

Business Model Analysis of Interest-based Social Networking Services

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BUSINESS MODEL ANALYSIS OF INTEREST-BASED SOCIAL NETWORKING SERVICES

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ABSTRACT

1.1.1.1 Objectives of the Study

This research paper sets out to examine interest-based social networking services and the underlying business models that provide the logic for value creation, delivery, and capture. The objective of this paper is to uncover the common characteristics of interest-based social networking services' business models in order to understand the necessary building blocks that need to be present for a new service to function properly. Furthermore, it aims at giving managerial suggestions for companies that are planning to launch an interest-based social networking service.

1.1.1.2 Academic background and methodology

The research in this paper is based on an extensive literature review on social networks, evolution of the internet, online social networks and their respective business models. The paper continues to examine the theory behind business models, which provides the grounds for choosing a business model framework that is used in the empirical part of the thesis. The empirical part of this paper is conducted as an observatory case study. The results of the empirical study are utilized to uncover the key characteristics of interest-based social networks and to provide general guidelines for new entrants that are launching a similar service.

1.1.1.3 Findings and conclusions

The research shows that interest-based social networking services use the same technical and basic functions when it comes to the design and implementation of the platform. The services are built based on the user interest graph rather than on existing social connections that are imported from other services. This interest graph works as the basis of the services and is tightly linked to the underlying business model components.

1.1.1.4 Keywords

Business model, social network, social media, value proposition, digital service, digital media, revenue stream

ABSTRAKTI

1.1.1.5 Tutkimuksen tavoitteet

Tämä tutkimus tarkastelee uudentyyppisiä verkkoyhteisöpalveluita ja niiden liiketoimintamalleja sekä siihen liittyvää arvon luontia, sekä ymmärtää kuinka tämä toimitetaan loppuasiakkaalle. Tämän tutkimuksen tavoitteena on tutkia kyseisten verkkoyhteisöpalveluiden yleisiä luonteenpiirteitä ja tätä kautta ymmärtää mitä komponentteja niiden liiketoimintamallit tarvitsevat toimiakseen. Tutkimus myös pyrkii antamaan ohjesääntöjä yrityksille jotka ovat suunnittelemassa kyseisten verkkoyhteisöpalvelujen luomista.

1.1.1.6 Kirjallisuuskatsaus ja metodologia

Tutkielma perustuu kattavaan kirjallisuuskatsaukseen sosiaalisista verkostoista, internetin kehityksestä, sosiaalisista verkkoyhteisöpalveluista sekä niiden liiketoimintamalleista. Teoreettinen viitekehys muodostetaan tutkimalla liiketoimintamallien teoriaa jota käytetään tutkimuksen empiirisessä osiossa. Tämän tutkimuksen empiirinen osio toteutetaan osallistuvana tapaustutkimuksena jossa analysoidaan neljää uudentyyppistä verkkoyhteisöpalvelua sekä niiden liiketoimintamalleja. Tuloksia käytetään kyseisten verkkoyhteisöpalvelujen ymmärtämiseen sekä yleisten ohjesääntöjen muodostamiseen uusille yrityksille.

1.1.1.7 Tulokset ja päätelmät

Tutkimustulokset osoittavat että uudentyyppiset verkkoyhteisöpalvelut käyttävät samoja yleisiä periaatteita palvelun ja sen alla toimivan alustan suunnitteluun. Kyseiset palvelut ja käyttäjäprofiilit rakennetaan käyttäjien kiinnostuksenkohteiden perusteella, eikä aikasempien sosiaalisten kontaktien kautta. Kiinnostuksenkohteet toimivat kyseisten palveluiden liiketoimintamallien ja niiden komponenttien perustana.

1.1.1.8 Avainsanat

Liiketoimintamalli, sosiaalinen verkosto, sosiaalinen media, arvolupaus, digitaalinen palvelu, digitaalinen media, ansaintamalli

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1 INTRODUCTION

The objective of this thesis is to investigate the current business models of interest-based social networking services and identify the necessary components that need to be present in the business model design. The first chapter sets the stage for research by discussing relevant background information, presenting the research problem, objectives and questions, defining necessary concepts that need clarification, and finally, by outlining the structure of the thesis.

1.1 Background

Facebook's IPO last May was one of the biggest technology IPOs in the history. Since then, many have asked where do we go from here and what is the future of social networks. Moreover, there have been claims that "social is done" because Facebook is all that anyone would ever need. This has led to the adoption of new interest-based social networks such as Pinterest, Tumblr, Tribesports, and Dreamdo. According to comScore (2012), Pinterest had 11.7 unique visitors in January 2012 in the US making it the fastest site ever to break the 10 million unique visitors mark.

This shifting trend has spurred the creation of interest-based social networks that enable users to focus and organize their interests first, whereas Facebook focuses on users' personal relationships. Furthermore, they enable users to express their interests in new, engaging ways and offer authentic, high value connectivity with new people they do not already know. This obviously offers huge opportunities for companies to reach their customers due to the networks' priority focus on individuals' interest graphs. Interest-based social networking services provide a platform for individual users to express themselves through the usage of rich media functions such as photos, videos, and blog texts that often intertwine with each other. The entire service is either dedicated to a single interest such as a specific hobby or art form but usually it aims at aggregating the different interests and provides an aggregate location for users to discover existing or new points of interest. Interest-based social networking services provide an excellent platform for advertisers to target their products and services because users want to provide

information about their interests in detail. The services have been able to create powerful recommendation engines that operate ‘under the hood’ of the platform and provide advertisers with a set of tools that enable highly targeted advertising. The data that the services gather from their users is extremely valuable for companies, which is one of the main reasons why interest-based social networking services continue to dominate in the industry.

These newly found companies have always relied on building the critical mass before addressing the issues concerning monetization and commercialization of their services. The above-mentioned migration will increase the pressure for these companies to be profitable from the start and many of them will face a variety of issues related to it.

1.2 Research Setting

While literature discussing business models of web 2.0 internet applications, social networks, and related customer value creation is abundant, it does not provide enough information about the creation of these models. Additionally, many studies investigate how traditional social networking services create and capture value using different business models. The evolution of social networking services (SNS) from simply social to interest-based ones has changed this notion and the business models investigated in the earlier research do not provide adequate information on how to monetize these services. Business models are often mistaken as revenue models. Although partly true, revenue models only give us an understanding of the value capture process of a company. Business models are much more because they provide insight on the value creation, delivery, and capture logic of a firm. In other words, they allow us to see the differentiating factors of services that look relatively similar on the surface level. Two services that provide the same basic service can look completely different when their business models are broken down into building blocks.

The thesis aims at exploring the above-mentioned problems through the implementation of an extensive literature review on existing academic literature and utilizing the information found to set the stage for the empirical study that discusses the business models of four interest-based social networking services. Osterwalder & Pigneur (2010) provide a business model canvas that

the author uses to analyze the business models of the case companies. A case company (Dreamdo) is included in the analysis due to the writer's access and ability to participate in the development of the business model. This approach will give valuable insight that supports the general analysis of the business model building blocks by displaying an example of a recently launched social network that is still developing its core business model.

