

## 5 “Social” at the Core of a Digital Business: Valuing Audience or the Community?

This chapter discusses the value creation and value capture strategies of social platforms. Our appellation of social platforms allows us to include services, such as Facebook, Twitter, LinkedIn, Instagram, Snapchat, YouTube, TikTok, and WhatsApp, which are sometimes referred to as social media, social network, and communication apps. These are defined and described in the first section. We then explain that social platform business models share the common characteristics of monetising a group of users, i.e., a community or an audience and/or its data. We finally expand on the ethical tensions arising from locking in a key resource such as an audience to derive financial return from the “actual” customers, viz., the advertisers.

### 5.1 Social: From Latin *socius*, “Friend”

Social media and social networks are often used indifferently. In this section, we differentiate and define social media, social networks, and communication apps. We then explain their common value architecture design, which rests on their ability to capture and monetise data from their users.

Here, Social is the common adjective. Social comes from the Latin *socialis*, “al-  
lied”, or from *socius*, “friend”. Media and network do not mean the same.

Hence, social media are primarily media – i.e., means of communication of content (e.g., information and entertainment) to people. The social element describes the notion that contrary to traditional media, social media users can generate content and/or react to the content that they consume by liking, sharing, and commenting. YouTube is a good example of social media (that is not a social network). Similarly, social networks are primarily networks, i.e., a group or system of interconnected people who communicate with one another and may form an online community; social networks describe a digital platform that allows peer-to-peer communication through an open system.

Facebook, LinkedIn, Instagram, and TikTok had different starting points; yet, nowadays, they may all be considered both social networks and social media. The media dimension – content delivered to the right audience through a powerful algorithm – is gradually becoming more essential than the network attribute.

More recent platforms like TikTok or Snapchat can be considered social media distributing vertically oriented content since it is mobile-first. TikTok was created from the ashes of what was once Musical.ly, a social media app used to share short lip-synch videos. TikTok reached over 1 billion active users per month in September 2021. The network structure resembles a vertical content distribution system, comprised of influencers at the top of the pyramid.

Facebook started as a network, but the media dimension of the platform has gradually become increasingly prominent. Users may have originally joined Facebook to communicate with their friends and peers. This is less the case today. Facebook users log on to the platform to consume entertaining or informative content produced mainly by institutional contributors and distributed to them through an algorithmic “Newsfeed”.

To communicate with peers, users of Facebook have turned to WhatsApp and Messenger. Hence, the network attribute is now primarily assumed by what we will call peer-to-peer communication apps such as WhatsApp, Weebo, and Messenger. Those apps operate as one-to-one communication services or as a closed network (group), vis-a-vis Facebook or Twitter that are more open in their setting. Similarly, some of these peer-to-peer communication platforms have a very heavy media component such as Snap Chat.

To summarise, social media are primarily providers of content which is curated (share), endorsed (like), or remarked upon (comments) by an audience, while Social Networks and Communication Apps primarily rest on a community of people who communicate and share content in an open (Social Network) or closed (communication app) manner. Conceptually, social networks, social media, and peer-to-peer communication apps are therefore different, but in practice, platforms such as Facebook, TikTok, Snap Chat, Instagram, and Pinterest have evolved over time and embrace features and characteristics of the three constructs. From a business model perspective, most of the social platforms share the same value architecture; they provide value to different sides – mainly users or a B2C side and advertisers or a B2B side.

The B2C side is a group of users who share and consume content in the form of text, images, or video. These users provide data (demographic and psychographic information) or generate data through their interactions (metadata). Some social platforms directly capture value from their users in the form of social commerce and premium versions. Yet, the data generated by the audience can be useful for advertising purposes but may sometimes be sold to third parties. Hence, the most prominent value capture mechanism involves a B2B side.

## 5.2 Audience: Monetising Attention and Data

The most common revenue model for social platforms is advertising. The platform creates value through its ability to present ad content to the right targeted audience. This optimised advertising technique rests on the exploitation of data from the audience. Hence, the business model of social media rests initially on audience acquisition.

