedented importance in today's world, dramatically changing the way individuals interact with each other and with companies. Over 75% of Internet users have joined social networks, contributed reviews to products and shopping sites, written and responded through blogs, created and posted videos for others to see, or joined in other forms of peer-to-peer exchange (Morrissey, 2008).

Social Media Enterprises (SMEs) evolved around the categories of social media (Alter 2007). Generally, SMEs primarily exist for the aim of creating social purposes mitigating or reducing a social problem or a market failure and for generating social value while operating with the financial discipline, innovation and determination of a business (Alter 2007). Up to date, there is no agreement when it comes to defining what a SME is. The Australian government defines SMEs as enterprises that are led by economic, social, cultural, or environmental mission consistent with public or community benefit and trade to fulfil their mission (FASES 2010). However, the nature of trading activities, the extent to of the resource generated and invested, and the range of potential missions are all still deeply debatable.

A SME is different from a commercial enterprise. The first aims to create a social value while the second aims to create economic value (Safko & Brake 2009). In other words, commercial business entrepreneurs target problems from purely an economic point of view.

While media entrepreneurs usually have a vision of something that they would like to solve in the social sector (Austin et al 2006).

Within the evolving social media space, value as a concept was changing rapidly. This concept was applied in two main forms: economic which is value for money, and social which is the social benefits that can be achieved through how users communicate and act (Karoly, 2008). In recent years, it was clear that Social Media Enterprises (SMEs) deliver high economic values in addition to their social impact. Understanding the value creation in SMEs will assist investors and firms in making better decisions about future developments as well as providing a complete framework for effective business valuation.

While SMEs value creation under their business models vary among this area of technology, they all offer a set of value creation methods which are the focus of this research. Most of the benefits within these methods fit within the main definitions of value which include – but not limited to – revenue generation, cost reductions, and brand value. However, they are not only limited to the owners of SMEs but also to the end users. Owners and investors in SMEs cannot predict the value end users will pay for the benefits of the SME. The uncertainty investors have around the SME business plan among the ambiguity of the effect of the value propositions within the SME business model result in a wrong valuation of the SMEs.

In the next section, these different VC models developed by SMEs will be the main focus of this article and will be examined in details.

2. VALUE CREATION WITHIN SOCIAL MEDIA

In a traditional business, customers are always the starting point because they are the heart of the business (Burkett, 2014).In a traditional market place, when customers and sellers agree on a trade then a value will be realized. This value is known as the commercial value and is measured using the financial price as a proxy for the value (Nicholls, 2007). The profit a company generates can be used as a reasonable indicator for the value it produces (Dees, 1998). Dees (1998) concluded that if an enterprise is not able to attract enough customers to pay a value for an offered product, it is an indication that insufficient value is being created. Business that fails to create a reasonable amount of value eventually run out of resources and go out of business. While a business that succeeded to create value have cash to attract the needed to resources to grow further.

Value research in organizations has occurred primarily because of the dynamic nature of the value required by the customer. Previous studies state that each customer has her own value model based upon her needs and desires (Ravald & Gronnroos, 1996). One customer may be influenced more by potential sacrifices than by benefits, while another customer seeks enhanced benefits to compensate (Rezab, 2012).

Value creation methods are developed by analysing the current market offerings, identifying customers' needs, and developing solutions or products that meet the market needs (Anderson et al., 2006). According to Shanker (2012), a commercial value is created by producing a product or a service that fulfils a customer's need to get a job done or solve a problem. While social value is created when the provided product or service is of value for the recipient (Rezab, 2012).

As part of this research, some established value creation models in the SM industry were identified. This includes: Advertising model, Freemium model, Targeting model, Infomediary model, Affiliate model, Revenue sharing model, and Subscription model.

2.1 Advertising Business Model

This model stands as the main source of profit for most SMEs (Rappa 2010). In simple terms, the more traffic a SME has, the more they can charge for ads. Kangas et al (2007) proposed two main categories of online advertising: Time-based advertising, and Click-based advertising.