1.3 Goals and research questions of the research paper

The aim of this research paper is to address the problems that are included in the business model design of interest-based social networking services and the best practices related to it. There are as many business models as there are services but the goal is to find patterns that can be generalized in order to find the fundamental features that need to be included in the business model of these types of services. In other words, the optimal business model design is almost entirely dependent on the type of service in question as well as the ways that it aims at creating value to its users. The realm of interest-based social networking services is growing constantly but there is still a clear similarity between all of these services if the functionalities and features are studied more carefully.

The research paper will begin with an academic literature review that investigates the background, inception, and evolution of social networks from a theory in sociology to the online social networks that we take for granted nowadays. Furthermore, the literature discussing the business behind social networks from a service provider perspective is embraced because it provides understanding on the ways that the services create value. Value creation sits in the core of any business model and therefore is fundamental to the research of this paper. The paper continues to investigate the theory behind business models and forms a theoretical framework based on the extensive business model research conducted by Osterwalder and his colleagues during the last fifteen years. The literature and theory review enable the analyzing of four interest-based social networking services' business models. The respective business models are broken down in order to see how these services create value to their customers. This gives us a better understanding of what components need to be present for a successful interest-based social network business model.

The results gathered from the empirical business model analysis allow the formulation of a generalized framework for interest-based social media companies. The framework allows companies to avoid the common pitfalls that they often make in the inception-stage of launching this type of a service.

The goal of this thesis is not to find the only-way-of-doing-things type of answer. The goal is simply to identify the common components of the business model design of interest-based social networking services.

The goal of this paper is to answer the research question, which is as follows:

“What common features can be found from the business models of interest-based social networking services and how do they compare to one another?”

This question will be answered through the utilization of the above-mentioned research techniques. In order to present coherent and understandable results we need also to ask a secondary research question:

“Is there a possibility to create a generalized business model framework for these types of services which enables them to avoid the common pitfalls made during the creation process?”

1.4 Limitations of the research

Interest-based social networking services have been around for quite some time but they have just recently transformed themselves into the ones that we currently perceive them. The companies studied in this paper are all private companies and therefore they do not need to disclose information related to their metrics. The industry is highly competitive and therefore the majority of the information related to the business model development is classified. Therefore, it was more prudent to take a qualitative approach to the research instead of quantitative one. As mentioned earlier, there are numerous interest-based social networking services but the majority of them have not evolved and been able to answer to the needs of the users. This notion considerably shrank the number of companies that were coherent enough for the analysis.

It is also important to remember that the results presented in this paper are based on the current trends in the industry. Interest-based social networking services' business models have dramatically changed over the past few years and therefore it is relatively difficult to predict what will happen in the following years.

2 LITERATURE REVIEW ON SOCIAL MEDIA

The aim of this section is to review the existing literature on social networks that have been studied systematically for decades through the analysis of individuals, groups, and communities and how the interactions between these different entities occur. It continues to examine web 2.0 technologies and their profound effect on online social networks. It briefly discusses the birth of social media before turning to investigate the current state of online social networking services (SNS) and the recent trends that are present in the industry.

2.1 Social Networks

The Oxford English Dictionary defines a social network as a “network of social interactions and personal relationships”. The social network analysis is a distinct research perspective in the field of social and behavioral sciences and it concerns itself with social environments and sees them as patterns and/or regularities that occur in the relationships of different interacting units (Wasserman & Faust, 1994). In other words, the analysis is based on the assumption that these units are of great importance and they are seen as interdependent rather than independent, autonomous units. The authors furthermore identify that the linkages between the above-mentioned units work as channels, which are used to transfer materials in the network.

Wellman & Berkowitz (1988) identify several key concepts that work as a foundation for understanding the basic characteristics of social networks. As mentioned in the previous paragraph, the interacting units or *actors* are separate individual, organizational, or collective social units. A typical actor in a specific network would be people in a group, a department in a local government, or even a country in the world system. These actors may or may not have the ability to act in the network. Traditionally social network analysis has concentrated on studying actors that are all of the same type. Relational ties link the actors and their function is to establish a linkage between two or more actors in a network. The relational ties can be almost anything from a friendship or transfer of material resources to biological relationships. The third key concept is a *dyad*, which is a social relationship between two actors. The dyad tells the story of the structure of the relationship in terms of its strength, reciprocity, and equality.

According to Pinheiro & Reis (2011), social network analysis is built on the notion that social life is relations between individuals. Understanding of the behavior that occurs in a particular network is crucial for comprehending social connections and the implications that the activities create inside a community. The most relevant implication that stems from the activities of individual actors in a network is how they can influence the other actors to behave in a similar fashion.

2.2 The Evolution of the Internet

This section investigates the cumulative changes in the ways software developers and end-users started to use the Internet after the new millennium. The conceptual evolution of the World Wide Web revolutionized the way the Internet is used and resulted in the coining of a widely used term: ‘Web 2.0’. In order to understand how the current (although constantly evolving) situation came to be, this section will tell a brief history of the evolution of the Internet and how the ways it is used have led to the introduction of social media and social web in general.

The inventor of the World Wide Web, Sir Timothy Berners-Lee, stated in a speech (2007) that Web 2.0 is an extension of the Internet and should not be considered as a separate entity and where information has a well-defined meaning that enables better cooperation between technology and people. As so, one must note that there is not an official definition of Web 2.0 because it means different things to different people. The discussion about the differences between the two has been abundant because the distinction remains highly subjective. For the sake of this paper, the main point to understand is that there has been a major and noticeable shift in how the web is used by software developers and end-users.

The first implementation of the Internet, which is retroactively referred to Web 1.0, is a “read-only web”. The early Internet allowed its users to search and read information and there was little room left for user interaction and user participation in terms of content creation. This mindset was widely adopted amongst website owners who wanted to establish an online presence and make their information available to anyone at any time (Getting, 2007). In other

words, the users of the internet acted as consumers of the content because the information on web pages was closed to external editing (Krishnamurthy & Cormode, 2008).

In contrast, Web 2.0 employs architecture of participation by users through a rich user interface that makes creation, collaboration, and information sharing possible in real-time. The implementation of various interrelated web development technologies and techniques such as Adobe Flash and AJAX (Asynchronous JavaScript and XML) has made this change possible. The control over the content has hence been redistributed to end-users, which forms the basis for Web 2.0 (Rudman, 2007). The author continues to identify three main components that the majority of Web 2.0 websites have, the first one being Rich Internet Applications such as site-specific browsers that exclude the external functions of a web browser like menus and toolbars. The second characteristic of a Web 2.0 website is open-source software that allows users to observe, improve, and redistribute the software in the modified form. The third main characteristic is service-oriented architecture that allows interoperability of software functionalities.