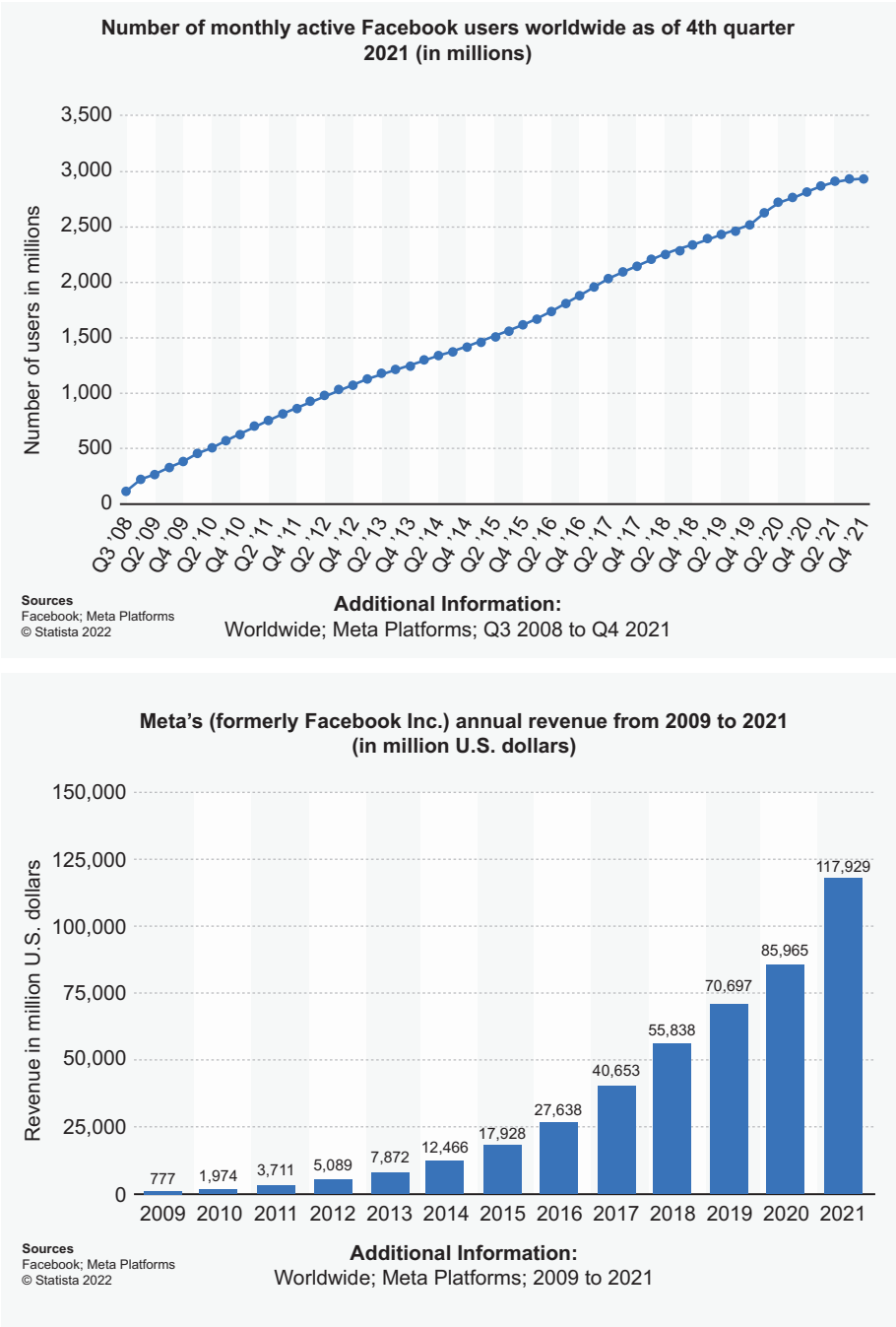
## Production of an Audience

In the *Social Networks* movie (2010), Sean Parker (founder of Napster) is reportedly discussing with Mark Zuckerberg and his then associate Eduardo Saverin. The latter is concerned about the Facebook business model (or lack of it) and wants to run ads. The former reassures Facebook founders: “Right now, Facebook is cool, and you don’t want to ruin it with ads because ads aren’t cool”. Growing the audience is what matters at this early stage. No audience, no product; no product, no revenue. It must be considered in sequence. The oft-repeated adage – “if it is free, then you are the product” – is the perfect description of this business model in which end-users can benefit from a “free” service (connecting with peers) but it is at the price of being transformed as an audience to be sold to a business side. With an audience, there are no reciprocal connections. When audiences generate data, they create value that can be monetised for advertisers. So, though Facebook provides its audience with tools they can use to connect as a community, it has also been monetising its audience right from the start. The following graph (Figure 5-A) shows the lag between audience and revenue. The audience initially grew much faster than revenue, culminating in a 300% growth in the number of active users in 2010, and from 2013 onwards, revenue grew much faster than users.