With time based advertising, the advertisers pay for displaying banner ads on the certain websites for a specific amount of time. With click-based advertising category is where advertisers pay their hosts only when their ads are clicked. Using this type, advertisers are charged not simply for the number of times their ads are displayed, but according to the number of times they are clicked (Kangas et al 2007). Google and Yahoo are the largest two enterprises that mediate advertisements on the internet (Rappa 2010). According to the financial releases of Google Inc. Google's revenue in 2014 was estimated at about 16.52$ billion dollar for the third quarter ended September 30, 2014. Google advertisement channels include internet search, e-mail, online mapping, social networking, and video sharing services. Yahoo is the second largest enterprise that mediates advertisement on the internet (Rappa 2010).

The analysis conducted though this research identified the following strengths within this model. Firstly, the valuable knowledge that can be gained from users and their behaviors. Users' social histories, searches, activities, and information can provide a great source of knowledge for users' behaviors and preferences. This data can be used in some many ways to improve the potentials and values of social media. Secondly, there is high Social Potentials within this model. The world is becoming more connected due to the means of communication available over the social media. This is a good indicator that this model is going to be maintained and will develop in the future. There is always going to be changes to the advertisement process thought different social media forces. Finally, this model has proven to be recession-proof. When the world economy was going through the GFC in 2007 and the stock markets were trading at all-time lows, SMEs were relatively isolated (Schiffman 2008). Search and internet based advertisements has become a staple to the world economy. SMEs are more recession-proof than many other business models (Schiffman et al 2008).

On the other side, the following were identified as weaknesses within this model. Firstly, the high levels of risk and uncertainty. Technology is always improving and changing. There is always a question that can be raised about new SMEs that will pose a threat to any existing SME. This might lead to losing traffic on the site followed by loss of revenue from advertisement which might force the enterprise to high level of risks. Secondly, there is a crucial need to stay informed, advanced, and constantly connected which result on a need for big investments and spending on different experiments and researches. Finally, the potential threat of the interference of political forces. So far Political institutions and different government have not affected the operations of enterprises like Google and Yahoo. However, according to Liedtke (2005) Google has faced pressure from the department of Justice to relinquish archived search terms and from the Chinese government to sensor search results.

2.2 Targeting Audience Model

This models is based on the behavioral targeting to select ads to be displayed to users based on data collected of those users. Ads on Facebook are shown to specific groups or engaged people on desktop and mobile. The idea here is to make the ads well targeted (facebook.com). This will lead to those ads getting more clicks, likes, and shares (facebook.com

This model offers a unique combination of reach, relevance, social context and engagement to the advertisers. Analysis performed on information collected from users such as age, gender, location, education, preferences, work history will help in relating ads to the right category of people.

The analysis conducted though this research identified the strengths within this model. Firstly, people are doing the work. Within Facebook VC model, the estimated 900,000,000 users are considered unpaid employees. Those users are generating content and value to each other. According to Facebook statistics, there are almost 570 million active users a day. Usually companies will spend big on its employees and employment strategy, while with Facebook VC model, users stand as unpaid employees. The number of these users help in understanding the scope and potential of a big enterprise such as Facebook. Now, that the IPO of Facebook already happened, those users who purchased stocks will feel more connected as they now have some financial ownership in the company. Secondly, Company's culture is well maintained. Facebook base of employees is around 3500 located at their Silicon Valley headquarters. Their revenue hit 3.7 billion last year. Comparing this to Google's base of 33 thousand employees and Apples of 60 thousand employees illustrates how small Facebook cadre is. Facebook small team might be one of the reasons why the company remained focused and innovative to roll out new features and products on a regular bases. A method that was muddled by big companies like Salesforce. Finally, there is the big corporate brand's injected revenue. According to Solis (2013), currently 90% of corporate websites link to their social media accounts. This corporate generated traffic would have been very expensive to generate for any enterprise. However, with this model, those big corporates are already doing the work for social media sites like Facebook by generating traffic to their site.