Getting (2007) argues that the main difference between Web 1.0 and Web 2.0 is the vast collaboration amongst users, service providers and companies that allows all of the participants to contribute to the content of a website. Therefore, Web 2.0 pages can be referred to as the “read-write web”. In other words, the Internet and the way it is consumed through web browsers have evolved from static-response interface to a dynamic and asynchronous interface. The following table demonstrates this by showing how a variety of services have evolved during the transformation process and what are their current utilities (Table 1)

Table 2: Web 1.0 vs. Web 2.0. Adapted from Oreilly.com. Retrieved on October 21, 2012

Web 1.0	Web 2.0	Utility
DoubleClick	Google AdSense	Advertising
Ofoto	Flickr	Photo sharing
Akamai	BitTorrent	Content distribution
mp3.com	Napster	Music sharing
Britannica Online	Wikipedia	Encyclopedias
personal websites	blogging	Personal pages
evite	upcoming.org and EVDB	Event planning and RSVP
domain name speculation	search engine optimization	Business promotion
page views	cost per click	Ad pricing metrics
screen scraping	web services	Content syndication
publishing	participation	Content creation
content management systems	wikis	Content management
directories (taxonomy)	tagging ("folksonomy")	Content classification
stickiness	syndication	Interoperability

2.3 Social Media

The previous sections discussing social networks and the evolution of the Internet form the basis for understanding how Internet technologies redefined social interaction. In result, modern social media was born which enabled people to design and exchange ideas in real-time. This section will give several definitions of social media and provides a taxonomy that clarifies the social media map that has grown exponentially over the recent years. It also discusses the implications it has had on the ways business is conducted and the huge potential that it possesses.

2.3.1 Definitions

Safko & Brake (2009) define social media as the way people use technologies that enable them to effectively reach out and connect with other people creating relationships, building trust, and being there when the persons in those relationships are interested and ready to purchase companies' product offerings.

Kaplan & Haenlein (2009) argue that the evolution to a social web is not surprising since the original idea of the Internet was indeed to create a network, which allowed people to exchange

information with each other. They continue to define social media as a collection of Internet-based applications that have adopted the ideological and technological foundations of the Web 2.0, which allows the creation, and exchange of user-generated content (UGC).

Social media and its characteristics can be viewed and understood through three different perspectives – people, community, and UGC. Social media can therefore be defined as applications that allow people to form online communities in which they share UGC. People are the individual users while communities can be a network of friends or a group that is interested in the same topics. The user-generated content can be virtually anything from photos and videos to blog texts and user profiles (Kim et al., 2009).

Lietsala & Sirkkunen (2008) note that the concept of social media has spurred a lot of criticism among media researchers because of its vagueness. They go on to suggest that the term should be used as an umbrella term that takes into account the different social and cultural practices that affect the content, individuals, and communities that can be found online. The authors see social networking, blogging, and user participation in online encyclopedias such as Wikipedia as relatively stable practices. Mayfield (2008) summarizes that social media can be understood as a new kind of online media that usually share a number of common characteristics, the first one being *participation* that blurs the line between media and audience by allowing anyone who is interested to contribute and comment to the content. Social media is also *open* to feedback and participation through voting, commenting, and sharing of information. Traditional media is about reaching out through broadcast whereas social media can be seen as a two-way interactive *conversation*. In addition, social media allows *communities* to form rapidly with the ability to communicate effectively about their shared interests. Finally, the majority of social media thrives on connectedness, which allows a network of web sites, people, and resources to be born.

2.3.2 Classification of Social Media

Constantinides & Fountain (2008) propose a basic classification scheme for social media based on their application types:

- 1) *Blogs and podcasts.* Blogs are discussion or informational sites that are published in the Internet consisting of distinct posts. Blogs can also be in video format (vlogs). Many blogs also utilize digital audio and video to enrich the content.
- 2) *Social networks.* Internet-based applications where users can create profiles, communicate, exchange content, and network with other profiles (users). Social networks also allow users to create and maintain relationships with each other and they can be based on a variety of criteria such as real-life friendships or common interests.
- 3) *Communities.* Communities can be divided into online communities, content communities, and discussion forums / bulletin boards. Online communities can be formed around their members' common interests or a particular brand, organization, or even a person. Content communities refer to particular websites in which specific types of content are shared (e.g. photos or video).
- 4) *Forums / bulletin boards.* Discussion sites where users can exchange ideas and information. They are often built around special topics and interests.
- 5) *Content aggregators.* Content aggregators are applications that enable users to customize the content that they see and wish to access. Examples of content aggregators are RSS (Rich Site Summary, often dubbed as Real Simple Syndication) that allow the publication of frequently updated works in a standardized format, widgets, bookmarks, and tagging services.

Lehtimäki et al. (2009) build on this classification scheme and suggest that there is one more application type in addition to the listed ones (See Table 2) called virtual worlds where users can communicate and interact through avatars which are graphical representations of the respective users. Virtual worlds can be seen as substitutes to the real world where also businesses can have a presence.

Table 3: Classification of social media application types (Lehtimäki et al., 2009)

CATEGORY	TOOL	FOCUS	EXAMPLES
1. BLOGS AND PODCASTS	Traditional blogs, vlogs, podcasts, videocasts	Informing of current events and novelties	Blogs by Dell, podcasts from interviews
2. SOCIAL NETWORKS	Social networks	Content sharing, maintaining relationships, networking	MySpace, Facebook, IRC-Gallery, LinkedIn, ITToolbox
3. COMMUNITIES	<u>Online communities</u>		
	Member-initiated	Members' mutual interests and reciprocal interaction	Communities formed around similar interests e.g. Aukea.net (photography)
	Organization-sponsored	Business transactions, brand building, interaction among organization and customers, co-creation of products	Communities by Mozilla, Fiscars, Dell and Salesforce.com
	Third-party established	Enable communication and transactions between buyers and sellers	eBay
	<u>Content communities</u>		
	Content sharing sites, wikis	Content sharing	YouTube, Flickr, Picasa, Pikeo, dotPhoto, GoogleVideo, Wikipedia
	<u>Forums/bulletin boards</u>	Discussion of mutual interests	B2Bexchanges, Alibaba, Zentrada, Go4worldbusiness
4. CONTENT AGGREGATORS	RSS, widgets, bookmarks, tagging services etc.	Categorizing and customization of web content	Delicious, Yahoo! Widgets
5. VIRTUAL WORLDS	Virtual worlds	Substitute for the real world	Second Life, World of Warcraft, Kaneva, Universe, Habbo

Social presence theory states that the amount of social presence, which can be defined as the acoustic, visual, and physical contact, varies in different types of media. Social presence is influenced by the intimacy (interpersonal vs. mediated) and immediacy (asynchronous vs. synchronous) of the medium (Williams & Christie, cited in Kaplan & Haenlein 2009). Therefore, it can be expected that the social presence will be lower for mediated (e.g. mobile phone

conversation) than interpersonal (e.g. face-to-face conversation) and for asynchronous (e.g. e-mail) than synchronous (e.g. live chat) communications. Higher social presence has a direct effect on the amount of social influence that communication partners have on each other's behavior. Media richness theory, which is closely related to the previous one, is based on the assumption that resolution of ambiguity and the reduction of uncertainty are the goals of any communication. The amount of information that a particular medium allows to be transmitted in a given time interval decides how effectively it resolves ambiguity and uncertainty (Daft & Lengel, cited in Kaplan & Haenlein 2009). The concept of self-presentation states that people want to be in control of the images and impressions that other people form of them. The purpose of this is to influence the others to gain rewards such as acceptance, but also to create an image of oneself that is consistent with his/her personal identity (e.g. creating a blog). This is usually done through self-disclosure; the conscious or unconscious revelation of personal information that is consistent with the image that one wants to give.