Social networks are considered multi-sided platforms (see Chapter 2). As such, they need a strong value proposition on the users’ side. For Facebook, the initial value proposition emphasised the network aspects of social media: “Connect with friends and the world around you” along with the tagline “It’s free and always will be” (which changed to “It’s quick and easy” in August 2019). The tagline emphasises the ease of adoption and user experience. The slogan “connect with friends . . .” illuminates the success of Facebook, which can partially be attributed to a same-side Network effect.

## Valuing Network Effects

The Network effect means that the usefulness of the social network increases as the number of users increases. With almost 3 billion users, the network effect has given Facebook a huge competitive advantage. For a while, Facebook protected its dominant position whenever a social network with a similar value proposition tried to challenge it. This can be illustrated through the failed attempt of Google+ to defy Facebook in 2010. G+ project’s slogan was “Real-life sharing rethought for the web”, as the design team sought to replicate the way people interact offline more closely than on other social networking services, such as Facebook and Twitter. Many commentators conceded that G+ digital design and UX were indeed more intuitive than Facebook. However, due to the same-side network effect, the service never really took off. The few users who were initially enticed by the digital design



**Figure 5-A:** User Acquisition and Monetisation for Facebook.  
(Source: Statista 2022)

and UX of Google + became rapidly disillusioned with the service, as none of their friends was active on the network. On April 2, 2019, Google + definitely shut down. This effect and its reinforcing mechanisms such as brand habit and high switching costs are described in Figure 5-B. The same effect has so far protected WhatsApp from competitors such as Signals. Telegram, with 550 million monthly active users (an increase of 175% since 2018), may now be reaching a critical number of users to sustain its own network effect.

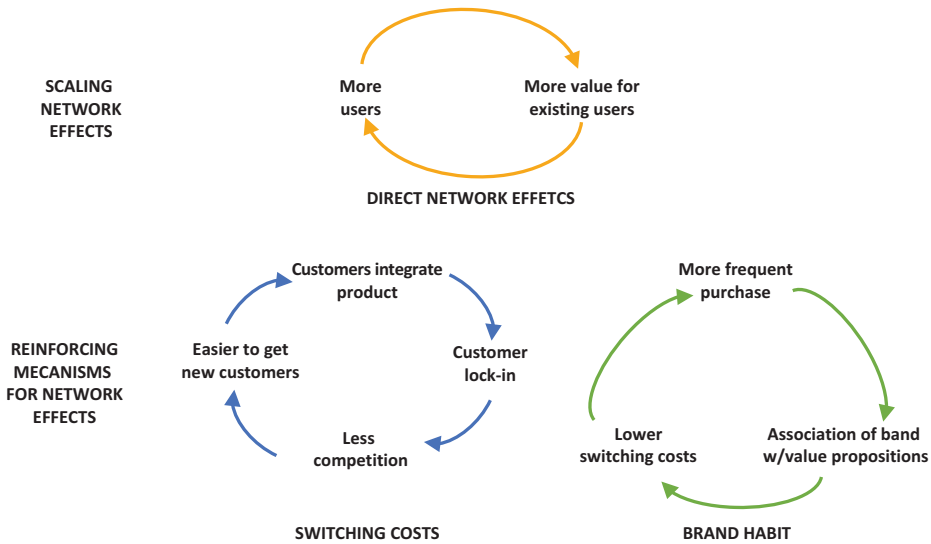


Figure 5-B: Network Effects Explained.

### Keeping the Users Engaged Through Content

As explained earlier, users of social networks and media engage with content and/or with peers. The role of the digital algorithm is then to serve the right content—including paid content—i.e., advertisements, to the right audience. Thus, the main challenge for an audience-based business model is to develop the toolbox that entices the users to spend more time on the platform.

To do so, advertising is meshed with other forms of content. Content can be generated by peers, influencers, or brands. The motivation to produce content for peers is social/ peer endorsement of their way of living, while both influencers and brands have a direct or indirect financial incentive. For them, this is largely a communication activity, which is now called content marketing: the process of planning, creating, distributing, sharing, and publishing content in videos, pictures, or text format on social media, blogs, websites, etc. Influencers and brands produce

diverse types of informative or entertaining content. Native advertising, also called sponsored content, is a type of advertising that matches the form and function of the platform upon which it appears. In many cases, it functions like an advertorial and manifests as a video, article, or editorial.

Regardless of the format, the goal is to meet a marketing strategy objective: reach a target audience and increase brand awareness, sales, engagement, and loyalty. The main function of the social platform is to match engaging (and sometimes paid) content to individual users through an algorithm. The algorithm is a compilation of rules and data that cast extrapolations about what users want to (and therefore will) see on the platform. Social media sites create unique algorithms for every person, which means no two people will have exactly the same social media feed.