The analysis also identified the following weaknesses within this model. Firstly, the need of a large funding in advance. Facebook has raised over 850 Million in funding (facebook.com). Raising a similar amount of money will be a very hard task to replicate. Statistically, it is very unlikely that an entrepreneur will be able to raise Venture Capital funding. Creating a business that will depend on an outside funding usually result on that business never starting with the exception of biotech companies where large funding is always a requirement. In most cases, Venture Capital Funders like investment banks will prefer to give money to companies that don't need it. As a result, it is always better to have funding as an option not as a requirement when starting a business. Secondly, the risk of losing the competitive advantage is considerably high. While a company like Facebook is doing well in having more advertising revenue generated without affecting the users' engagement so far. It is also important to remember that completion from other sites and new technologies are rising. Those other companies such as Twitter don't necessarily need to compete with Facebook directly but they might acquire a bigger share of the users' time in the future. This will pose risks to this model as engagement metrics such as number of page views per user will be affected. This will affect the generated revenue as a result. And finally, the issues related with privacy. SMEs sites gather information about their users without their

acknowledgment. For example, there was a serious protest from Facebook users in November 2007 in which 70 thousand members signed a petition in over two weeks asking Facebook to stop invading their privacy by collecting information about their activities for advertisement through Facebook "Beacon" online advertising system (Nelson 2013). Facebook responded by introducing new features that allow users to not broadcast their posts. However, research examination of Beacon activities suggests highly that Beacon is still collecting data on member's activities through third party sites. Even if users have declined to have their activities broadcasted, they are still collected by those third party sites and forwarded to Beacon (Nelson 2013).

2.3 Freemium Model

Freemium model is a pricing strategy through which a product or service is provided for users at no fee, but an extra fee is charged for additional features (Nelson 2013). The term Freemium was first introduced by venture capitalist Fred Wilson in a 2006 blog post and it is a combination of the term Free and Premium (Nelosn 2013). The freemium model has proven to be a more reliable source of revenue than advertising which lead to its driving force within SMEs (Nelson 2013).

A food example of SMES implementing the Freemium model is LinkedIn. While many SMEs rely on advertising for revenue, LinkedIn decided to follow another path and explore the Freemium model capabilities which proved to be a success (Qiong 2010). Freemium model drives users to pay for acquiring more detailed information of the surrounding networks. LinkedIn's total revenue for 2013 was $1,529 billion, of which20 % or $307 million were of premium subscription, 24 % or $365 million were of marketing solutions account and 56 % or $857 million talent solutions account.

The analysis conducted identified some of the strengths and weaknesses within this model. On the strengths side, this model makes it easy for new customers to use the product, this is a great way to get customers to engage with the product. When setting a price on tour service the number of customers falls down, but offering a service for free, helps in increasing your market share. This model also help in maintaining current customers and builds a strong trusted relationship between customers and companies. It does allow free beta testing of new products with a large number of users.

While on the weaknesses side, there relies the risks and threats associated with this model. Firstly, having a free product makes customers think that there is nothing to lose in trying the product, but it can also lead them to think that the product does not have inherent value. Secondly, members will end up paying for non-members. Most freemium services depend on paying users to subsidize free users, so if revenues from paid users aren't enough then the entire business could be placed in jeopardy. Lastly, this model can be very challenging. Within this model it can be difficult to provide a good free service while trying at the same time to provide an equal service to the paying users. It does get to a point where one group will be alienated. It's also not easy to decide what service is free and what service is going to be charged.

2.4 Affiliate Model

Affiliate model is based on offering financial incentives to affiliated partner sites. It is a pay for performance model in which the merchant does not have to pay any cost if the affiliate does not generate sales (Rappa 2010).

Amazon.com is an example of enterprises that are using the affiliate model (Qiong 2010). Affiliate model revenue is generated by driving traffic to another website. Websites with high traffic are the most sites able to benefit from this model (Loyaza 2009). This model is considered a powerful and profitable online marketing tool (Prussakov 2007).

There are three main methods to generate value using this model (Brown 2009): Pay per Click method where the visitor sent by the affiliates does not have to buy something in order for the affiliates to get paid. The affiliates will get paid a commission for every visitor they send whether it is a buying visitor or not. Pay per Lead method where an affiliate is paid if a visitor submits certain information. For example, when a visitor registers for the site, join mailing list, or request some information. Information left by the user can be deployed as a "lead" for future sales. Pay per Sale method where an affiliate is paid a commission for each sale generated from visitors it directs to the site.