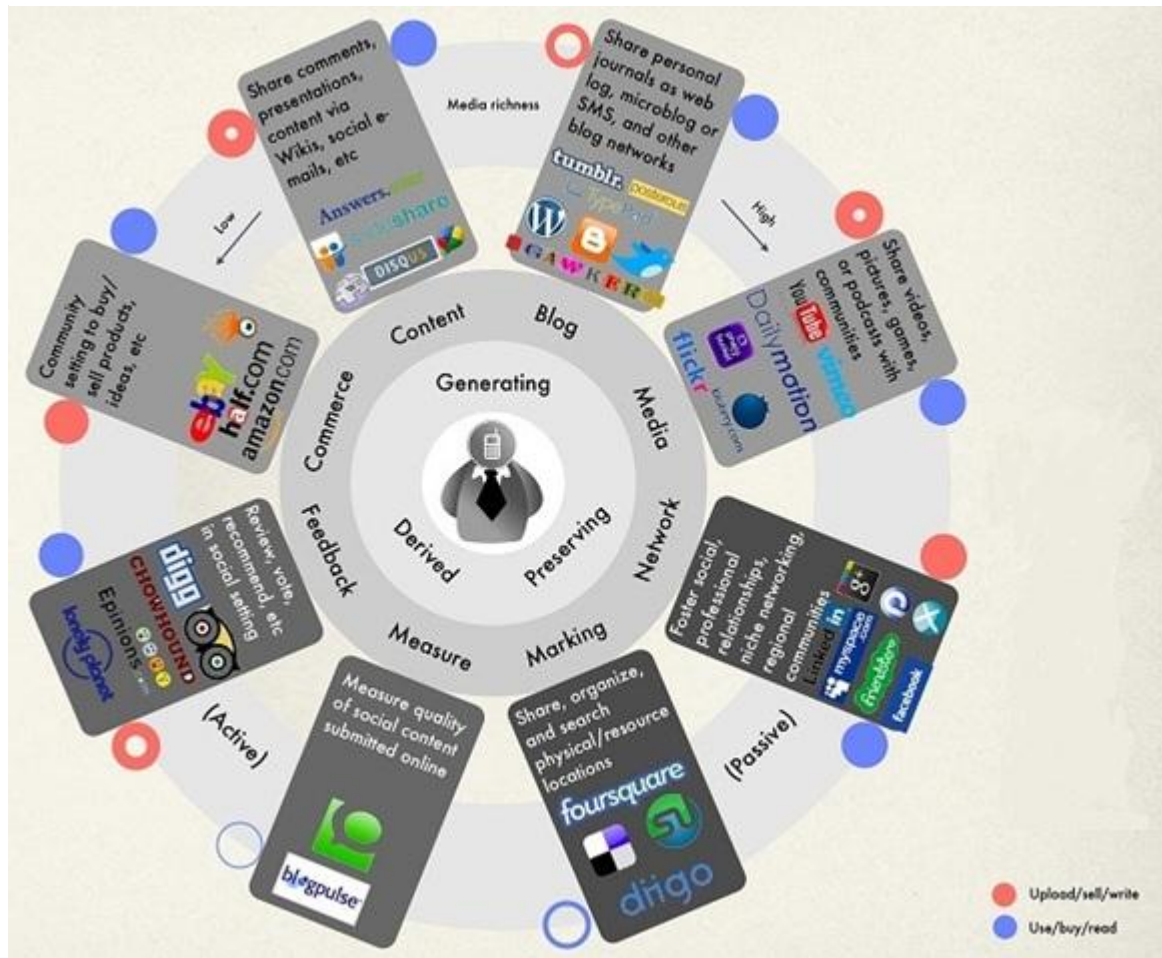
Kaplan & Haenlein (2009) argue based on the above-discussed theories that different types of social media can be classified through the amount of social presence / media richness and self-presentation / self-disclosure (Table 3). In terms of social presence and media richness, collaborative projects such as wikis possess the lowest amount, because the majority of them are text-based and offer limited amount of exchange between users. On the next level are content communities and social networking services that allow users to share pictures, videos, and other forms of media in addition to text-based communication. On the highest level are virtual worlds, which try to replicate all aspects of social interaction in a virtual environment. In the self-presentation and self-disclosure dimension, collaborative projects usually score lower because content in collaborative projects tend to revolve around certain topics. Content communities score also lower due to their limits of self-disclosure. Finally, virtual social worlds require more self-disclosure than virtual game worlds, because the developers have set strict guidelines that force users to behave in certain ways in virtual game worlds.

Table 4: Classification of Social Media (Kaplan & Haenlein, 2009)

		Social presence/ Media richness		
		Low	Medium	High
Self-presentation/ Self-disclosure	High	Blogs	Social networking sites (e.g., Facebook)	Virtual social worlds (e.g., Second Life)
	Low	Collaborative projects (e.g., Wikipedia)	Content communities (e.g., YouTube)	Virtual game worlds (e.g., World of Warcraft)

Sudarsan (2012) provides taxonomy (See Figure 1) on social media based on their ways to help users to interact and distribute information: 1. Generating; 2. Preserving; 3. Derived social web usage. The classification is further divided into categories along the lines of media profusion and type of engagement. In the first distinction, social interaction has the main emphasis and creators of content can discuss about subjects of interest with other users and host commentary space for viewer, reader, or buyer responses. Rich media sites, such as social networks and other Web 2.0 sites where users can post photographs and videos are used to discuss about subjects that are engaging to them. These web sites and services are focused on personal reflection and usually present visual and textual user-generated compositions with related, personally selected media. In the second distinction, users are trying to strengthen and maintain relationships by connecting their online profiles with other users in order to create a social network either publicly or privately. Users are preserving and maintaining networks primarily through online social networking services such as Facebook, Google+, and LinkedIn with less contribution to the content. The third distinction can be made by measuring the extent of users' online social influence via products and services and by enabling a variety of feedback options that allow them to apply their influence as consumers, users, loyalists, and advocates. Reviewing, rating, and recommending users are very active and they share their opinions onward to social networks.

Figure 3: Classification of the Social Web (Sudarsan 2012)



New social media sites and services are being created every day and the taxonomy of social media will become more complex. It is common for social media sites to link with one another, furthermore increasing the complex and challenges of social media taxonomy.

2.3.3 Social Media Usage

According to Kim et al. (2009), the users of social media services can be summarized into three different categories: individuals, government, and business.

Social media has created a new way of communication for individual users while diminishing the usage of earlier communication tools such as email and SMS messaging. Social media services'

ability to create user-generated content has allowed the birth of a new source of collective knowledge that enables users to seek answers to specific topics and questions. Furthermore, the huge databases of these services can be used as worldwide online directories of people. Users can also join online communities based on their interests and hobbies where they can interact with users who have similar points of interest. Social media is also used for entertainment and hedonistic purposes, which can be fulfilled through self-expression.

Kim (ibid) continues to argue that social media allows governments to reach a vast number of people in order to distribute information and receive feedback for governance purposes. Law enforcement agencies have also started using social media in their operations ranging from UGC analysis to perpetrator identification by harnessing the power of collective knowledge. Social media usage in political campaigns has skyrocketed due to its ability to convey messages effectively to the public.

Lastly, Kim (ibid) states that social media for business purposes has become a standard for the majority of companies. Social media techniques have long been applied to company intranets where employees are able to network with their peers and produce UGC that can be highly beneficial for the entire organization. Businesses also utilize external social media, for example social networking services, for a variety of activities. Recruitment, promotion, customer relationship management, crowd sourcing, and product and service advertising are the most common fields of social media usage.