This ultra-individualisation makes social media content highly addictive. The Fear of Missing Out can further generate addictive behaviour. The table below shows the relationship between the average time spent on social media, the yearly revenue, and the number of active users of the principal social platforms in 2021.

The table reveals that social media platforms grab a lot of our attention. If communication apps such as WhatsApp have some difficulty in monetising this attention, social platforms such as Facebook, Instagram, or Snapchat seem extremely efficient in keeping users engaged and exposing them to lucrative ads. Hence, for an audience-based business model, a key challenge is to entice the users to spend more time on the platform so that the platform derives additional advertising revenue. We are now talking about the “Attention Economy”. The term, coined by psychologist-economist Herbert A. Simon in 1971, treats human attention as a scarce commodity. With the emergence of the Internet, it is now treated as the management of information and considered the New Currency of Business (Davenport & Beck 2001).<sup>1</sup>

To capture users’ attention, platforms are experts in UX and digital design (Remember Facebook’s motto: “It’s quick and easy”). Scrolling or swiping makes users move vertically or horizontally, respectively, towards a bottomless feed. There is always increasingly more content (funny videos, interesting news . . .) to be discovered further down the feed. Not surprisingly, scrolling has been criticised for its addictiveness. Attention constitutes the token users’ flap in the hope of uncovering rewards. To scroll is to take a chance, just like with roulette or a slot machine. It is this aspect of scrolling behaviour that is now associated with problematic addictive behaviour like gambling.

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<sup>1</sup> Davenport, T. H. & Beck, J. C. (2001). The Attention Economy. *Ubiquity*, 2001(May), 1-es.

**Table 5-A:** Attention, Active Users, and Revenue.

Name of the platform	Number of monthly active users (in billion)	Average daily time per user in hours	Yearly revenue (in billions)	Average rev per user and per hour
Facebook	2.92	1	117	3.34
YouTube	2.3	2.4	28.8	0.43
WhatsApp	2	0.6	0.7	0.05
Instagram	1	0.48	17.4	3.02
TikTok	1.2	0.83	1.9	0.10
Snapchat	0.53	0.1	4.86	7.64

[Source: Estimated figures compiled from Statista, Backkinko.com, BusinessofApps, Techjury.net, CNBC & SimilarWeb (2021)]

### 5.3 A Business System for Advertisers and Influencers

Social platforms have developed a huge competitive advantage over traditional media, which rests on the smart use of the data generated by the audience. More recent networks (e.g., Instagram and TikTok) also rely heavily on influencers, who are both heavy users and business partners of the platforms.

#### Advertisers: Leveraging Data for a Targeted Audience

As seen earlier, the presence of a large audience on social media constitutes the essential element of the business model, as individual users are consumers (and to a lesser extent the producers) of free content, and they also provide the raw material or key resource (data) for value creation. When audiences generate data, they create a key resource that can be used to offer value-added services to advertisers. Data are essential to feed the right content to users and facilitate granular targeting for advertisers. The role of digital algorithms is then to serve the right advertisements to the right audience, based on the criteria established by the advertisers.

To narrow down the targeting options, the toolbox for marketers is packed with data. Facebook, for example, generates four petabytes of data per day – that's a million gigabytes!!! Most of it is simply stored by Facebook for the perusal of its users but a sizable proportion will be used for marketing purposes. We can distinguish at least two types of data.

First, there is the demographic data pertaining to the users, such as who they are (age, gender, and personal status), where they are from (country, city), and what they like (interest-based likes and brand-following activity). Some of this data is self-declared (gender, marital status), and some is generated by the users without necessarily being aware of it: geo-localisation, browsing behaviour, device usage,

etc. Every time we friend someone on Instagram, watch a video YouTube recommends for us, post a status, or share someone’s tweet, metadata – data about the data – is at work in the background. This data is seldom sold to a third party as it would not be very well perceived by users and is not very astute from a business perspective. Instead, the platform keeps the data to develop sophisticated toolboxes for their business clients. For example, Facebook Audience Insights is a tool developed by Meta to provide advertisers aggregated information about people on Facebook and more particularly people who like their page, so that they can easily find more people like their existing audience.