The analysis conducted though this research identified the following strengths within this model. Firstly, this model can be of Interest to all e-businesses of any size. Affiliate model is commission based model, its costs will never by pass its actual sales costs. As a result, the affiliate model is considered more effective than banner ads. Secondly, this model is beneficial to both parties involved (win-win). It is beneficial to both the merchant and the affiliates. Merchants receive traffic and make more sales while the affiliates receive money from commission generated from directed traffic. Thirdly, this domain target of this model is much bigger than other models. As increasing sales is the main aim for online businesses, the affiliate model enables online businesses not only to sell products on its website but to generate traffic to products on other websites. Therefore having much bigger chance of reaching customers. Finally, merchants are protected in this model as fraudulent or invalid sales do not count when it comes to commission calculations.

The analysis also identified the following weaknesses within this model. Firstly the level of competition with other models is high. As a result of the fierce competition in this model, enterprises has to constantly improve and spend big in developing and improving to keep affiliates loyal. Secondly, the long term commission commitment. Affiliates want to get paid the life time value of a customer they send to a merchant site (Brown 2009). Affiliates, nowadays, want to get regular payments for the traffic they send (Brown 2009). This result in higher values of commissions need to be paid by merchants to those sites in the future even if the clients start to access the merchant site directly in the future skipping affiliates sites.

2.5 Subscription Model

Subscription model is about users begging charged a periodic (daily, monthly, annually) fee to subscribe to a service (Rappa 2010). For example, companies like salesforce offer customers different levels of functionality for a variety of prices per month. This model was started by magazines and newspaper publishers (Rappa 2010). It is now being used in more and more social media businesses (Rappa 2010). Subscriptions are a good way to bring more flows of revenue to social media services (Kangas et al 2007).

This research identified strengths within this model. Firstly, it offers better positions for both merchant and client. In this model, both sales are easier to forecast allowing merchants to stabilize its business and clients to better buying terms. For example, clients can negotiate discounts on purchases. Secondly, this model has a potential for high profit. Subscriptions can offer high profit potential depending on user's usage and the cumulative subscription fees will cover the digital operating costs. Thirdly, it presents a life time relationship with client. The relationship between the merchant and client is a life time one as clients can be contacted at any point in the future using the information they filled in when registering. Funds invested to acquire a client can be returned over the years they stay as customers. Finally, this model is simple model and is easy to manage. This model is low in complexity and enterprises that employ this model need to manage 2-3 pricing tiers instead of pricing products and services individually.

The analysis conducted through this research identified the following weaknesses within this model. Firstly, there is the potential for a loss from people who do not like fees. Usually users like free sites. It is sometimes hard to convince users to pay a fee to get services. However, once you win a client it is also a life time relationship with this model. Secondly, when asking users to register to gain access to some information, the information needs to be of high quality. Users may turn away easy if what is offered is not much more valuable from what was on the site prior to registration.

2.6 Infomediary Model

Within this model, an infomediary SME will collects, analyzes and sells information on consumers and their buying behavior to other parties who want to reach those consumers (Rappa 2010). The information which the infomediary collects is extremely valuable for marketing purposes (Rappa 2010). Often the infomediary makes money with an advertising-based model, in which the advertisements are targeted based on the information it collected itself.

Generally, the informediary will require registration for access of a product or a service, preferably for free. This allows inter-session tracking of users' site usage patterns and thereby generates data of greater potential value in targeted advertising campaigns (Net Industries 2015).

The term infomediary is a composite of information and intermediary. The web 2.0 has made possible a quick 24 hours access to information that was previously not available. Gathering information about customers is now a business for specialized companies (Net Industries 2015).

In this model the infomediary acts as an agent, providing the means for clients to monetize from their own information (Net Industries 2015). In some cases companies using infomediary model can also act as third parties that provide free services in exchange for information about themselves, which later is sold to companies that develop successful marketing campaigns based on the analyzed information (Net Industries 2015).