2.3.3.1 Social Media Usage for Marketing and Advertising Purposes

Companies have long used social media for marketing purposes. It has become a standard practice and businesses are increasingly innovating the ways in which they reach their customers through social media. According to the 2011 Q3 Nielsen State of the Media: The Social Media Report (Nmincite, cited in Geho & Dangelo 2012), 60 percent of people who use three or more digital means of research for product discovery and purchases learned about a brand or a company from a social networking site. Social media is therefore influencing the way consumers discover and buy products and services. Therefore, it is justified to argue that social media, and especially social networking services, are here to stay. Thackeray et al. (2008) state that there are

two key reasons behind the huge potential of social media in terms of marketing effectiveness. Firstly, Web 2.0 applications, and therefore the companies utilizing them, have a direct ability to engage consumers in a creative process by both producing and distributing information through such means as collaborative writing, content sharing, social networking, social bookmarking, and syndication. Secondly, it has the ability to enhance the power of viral marketing (word-of-mouth) by increasing information exchange about marketing messages or product offerings. In other words, social media usage increases the speed at which consumers share experiences and thoughts about products and services with larger audiences. Therefore, identifying the ways to enhance user experience, meeting customers' information needs and helping them to become successful – an approach often referred to as customer advocacy – are the key elements of a successful social media marketing campaign (Constantinides et al. 2008).

Constantinides et al. (2008) identify techniques how companies can capitalize on social media:

1. Companies can incorporate social media techniques into their PR arsenals as means of reaching and informing the new online opinion leaders (e.g. bloggers and podcasters) about their product and service offerings. This technique allows companies to pass advertising messages to their respective target markets or even to specific market segments at a fraction of the costs required by traditional media.
2. Social media allows companies to 'listen-in' to the customer's voice: what people are saying about the company or the brand in various social sites. Companies can collect and analyze this information with the help of various data collection tools. People are constantly exchanging their experiences about products, services and firms, advising others or even giving their opinions on how they could be improved. This is high-quality and low-cost information.
3. Consumer marketing in social media has been the cornerstone for companies to make themselves seen by the public. Personalized one-to-one marketing is possible through data mining tools that social media service providers use to construct a distinct social graph of its user base.
4. Active participation in the Web 2.0 domain is arguably one of the most important techniques for businesses to create and maintain brand awareness. The majority of

businesses have launched corporate profiles, blogs, and podcasts that are utilized for a variety of purposes. Companies can create a more 'humane' picture of themselves by participating actively in social media. This allows customers to express their feelings, suggestions, or remarks about the company and its products.

Clemons (2009) argues that Internet has revolutionized the way people obtain information about products and services and therefore traditional online advertising is destined to fail. He continues to explain that Internet advertising will fall short of current expectations for a variety of reasons, mainly because consumers do not need traditional online advertising anymore due to vast amounts of information about products and services that people can gain access to anytime anywhere. Consumers frequently do not trust advertising because messages that come from a commercial source have much lower credibility and lower impact on the perception of product quality. For example, social media services that provide a rating service is regarded a more credible source of attaining product and service information. Consumers also do not want to view advertising and long gone are the times when people were 'forced' to watch advertisements that were circulating synchronously on network television channels. Most importantly, consumers do not need advertising because they get the majority of their information about products and services from the Internet, especially through social media (ibid).

Search advertising was a \$14.7 billion dollar business in 2011 and hence the largest segment of digital advertising soaking up almost half of last year's digital advertising spending in the United States (Griffith, 2012). However, search represents only 4 percent of users' time spent online. Furthermore, display advertising (e.g. banners, interstitials, pop-ups) was the second largest segment of digital advertising with \$11 billion dollars and 34 percent market share (www.iab.net). The dominance of search advertising occurs simply because matching buyers and sellers is the most effective technique. The click-through rates are less than .1 percent for display advertisements. Griffith (2012) argues that this is due to the simple fact that attention does not automatically translate into a solid advertising opportunity. This phenomenon has been noted in the advertising industry and marketers have moved to native advertising. Native advertisement is an ad that is delivered 'in-stream' and is tailored specifically to whatever site or application it appears in (e.g. Twitter's Sponsored Tweets and Facebook's Sponsored Stories). Native ads are

not intrusive and users almost expect them when using social media services. They do not interrupt service use because they appear in the same feed as the rest of the content on the page. Customer engagement is much higher than in display advertising, which makes them far more effective. Through native advertising, companies and brands can establish a humane presence online through engaging in content creation and other common social media activities. Tumblr, the microblogging and social networking service, recently announced that it starts to utilize creative brand advertising by allowing companies to tell stories that create intent on the part of the consumers. He continues to argue that this occurs because users want to see this type of advertising in the first place (Lawler 2012). Social media startups try to put user experience in front of anything else, including making money. A major problem with native ads is that they do not scale and therefore are not easily repeatable because native advertisements require effective content that is custom-tailored. Content is therefore difficult and expensive to create because it requires people to do all the work (ibid).

2.3.4 Current Business Models for Social Media Companies

Kangas et al. (2007) identified four different business model types that social media companies were utilizing at the time of the paper's writing. The authors divided the business models (see Figure 2) to advertising model, subscription model, merchandise model, and services that do not have a clear business model. The majority of social media services utilize the advertising business model. The services that mediate advertisements are the greatest winners of Internet advertising, which makes this model seductive. Subscription model grants users a basic access for the service free of charge. This is done to pull users in. Additional features are often offered to users against a monthly or an annual fee. Some social media companies distinguish themselves by selling products. For example, Last.Fm provides its users with the option to purchase the music they have been listening to on the service from Amazon. Last.Fm then takes a share of the profits made by Amazon. The authors state that many new social media companies do not have a clear business model and ways to monetize their business. There is a large demand for a variety of social media services but potential users are not willing to pay for them because they assume the services to be free. The authors conclude that the best approach would be to

combine the discussed methods and to have functional business model before the service is even launched.

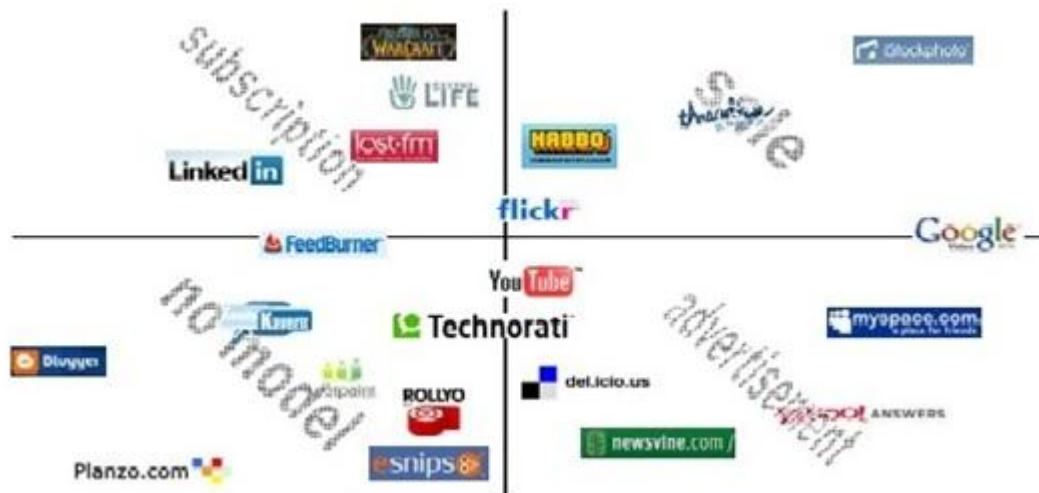


Figure 4: Social Media Business Models (Kangas et al. 2007)