Then, there is the data generated by the campaign itself. Here, social media platforms provide advertisers with data about their campaign such as Click through rate and Reach, average video watch time, etc. These metrics enable advertisers to monitor reach and impressions, evaluate engagement rate, CPC and CPM, track referrals, measure bounce rates or conversion rates, and eventually Return on Ad Spend (ROAS). In essence, the data allows advertisers to perform two key tasks: reach a well-targeted audience with a tailored message and accurately measure the return on advertising (ROA). These two characteristics make social media advertising a form of promotion that surpasses the performance of any other media. Social media advertising combines the virtue of mass marketing—unlimited reach, often more than one billion!—and the advantages of one-to-one marketing (micro-targeting and tailored messages).

### **Influencers: A Hybrid User-Customer for Social Platforms**

As seen earlier, the same-side network effect can be very strong on social networks (e.g., Facebook initial configuration), while the cross-side network effect seems to be more prevalent with social media (e.g., YouTube). The evolution and relative decline in Facebook use can be attributed to the users primarily joining the platform to engage with peers. Advertisers who operate on the other side were there only to subsidise the free use of the platform. Too often and despite their effort to produce engaging content, advertisers were perceived as disrupting the flow and experience of users.

More recently, marketing on social platforms has been mediated by super users or influencers. According to [influencermarketinghub.com](https://influencermarketinghub.com), Instagram is the network of choice for influencer marketing campaigns, with 79% of the brands considering it their most important platform. Reflecting the evolution of its business ecosystem, Facebook’s preference for influencer marketing has increased from 7% to 50% between 2018 and 2021, according to The State of Influencer Marketing 2021 research. TikTok and YouTube are the two other destinations for influencer marketing.

Influencers are in fact the supercharged buyer persona of a particular target audience. Hence, psychologically, they can be perceived as being on the same side as



users. Yet, they too use the tools initially designed for businesses and are clients of the social platforms.

Instagram and TikTok now propose two types of professional accounts: a Creator account which is “best for public figures, content producers, artists and influencers” or a business account “best for retailers, local businesses, brands, organisations and service providers”. Users with Business or Creator Accounts have access to Analytics. Analytics provide insight into top-performing videos and follower engagement. With a Creator Account, you can see Post Insights, run ads, sort your inbox, and create shoppable posts.

## 5.4 Ethical Concerns over the Attention/Data-Driven Business Model

Social platforms have been criticised by activists, community leaders, and political representatives for several reasons. In this section, we highlight three of the most prominent tensions that epitomise the ethical concerns inherent in social platform business models. These include the use of personal data, the addictive nature of social media, and the role of algorithms in shaping our worldview.

### Users’ Privacy vs. Data-Driven Business Model

Advertising is an extremely powerful strategy for monetising an audience. Yet, it has some negative effects. In the example of a social network (i.e., Facebook original setting), users join the network to form a community. The community is defined by a reciprocal exchange of all happenings on the same side. Ads, which are the emanation of business from the other side of the platforms, are simply there to subsidise the model. They do not provide added value to the users; on the contrary, they rely on data to better target the users. Hence, the inconvenience of the ad as well as users’ personal data are the price users “pay” for using the service for free.

This leads to tensions over data usage. Data has now surpassed oil as “the world’s most valuable resource”. Yet, end-users consider personal data as intimate and private. Hence, it is not surprising that privacy, defined as the ability of the individual to control the terms under which personal information is acquired and used (Westin, 1968),<sup>2</sup> is a source of tension. Online privacy behaviour falls into three main categories, according to Bartsch and Dienlin (2016):<sup>3</sup>

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<sup>2</sup> Westin, A. F. (1968). Privacy and Freedom. *Washington and Lee Law Review*, 25(1), 166.

<sup>3</sup> Bartsch, M. & Dienlin, T. (2016). Control your Facebook: An Analysis of Online Privacy Literacy. *Computers in Human Behavior*, 56, 147–154.

- **Informational** – how much information we share.
- **Social** – how many people we allow access to that information, and
- **Psychological** – the intimacy of that shared information.

The intimate relations that users have with their personal data, combined with the pivotal role of users’ data in social network revenue models, inherently leads to some tensions that may result in crisis.

Facebook has come under scrutiny due to a series of high-profile data breaches and related privacy crises. These have shaken user confidence in social platforms’ ability to protect users’ information and highlighted users’ lack of knowledge about how their data is used. Users seem ill-informed about the specific type of data collected, the purpose thereof and the identity of the collector. Despite this, they remain reluctant to change their online privacy behaviour, limit their online activity, or the unthinkable, quit their “internet lives” (Bradley, 2005).<sup>4</sup> This apparent detachment between online privacy concerns and actual online privacy behaviour, known as the privacy paradox, has been explored extensively (Gerber et al., 2018;<sup>5</sup> Barth & deJong, 2017;<sup>6</sup> Kokolakis, 2017<sup>7</sup>).

