

HOW DO SOCIAL NETWORKS MAKE MONEY

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Social networking is a daily activity for most of us. Anyone paying attention knows that sites like Vkontakte, Facebook and Twitter have hundreds of millions of users and are extremely popular. However one thing we all forget from time to time is that these social networking sites are businesses. They do have employees and they do have costs. But have you ever wondered how these sites made enough money to support millions of users?

Eventually, social networking sites have to hope for one of two outcomes: find a way to make money or convince a larger company to buy the site. Here are a few of the more common methods.

1. Venture Capital

One way social networking sites manage to make money is through investments from venture capitalists. These investors are essentially making a bet that the site they're investing in will become popular and will eventually find a way to monetize that success. Getting in early can mean a huge payoff down the road. There are several large corporations buying out Internet startup companies for millions -- or even billions -- of dollars. For instance, Accel Partners (global venture and growth equity firm), Mail.Ru Group (international investment firm focused solely on the Internet sector) and Microsoft possess Facebook' shares. It is easy to see how money can be made - a valuation valued Facebook at around \$50bn. The same goes with Twitter. Twitter and Facebook have each raised several million dollars in venture capital. Between the dot-com bubble burst in 2000 and the economic recession that began in late 2007, venture capitalism was booming. It was fairly common for entrepreneurs to pool money and invest in promising Internet companies. Without these investors, services like Twitter would have withered away under operational costs. But as the economic recession set in, venture capitalism began to slow down. People are still investing in promising companies, but they're a little more picky about their choices now. The problem with depending upon venture capitalists is that as time goes on, you have to find ways to raise more capital. There's no steady stream of revenue coming in to fuel the company. You may raise millions of dollars during each round of financing, but that money eventually runs out. Oddly enough, it runs out even faster as demand increases and your service or site becomes more popular.

As you can see, monetizing can prove difficult, which leads us to the next revenue stream.

2. Advertising and Fees

The most common way for Web sites to generate revenue is to allow companies to advertise on the site. It may be hard to believe, but Web advertising is still an emerging market. Marketing experts are continuously trying to find the best way to insert advertising into the Web experience without impacting users in a negative way. In general, the more popular the Web site, the more money it will be able to generate through advertising. A social networking site like Facebook has 600 millions of active users. Access to that enormous user base is a valuable commodity. For that reason, advertisers might be willing to pay more for an advertisement on Facebook or Vkontakte than for a comparable one on a smaller social networking site.

For instance, UK theme park Alton Towers is holding an event where you are only allowed in if you let Facebook know you have arrived using its geo-location Deals service. The promise of matching people with products makes social networks attractive to advertisers, and Facebook deals add location into the mix. Users check in on their mobiles and get special offers in return. So people are prepared to give up some of their data without too much effort and, in exchange for that, get a free service.

Another tactic is to charge a membership fee to users. While most social networking sites avoid this strategy, a few have been able to use it effectively. Many online dating sites withhold key features from users until they choose to upgrade to a premium account. For example, you might be allowed to browse for a potential match on a dating service, but you'd have to upgrade if you wanted to send your soul-mate-to-be a message.

3. Offering Premium Options

While some social networks are completely free, others might offer a premium option to its users in an attempt to earn some money. LinkedIn (business-related social networking site), for example, has a premium package for job seekers. All of your networking options are free with LinkedIn, but if you want special privileges you have to sign up for one of their premium options.

An interesting example that took place recently was Ning (an online platform for people and organizations to create custom social networks which was founded in USA). Although Ning has millions of users, they recently made the announcement to suspend their free services and concentrate solely on their premium model. They also were forced to cut several jobs. This shows just how difficult it is to monetize social networking for now.

4. Creative Products & Promotion

Due to the difficulty of monetizing a social network, websites are forced to come up with creative ways to earn revenue. The best example of this is Facebook or Vkontakte Gifts. For instance, Facebook Gifts allows users to send virtual (as in not real) gifts to their friends that appear on the recipient's profile. The cost of a gift is \$1.00 and you can add a personalized message to it.

5. Monetizing Our Data

Actually, a lot of what is created will come from an invaluable resource that social networks possess: our data.

"Data is just as likely to be as big a piece of the business equation as advertising. Vkontakte, Facebook and Twitter already possess billions of pieces of useful data that can infer so much about what's happening – and what's going to happen – in consumer society." Forbes

"Every message that gets sent out can be used by companies like Microsoft and Google to analyze trending topics and what people are talking about right now." New York Times

The data that social networks have accumulated is potentially very valuable. By aggregating this relationship data and making it anonymous, communities can find third-parties willing to pay for it.

It will be important that the sold information doesn't invade anyone's privacy, but that's an entirely different issue. So long as the data contains our wants, needs, likes, dislikes, and interests, its value cannot yet be measured. The sky is the limit!

Conclusion

Talking about the future of social networks many experts consider that such projects would develop video content features, oriented to advertisers, and new kinds of paid services as well as media communities promoting commercial brands. Moreover, in the nearest future social networks would probably pay users for their content. It's possible that we would meet paid services allowing to manage all the accounts person have with the help of only one profile. There's no doubt that different advertising technologies such as behavioral targeting would develop.

Hopefully this information gives you a sense of where social networks are and where they're going. There is no doubt that with the adoption of upcoming technologies (like geo-location) social networks are going to be even more attached to our daily activities and routines. There is a lot of money to be made, which I suppose venture capitalists and entrepreneurs realize.