Loayza (2009) argues that during the first Information Technology Bubble that occurred during 1997-2000 the most common business model for Internet companies was ‘get a ton of traffic, then figure out how to make money’. These companies typically built a web site and showed display or text advertising on their sites to monetize the incoming traffic. He continues to identify five different business models that new social media startups can utilize to be profitable from the start:

1. *Freemium model.* The basic service is offered for free, while users are charged for advanced features. The biggest challenge for businesses that are looking into utilizing freemium model is figuring out how much to give away so that users are still compelled to upgrade to a paying plan. The underlying fact is that the majority of users will not upgrade to a premium service because they are often targeted for heavy users and professionals (e.g. Vimeo, LinkedIn).
2. *Affiliate model.* The service creates revenue streams by driving traffic, leads, or sales to another, affiliated company’s website. Businesses that sell products rely on affiliated sites

to send them the traffic or leads that are needed in order to make sales. Although high traffic sites are able to utilize this model more easily since even low conversion rates can create high revenue streams, there are examples of individual blogs that have been able to generate income using this model (e.g. ShoeMoney).

3. *Subscription model.* Services charge users a monthly/yearly to gain access to a product or a service. This model allows companies to create long-term relationships with their customers, which can be better in the long run. Getting the price-points right and maintaining personal touch with subscribers are the main challenges in this model (e.g. Netflix, Spotify).
4. *Virtual goods model.* Users are paying for virtual goods, such as upgrades, points, or gifts, on a website or in a game. The margins of virtual goods are high, since goods essentially do not cost anything for the service provider. There is little or no marginal or production cost once the economy of the service has been set (e.g. Facebook Gifts, Playdom).
5. *Advertising model.* This model relies on selling advertising against their traffic. The more traffic you have, the more you can charge for your ads. Furthermore, if you are able to provide additional demographics of your site's visitors (sex, age, interests) to the advertisers, you can charge a premium. Services that utilize this model are usually required to be patient because building up the user base takes a longer period of time (e.g. MySpace, Yahoo!).

In addition to the suggested business models above, Moumenine (2012) adds *Crowdsourcing model* to the repertoire. This model entails a large number of people working on a particular task or sharing information or ideas in order to reach a defined goal (e.g. Kickstarter).

Kaplan (2012) defines mobile social media as a group of mobile applications that allow the creation and exchange of user-generated content. The introduction of increasingly powerful devices has allowed social media to go mobile and created a natural extension to social media usage. The majority of existing social media companies has gone mobile and the shifting trend has created an array of new companies that offer mobile exclusive services with differentiated business models (e.g. Foursquare). Location-sensitivity and time-sensitivity are the two distinct

features that mobile social media services can utilize in their business models. Location- and time-sensitivity allows companies to know the geographical location of the user in time or space.

Foursquare currently plans to monetize its ‘merchant dashboard’ that allows companies to claim their venue, run specials, and access a host of data about how consumers are interacting with their respective businesses in real-time. The service also has plans to become a digital version of a traditional stamp card through its check-in specials because essentially, Foursquare will be running customer loyalty rewards programs for other companies. Search and discovery functions are also available for users, which allow the search of neighborhoods and collect recommendations from nearby businesses. Finally, the service has partnered up with daily deal sites (e.g. Groupon) to offer real-time location-based deals. Foursquare is a prime example of a social media startup that has grown dramatically in just a few years due to its clear implementation of a business model that has been revised constantly by observing the evolution of the industry (Business Insider 2012).

Gelles & Dembosky (2012) argue that the current trend, especially in Silicon Valley, is to build a social media service that eventually is acquired by another company, therefore relieving the developer of the need for a business model. In a way, this can also be seen as a distinct business model because the strategy is planned and coordinated from the inception (e.g. Instagram, Yammer).

2.4 Online Social Networking Services

There is an abundant amount of literature discussing how online social networking services (SNS) can be used by companies to create additional value, or even conduct business, through these services. In contrast, academic literature that talks about how SNS providers do business is scarce and provides only a superficial take on the topic. This section briefly investigates SNS and provides a basic understanding of their characteristics, capabilities, and functionalities for individual users and businesses alike. More importantly, it takes an SNS provider-approach and explains how these services do business while taking into account the contemporary trends that are changing the industry. SNS providers are constantly innovating and even reinventing their

service, which has led to the blurring of the traditional social media classifications discussed in the previous section. Therefore, it is important to remember that incorporation of other types of social media occur, such as blogging on Facebook.

The core idea behind online social networks is to enable individuals to (1) build a public or semi-public profile within a bounded system, (2) compile and show a list of users with whom they share a connection, and (3) view and traverse their list of connections as well as those that are made by other users within the system (Boyd & Ellison 2007). According to Zarem (2011), social networking sites can be divided into three different categories based on their business models. Profile-based SNSs such as Facebook and LinkedIn allows users to become known through their profiles. Usually these services have blogs as part of the profiles. Community-based social networks such as Digg and Reddit allow users to become known by posting links, voting on links, and allowing the commenting of links that other users have posted on the service. Review/favorite-based social networks such as Delicious and Yelp are built around a search engine that is fed by bookmarks. Users are able to post links as bookmarks for themselves as well as for other users. The search engine is able to determine relevant content to users by allowing them to tag the bookmarks with keywords.

2.4.1 Background

Social networking services started to enjoy mainstream success from 2003 onward when many new sites were launched. The majority of them adopted a profile-centric approach and their goal was to target either broad audiences or specific demographics such as business people. The growing popularity of SNSs also spurred a variety of interest-based social networks that enable strangers to connect with each other based on their shared interests. Websites that had concentrated on media sharing (e.g. Last.FM, YouTube) started using SNS features in their service becoming SNSs themselves (Boyd & Ellison 2007).

2.4.2 Characteristics of Online Social Networks

The value creation logic in online social networks is based on a variety of characteristics. The logic will be discussed in this section to reach an understanding of the underlying factors that form the value proposition and influence the adoption and use of these services.

Stabell & Fjelstad (1998) define value configuration analysis as an approach to the analysis of firm-level competitive advantage which basis is on a theory of three value creation technologies and logics. The authors introduce an analytical representation and presentation format that identify the value creation logic of intensive and mediating technologies. The three different value configuration models are value chains, value shops, and value networks. The value creation logic behind value chains is the transformation of inputs into products. The product works as the medium for transferring value between firms and its customers. In the context of online social networks, the value chain model is left out of the analysis due to its non-applicability.

They continue to argue (ibid) that value networks rely on a mediating technology to connect clients or customers who wish to be interdependent. The underlying technology allows and facilitates the relationships amongst the users of the network. The firms provide a networking service that customers and clients are able to use for a variety of activities. The advances in information technology has altered the characteristics of modern societies, making it a complex set of actual and potential relationships between actors, people, and organizations. Companies can create value by organizing, mediating, and facilitating different types of exchange between customers. Mediating firms admit users that complement each other to the network. They are also able to monitor and terminate relationships.