However, in some cases, users do react, as illustrated by the rise of ad blocking technology adoption, rising from approximately 21 M users in 2010 to more than 180 M users worldwide in 2019. According to e-Marketers, in the US alone, over 75 M users had ad blocker software installed on their browsers in 2020.

The recent and relative success of apps such as Signal and Telegram – both considered less greedy with data and more respectful of privacy than Meta-Owned WhatsApp, is also symptomatic of users’ scepticism towards ad/data-based business models.

### Users’ Mental Health vs. Attention Economy

As mentioned earlier, users’ attention is what all digital and non-digital advertisers are competing for. The advertisers’ job (on TV, outdoor, and digital) is to grab people’s attention – and attention is a scarce resource. Of the twenty-four hours in

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<sup>4</sup> Bradley, K. (2005). Internet Lives: Social Context and Moral Domain in Adolescent Development. *New Directions for Youth Development*, 2005(108), 57–76.

<sup>5</sup> Gerber, N., Gerber, P., & Volkamer, M. (2018). Explaining the Privacy Paradox: A Systematic Review of Literature Investigating Privacy Attitude and Behavior. *Computers & Security*, 77, 226–261.

<sup>6</sup> Barth, S. & De Jong, M. D. (2017). The Privacy Paradox–Investigating Discrepancies between Expressed Privacy Concerns and Actual Online Behavior–A Systematic Literature Review. *Telematics and Informatics*, 34(7), 1038–1058.

<sup>7</sup> Kokolakis, S. (2017). Privacy Attitudes and Privacy Behaviour: A Review of Current Research on the Privacy Paradox Phenomenon. *Computers & Security*, 64, 122–134.

a day, while a third is dedicated to sleep, the rest is packed with all the other activities (work, commute, sports, eating, childcare, etc.): competition for attention is thus fierce. The business model of digital advertising implies that once hooked, the user must be kept on screen, if possible. To do so, social platforms have become UX experts. The websites and apps of YouTube, Instagram, and Facebook are so well designed that they may generate addictive behaviour.

According to Addiction Center,<sup>8</sup> as many as 5 to 10% of Americans meet the criteria for social media addiction today. Social media addiction can be largely attributed to the dopamine-inducing social environments that social networking sites provide. Studies have shown that the constant stream of retweets, likes, shares and other forms of self-disclosing behaviour on social media ignites the brain's reward area which is also triggered when consuming an addictive substance like Cocaine. Of course, addiction is an extreme situation, and very often, social media is only the catalyst for deeper personal issues. Amongst the most widely recognised causes of addiction to social media are low self-esteem and hyperactivity, or even lack of affection, a deficiency that young adults and teenagers try to replace with famous social media likes.

Besides addiction, there may be some negative relationship between social media and well-being. In a recent review titled "Social media use and well-being: What we know and what we need to know", Patti M. Valkenburg (2022) showed<sup>9</sup> that general social media usage was associated with higher levels of depression/depressive symptoms and anxiety (e.g., Yoon, Kleinman, Mertz & Brannick, 2019<sup>10</sup>), but, again surprisingly, also with higher happiness levels (e.g., Liu, Baumeister, Yang, & Hu, 2019<sup>11</sup>).

### **Filter Bubble (Mirror) vs. Democracy (Window)**

Finally, the algorithms used to match the content to users are also a source of concern. As stated, the main aim of the platform is to provide the users with what he/she wants to read or watch (personalised content) so that he/she remains engaged, if possible. This has led to a situation, called the filter bubble, in which the users are exposed only to information and opinions that conform to and reinforce their

<sup>8</sup> <https://www.addictioncenter.com/drugs/social-media-addiction/> as accessed on April 11, 2022.

<sup>9</sup> Valkenburg, P. M. (2022). Social Media Use and Well-Being: What We Know and What We Need to Know. *Current Opinion in Psychology*, 45.

<sup>10</sup> Yoon, S .M. (2019). Is Social Network Site Usage Related to Depression? A Meta-Analysis of Facebook–Depression Relations *Journal of Affective Disorder*, 248, 65–72.

<sup>11</sup> Liu, D., Baumeister, R. F., Yang, C.-c., & Hu, B. (2019). Digital Communication Media Use and Psychological Well-Being: A Meta-Analysis. *Journal of Computer-Mediated Communication*, 24, 259–274.

own beliefs. The personalised function of the algorithm can be praised when dealing with individual tastes and hobbies (give the people who enjoy watching cats, the opportunity to watch more cats). It is also generally well accepted when the content is commercial or branded: most consumers would rather be subjected to the advertisement of products and services they enjoy, rather than irrelevant ads. Personalisation is a bias that can be positive and pleasant.