The infomediary needs to keep track of its users (IUS MENTIS 2005). A simple way to achieve this is by getting the customer to register which will allow an inter session tracking for patterns to be initialized (IUS MENTIS 2005). This process will generate data of greater potential value in targeted advertising campaigns (IUS MENTIS 2005). A good example is Netzero (an Internet service provider based in Los Angeles, California). The Company

offered 40 hours of monthly Internet access to over 8 million consumers in exchange for their marketing information. As a part of the deal the consumers were required to allow a special browser called ZeroPort to remain on their screen while online. The ZeroPort displayed ads on the marketing information they provided to NetZero.It also served as a Web navigator tool and displayed customized information like sports, e-mail, news, and updates on stock prices. By using technology from marketing software manufacturer Amazing Media, NetZero also allowed small businesses to reach local or regional consumers through the ZeroPort and view the daily results of their online ad campaigns.

The analysis conducted through this research identified the following strengths. Firstly, the high revenues that can be generated. This model can help in generating a lot of revenues to a company if it is able to be trusted by users and provide them with useful information. Having also competitive advantages does help in increasing revenues. Secondly, companies need to provide unbiased information to customers about different business on the internet helping them to find the right ones.

The analysis also identified the following weaknesses. Firstly, Extensive resources need to be used in constructing a database of specialized information before being able to monetize the product. These resources can be expensive. Secondly, funds can be hard to allocate. A lot of researches need to be done on where the information can be found before finding investors who are willing to fund the product. Finally, when providing Information on a certain topic, the information needs to be of high quality. Otherwise, the potential of losing clients will be very high.

2.7 Revenue Sharing Model

In this model, revenues are shared between users and services. Content to be sold is generated by users. Best user generated content corresponds to that created by professionals. At the same time, contents created by amateurs will be available at a clearly lower price compared to professionals.

The iStockPhoto agency is an example of a social media service that uses this model. It allows photographers whether professionals or amateurs to present their photos. It hosts a large number of photos which attracts interest from the public or interest from agencies like newspapers, magazines, or advertising agencies who can buy those photos and use them in their own work (Mack 2006). Photographer receive around 20 per cent of the purchase price any time their image is downloaded (Mack 2006). For some photographers who became more involved members, they can end up with contracts with iStockPhoto and get 40 per cent of the price of their sold work (Mack 2006). Amazon mechanical truck is another example of social media services which use this model. It pays for users to carry out tasks that are difficult to assign to computers such as pattern recognition.

The analysis conducted through this research identified the following strengths within this model. Firstly, this model presents a new way of communication between beginners and professionals. Zupic (2013) quoted: "In first three or four years at iStock I learned more about photography than in fifteen years before... I learned about lighting, working with models. You can always go to the community and ask – hey, can you take a look at this picture, it did not turn out the way I wanted it to be: what did I do wrong, how can I do better". Secondly, this model revolutionized the learning process. Taking the iStockPhoto as an example, Zupic (2013) quoted: "In the old times photographers were hiding their techniques. You could never

get a photographer to reveal how he made a photo in the darkroom. It was very different in iStock, people were helping each other. When you posted a question on forums, you got immediate answers". Finally, this model provides an opportunity for people who are seeking work. In iStockPhoto case, this model provided amateur photographers with an opportunity to find work and get their work to be recognized which also helped them to find work while get paid for the current publications.

The analysis also identified the following weaknesses within this model. Firstly, there are some major moral issues. For the same piece of work an amateur will be paid way less than a professional even in cases where his work is better. Professionals still take advantage as a result of their status. Secondly, as other models, Funds can be hard to allocate. A lot of researches need to be done on where the information can be found before finding investors who are willing to fund the product. Finally, there are the privacy and Copyright issues. This can be very clear in cases where the work of amateurs is being taken and claimed by bigger corporates.

3. CONCLUSION

This article has reviewed current social media VC models, academic literature on VC models, their main similarities, their main differences, and their main key themes. Advertising VC model was the most adapted and used model within SMEs.

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