There is a possibility that supplier-customer relationships exist between different users, but for the firm providing the network they are all customers. This is an important consideration because it captures the essence of how network providers create revenue streams. Online social networks can be further defined as providers of multi-sided networks. They can be seen as Internet intermediaries that provide platforms that bring together two types of participants, or 'sides', such as buyers or sellers (Bakos & Katsamakos 2008). Eisenmann et al. (2006) define platforms as products and services that bring together groups of users in two-sided networks. In the traditional value chain, value moves from left to right: To the left of the firm is cost; to the right is revenue. Two-sided networks differ dramatically from the traditional value chain because cost and revenue can be found from the left and the right since the platform has a distinct group of users on each side (Stabell & Fjelstad).

Essential growth of social networking services is based on the theory of network externalities. Initially the research in this field concerned itself with demand-side economies of scale as well as how product compatibility affects the value perceived by consumers (Katz & Shapiro 1985). This research eventually led to the discovery of network externalities that are said to occur when a user that is connected to a network, experiences increasing benefits as the number of other users in the same network grows. Therefore, a social networking service will be perceived more beneficial by the users when the total amount of users in the same network grows. Mäntymäki & Salo (2011) further argue that network externalities have direct influence on perceived usefulness and ease of use, and have a significant effect on perceived enjoyment. The platforms need to attract and serve all groups of the network if it wishes to create value. This consideration is usually referred to as the ‘chicken-and-egg’ problem and it has been addressed in a variety of academic articles. Hence, a number of publications discuss the appropriate pricing to coordinate the two sides, and thus induce participation and maximize the intermediary’s profit. (Bakos & Katsamakos 2008; Eisenmann et al. 2006; 2011).

Eisenmann et al. (2006; 2011) suggest that two-sided platform providers should address three strategic challenges: get the pricing right, cope with winner-takes-all competition, and avoid envelopment by an overlapping platform.

Eisenmann et al. (2006) argue that pricing in two-sided networks is a complicated affair because the platform providers need to choose an appropriate pricing strategy for each side, factoring in the impact of the other side’s growth and willingness to pay. Two-sided platform providers usually have a subsidy side which is the group of users that is highly valued by the other group of users, especially when the number of the former increases. The growth of the subsidy side is crucial to the development of strong network effects and often the service provider sets the price low or even removes it to create the necessary effects. In contrast, the money side pays more than it normally would if it was regarded as an independent market.

The primary goal of the network provider is to create and sustain cross-side network effects where the money-side users are willing to pay substantial amounts of money to reach the subsidy-side (Eisenmann et al. 2006; 2011). This only occurs if the provider is able to attract

sufficient amount of individual users (subsidy-side). The cross-side network effects work also to the other direction because the presence of money-side users (advertisers, company profiles, celebrity users) makes the platform more attractive to the subsidy-side users because they are the main contributors to the content of the platform. The pricing decisions are further complicated by same-side network effects, which are said to occur when the increase in the number of users on one side of the network attracts even more users of the same type to the network. In the context of online social networks, this is usually a wanted phenomenon so it can be said to generate positive same-side network effects. The authors (ibid) identify several factors affecting the pricing strategies of two-sided networks, the first one being the *ability to capture cross-side network effects*. A platform service provider has to have the necessary resources and skills to make sure that subsidy-side users do not transact with a rival platform provider's money-side. This is a common phenomenon in online social networking services due to the subsidy-side users' ability to switch from one platform to another without generating substantial switching costs. The second consideration is the *user sensitivity to price*. Generally, it is necessary to subsidize the network's more price-sensitive side and charge the side that increases its demand more strongly in response to the growth of the other side. The third consideration concerning pricing issues is *user sensitivity to quality*. The side, which has a high sensitivity to quality, should be subsidized because it ultimately is the one deciding the level of quality that is expected from the money-side. Again, the money-side users are only interested in providing high quality if there is sufficient amount of users on the other side. The pricing decisions are usually more clear and straightforward when *output costs*, in other words the adding of a new subsidy-side user to the network, does not incur additional costs to the platform provider.

The online social network industry is scattered and there are numerous service providers operating in the market. Multi-homing costs, which are the adoption, operation, and the opportunity cost of time expenses that incur from establishing and maintaining platform affiliation are quite low for the subsidy-side. Subsidy-side users have strong preferences for special features and unique needs that are catered by niche online social networks. Therefore, it is common for different service providers to share their platforms to cater each other (Eisenmann et al. 2011).

There is also a constant threat of envelopment where an adjacent platform provider that enters the same market due to overlapping user bases may envelop the former platform provider. Therefore, it is crucial for companies to constantly evaluate, improve, and change their business models to survive in the market. Furthermore, many services have established partnerships with bigger service providers to drive traffic back and forth. The Internet has enabled easy access for both sides of the market that has made the inception of new two-sided platforms an easier task. Therefore, it is crucial for the service providers to get their value proposition right the first time if they wish to survive in the highly competitive market (ibid).

2.4.3 Interest-based Social Networking Services

Jamison (2012) states that SNS users are constantly adopting new interest-based social networks (ISNS) such as Pinterest, Instagram, Thumb, and Foodspotting, contrary to the popular belief that Facebook would dominate the entire social web and therefore prevent the inception of new social networks. Pinterest, an interest-based social network that allows users to create and manage theme-based image collections such as events, interests and hobbies, was the fastest service ever to have ten million unique users in the US. According to Khosla (2012), interest-based social networks are based on users' interest-focused activities, which are more easily monetized and more prone to the emergence of innovative new applications. Facebook's phenomenal success has allowed them to dominate the definition of 'social graph', which can be defined as the data on personal relations between users that already existed prior to service adoption. However, the shifting trend to ISNSs has shown that the 'social graph' approach is not the only possible direction due to the introduction of another social graph: the social interest graph (e.g. Pages & Likes on Facebook). Ravikant & Rifkin (2010) state that the interest graph and therefore ISNSs differ from the traditional 'people you know in real life' social graph and services in the following ways:

- 1) The graph is built on one-way following rather than two-way friending
- 2) It is organized around shared interests, not personal relationships
- 3) The profiles are public by default

- 4) ISNSs are aspirational: not who you were in the past or even who you are, but who you want to be

This break-up of key differences shows that the interest graphs of ISNSs lend themselves far more brilliantly to commerce. Although Facebook utilizes interest-based social graph through all of the shares coming from our Facebook friends, interest-based social networks are better positioned to capitalize on the social interest graph due to three key components that they possess:

1. ISNSs inherently own an interest-based social graph because the majority of the users join the service to follow people who they do not know in real life. Social interest graphs reflect the power-law distribution of human nature. Furthermore, social hierarchies are rigid and constraining, which causes the flow of information to slow down.
2. ISNSs connect strangers because all data is assumed to be public by default, creating more value for all. The social interest graph can be indexed, crawled, searched, and aggregated better due to this characteristic. Value can flow across the service to people who do not know the original source. The communication between strangers will most likely be short-term and transactional and therefore ISNSs are very valuable from an advertiser's perspective.
3. ISNS usage model encourages volume because the community behaviors of users are built on the interest graph. Users welcome the messages from others (companies and other advertisers) because they have subscribed to follow them. Hence, this notion also makes sure that the quality and flow of messages will remain high at all times.