The issue is that social platforms, in particular Facebook, Twitter, and YouTube, have gradually replaced newspapers and television channels as our main source of information. The information we see from these media is biased, based on our personal preferences. These preferences are inferred from our browsing history, age, gender, location, and other data. The result is a flood of articles and posts that support our current opinions and perspectives, to ensure that we enjoy what we see. The internet was initially presented as an open window to the rest of the world: Facebook’s original slogan was “Making the world more open and connected”. However, thanks to this biased algorithm, our mobile screen functions more as a deforming mirror of our own perception of the world. This affects not only political views and analysis: universalist views vs. nationalist views, pro-choice vs. pro-life, etc. It also affects the types of information we may be exposed to. Hence, someone initially concerned about immigration might see more and more articles and news related to this topic while someone initially concerned about gay rights or racial discrimination will also be exposed to more news pertaining to these topics. Hence, for one audience, immigration can be seen as a major issue while for another, race relations are more prominent. This leads to a widening democratic gap, where not only are we incapable of listening to the other side’s argument, but may not even agree anymore on the topics that need to be discussed.

## 5.5 The Rise of Social Commerce

To overcome the limitations of audience-based business, social platforms are turning to other methods for generating revenue. The most prominent new revenue stream is e-commerce.

Social platforms can be seen as intermediaries between some professional users (brands, influencers) and many individuals. They mainly facilitate the exchange of information. Gradually, however, platforms are becoming marketplaces that also facilitate transactions in goods and services in exchange for money.

The add-on e-commerce feature provides a streamlined in-app product selling experience to both businesses and individual users. By doing so, it further locks in users and businesses, while providing the platforms with an additional source of revenue.

The global social commerce market size was valued at \$584.91 billion in 2021 and is projected to grow at a whopping 30.8% compound annual growth rate from 2022 to 2030! Despite the robust growth, the United States and Europe lag China,

which has been a leader in social commerce, with some 424 million people making purchases on platforms such as WeChat in 2021.

Facebook, Pinterest, Instagram, and TikTok all provide shopping abilities, all with some slight variations. Pinterest shopping is fully integrated with the user experience. Users enter the product they are looking for in the search bar at the top of the home feed and then they click on the Shop tab at the top of the search results to browse and buy the product.

Unlike other listing sites like eBay, Facebook Marketplace allows businesses (and consumers) to list items for free. To compensate for this potential loss of revenue, Facebook turns again to advertisement through boosted listings. This time, however, the ad is unlikely to annoy users, as they are searching precisely for the item being boosted. In this regard, it functions a bit like Google AdWords, which places on the top of the search engine results page an ad matching the search query. There is a clear synergy between the need of the users/buyers and the offering (boosted listings).

Facebook's newest e-commerce feature, Shops, launched in 2020, allows small businesses to feature product catalogues on their Facebook and Instagram profiles, and for followers to purchase in-app. Brands are seeing huge results, including some seeing 66% higher-order values through shops than from their websites.

Indeed, social commerce presents itself as a real alternative revenue model for social networks and is very well placed to gain significant market share over traditional e-commerce websites. It engages users in a more meaningful way, as it is more experiential. Instagram, TikTok, and Pinterest are experience-driven channels that enable shopping within a live streaming experience. Unique content created by brands, influencers, or individuals drives authentic discovery, engagement, and action. Action (purchase) is the last and the natural step of the users' journey. The old advertising model was called AIDA (Attention, Interest, Desire, and Action) but implied diverse types of advertisement at different phases of the customer journey. What's more, the action (purchase) was never fully measured and could not be related to the advertisement that had initially driven the attention or the desire: "Half the money I spend on advertising is wasted; the trouble is I don't know which half". This is no longer the case with social commerce, which allows consumers to close the loop on their journey by providing an end-to-end experience for users.

In sum, social commerce presents a significant future stream of revenue for social networks, as it overcomes some of the limitations of traditional ads by providing an immediate and clear return on investment. It also has the potential to seriously challenge traditional e-commerce transactional models, as it provides a more immersive, end-to-end experience for the buyer.

## 5.6 Key Takeaways and Further Considerations

1. The business model of social networks is based on developing a sense of community; however, the social media business model is based on monetising an audience (data of many individuals).
2. Social networks and media focus on the content and may rely on partners such as influencers to persuade the community to spend more time on the platform and to keep them engaged.
3. Social platforms’ business models inherently create tensions and ethical dilemmas between a community of free users and the necessity to derive revenue from that community.

### Will the Community Pay?

As seen in this chapter, the audience-based business models present some challenges. Increasingly, other sources of revenue are being considered. We have already talked about social commerce, which has gained significant momentum. A Subscription revenue model is also an option, while the business model of communication Apps such as Messenger and WhatsApp still needs refinement.

To overcome the challenges of audience-based business models, social platforms could stop using advertising and turn to freemium. LinkedIn has been offering a premium version of its membership to users right from its inception. YouTube has had subscription and ad-free options since 2014. More recently, in January 2022, both Instagram and TikTok announced that they have begun testing subscriptions with a limited number of US creators through subscriber lives, stories, and badges.

LinkedIn was launched in 2003, and from the beginning, had a relatively clear value proposition. It was thought of as a social network platform where professionals can find and list jobs—in other words, a Facebook for professionals. Three key segments had traditionally constituted the users of LinkedIn. Businesses could develop a LinkedIn company page to present themselves. They could also advertise their products and services via LinkedIn Marketing Solutions. Recruiters and HR specialists constituted a sub-segment. They had specific recruitment needs, addressed by LinkedIn Recruitment solutions. Similar to multi-sided platforms, those two business segments were paying customers. Individual users are LinkedIn members who use the network to connect with other professionals and display their professional abilities through a personal page like an online CV. This last category of users constitutes the free users. As for Facebook and other social networks, members are the foundation and the key resource that allow LinkedIn to monetise its offering to businesses. However, in November 2005, LinkedIn Corporation launched two new subscription offerings: Pro and Personal Plus. If the Pro accounts provided a simple upgrade path for recruiters and other existing Business account holders,

Personal Plus accounts were aimed at individuals and job seekers. In its initial business plan, the company had no intention of charging individual users. Yet, after a few months of existence, LinkedIn realised that a small proportion of individual users was willing to pay for additional features such as allowing potential clients or employers to contact them without having to purchase InMails or ask their connections for introductions. Since its acquisition by Microsoft in 2016, LinkedIn has been gradually evolving into a Customer Relationship Management Service, which in many aspects, competes with Salesforce. Today, LinkedIn has over 774 million registered members from over 200 countries worldwide.

More recently, subscription models for individual users take two forms.

In the first scenario, it is the platform itself that offers the subscription in exchange for a reduction of pain and/or additional features. It is the model followed by YouTube, which allows any of its users to use its website without the inconvenience of advertisements. YouTube Premium subscription, which was initially launched in 2014 but exists in its current format since 2018, allows users to watch videos on YouTube without advertisements across all of its website and mobile apps, including YouTube Music, YouTube Gaming, and YouTube Kids apps. YouTube subscription works as a pain reliever: “Watch videos uninterrupted by ads, while using other apps or when the screen is locked” as well as offering additional features “Save videos for when you really need them – like when you’re on a plane or commuting”, combined with an additional service: YouTube Music Premium.

The second scenario marks an interesting evolution. In this configuration, it is the content providers of the media who are given the opportunity to offer a subscription model to their own followers. Hence, the subscription model is mediated by the influencers and the media itself takes a small cut of the subscription fee, the model chosen by TikTok and Instagram. Besides creating a regular revenue stream for creators and influencers, the subscription model allows creators and users to develop a sense of community – which is lost when we talk about the audience – by providing additional and exclusive content. The main benefit is to bypass the algorithm which no longer wedges itself between users and influencers. These recent developments are extremely interesting, as they mitigate the traditional revenue models of social platforms.

## **A Final Consideration**

Communication Apps like WhatsApp are finally starting to develop interesting business models. The reason why Facebook acquired WhatsApp for \$19B in 2014 was that WhatsApp was becoming a threat as a substitute, as Facebook users (especially younger ones) were migrating to the communication app for their one-to-one and one-to-many interactions – no one knew how Facebook could one day recoup its investment. Before its acquisition, WhatsApp too had a subscription model. It

cost \$1 to download and then \$1 a year going forward. Shortly afterwards, the parent company Facebook removed the subscription. WhatsApp now remains permanently free. It serves as a consumer service/communication platform where consumers communicate with businesses. WhatsApp makes money through its Business API product. It charges companies anywhere between \$0.05 and \$0.90 for every message that is answered after 24 h. WhatsApp’s revenue in 2021 was \$86.15 billion.

All the above examples constitute relatively new ways of making money. All these new models share the fact that they depart from the traditional advertising/data/audience revenue model. They may constitute the future of social platform revenue if such revenue can be sustainably integrated into a viable business ecosystem.