2.5 Summary

Smart phone adoption has become the fastest spreading technology in the human history (ITU 2012). Especially after Facebook's IPO last year, the company has been criticized for its sluggish plans to monetize mobile. According to Medved (2012), investors are currently looking for social media startups that can build upon Facebook's success in engagement and growth while driving monetizable behaviors on mobile devices. Many social media services have

demonstrated rapid growth but have completely lacked scalable long-term value. The author continues to argue that rapid growth is not the way to go for all startups because user engagement can be seen as much more fruitful aspect than downloads and registered users alone. Companies like Pinterest have been able to create an active user base that that has set these companies up for success by creating a community that generates monetizable intent. The common trait for these new social media services is that they have not achieved high levels of engagement through explosive growth alone, but delivered real value to the user that enables them to not only reach this engagement, but also sustain it (ibid).

3 BUSINESS MODEL THEORY AND FRAMEWORK

This chapter reviews the literature on business models due to its relevance for predicting and explaining how online service companies create, modify, and use business models and utilize them as part of their business strategies. The first three sub-chapters discuss the theory behind business models and the rest examine the business model ontology that works as the basis for the theoretical framework for this research paper.

3.1 Overview and Origins

The economic environment of modern days is highly competitive, rapidly changing and increasingly uncertain. Businesses face hard time making decisions in the constantly complicating environment that is dominated by the continuous introduction of new information and communication technologies, shorter product lifecycles, global markets and highly intensified competition.

Osterwalder (2004) argues that business model concept has become popular because managers today are spoiled for choice when they need to define their value proposition, configuring their value network, choosing partnerships, and looking for new ways to reach their customers.

The term ‘business model’ first appeared in an academic article in 1957 but the systematic study of the subject is a relatively young phenomenon, and can be traced back to the end of 1990s when the Internet in the business world became prominent and the steep rise of the NASDAQ stock market for technology-heavy companies occurred (Osterwalder et al. 2005). Dramatically lowering costs of information technology, increasing bandwidth speeds, and communication possibilities allowed companies to operate in interdependent value networks, which led to the decrease of coordination and transaction costs (Tapscott et al. 2000). The industry boundaries started to blur as managers were able to make business design choices based on cheap and available information technology and companies started jointly offering and commercializing value to their customers. Therefore, business model concept can be seen as a candidate for replacing the industry as a unit of analysis.

Linder & Cantrell (2000) argue that the term ‘business model’ is used to describe various things and authors often have different meanings for the term, which leads to confusion of its actual definition. Business model research is relatively scattered and authors of various publications talk about different things, as they were the same. Firstly, components of a business model, which are pieces of a bigger entity, are often seen as business models themselves. Secondly, there is a lot of literature discussing operating business models that work as the core logic behind companies’ value creation. In other words, the literature discusses business models used by companies whether they are functional or not. Thirdly, change models describe how organizations adapt in dynamic environments, and therefore act as the logic for how firms change over time to stay profitable. Osterwalder et al. (2005) clarify the business model domain by identifying what different authors talk about when they write about business models. They classify authors and their respective takes on business models into three different categories that are hierarchically linked together (Figure 3).

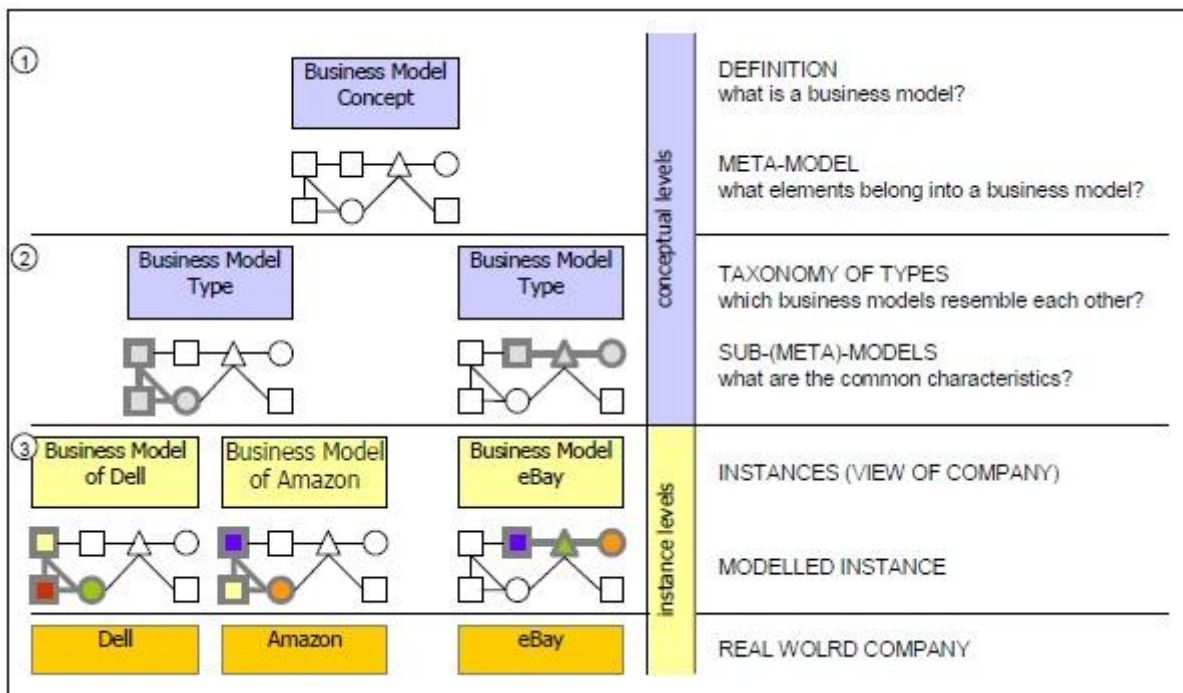


Figure 5: Business Model Concept Hierarchy (Osterwalder et al. 2005)

On level 1 are authors that describe the business model concept as an abstract all-encompassing idea that tries to explain all real world businesses. Level 2 includes authors that define different business model types in order to create a classification scheme which purpose is to describe a set of businesses with similar characteristics. Level 3 authors present real world business models or conceptualizations, representations, and descriptions of real world business models. The defined categories are necessary and they must be distinguished conceptually in order to reach a common understanding of business models.

It is beneficial to examine the semantics behind the term business model before giving it an official meaning based on academic literature because both words in the concept have specific definitions of their own. The break down helps in understanding the various possible applications of the concept. According to WordNet 3.1, business is “*the activity of providing goods and services involving financial and commercial and industrial aspects*”. Likewise, Wordnet 3.1 provides a definition of the word model as a “*representation of something (sometimes on a smaller scale)*”. Osterwalder et al. (2005) combine these elements and propose that the reflection on the business model concept goes in the following direction:

A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences.

A broader set of definitions will be provided in section 3.3, which is necessary to reach a deeper understanding of the concept.

3.2 Purpose and Place of the Business Model Concept in a Firm

Business model concept should be further ‘opened’ because its purpose and place in a company is still subject to debate. The two main themes discussed in this section are the distinction between business model and business process model (Gordjin et al. 2000) and the difference between strategy and business models (Linder & Kantrell 2000).

Gordjin et al (2000) argue that business models are often represented using standard process modeling methods such as diagrams that are often workflow-oriented, showing a series of activities that need to be performed and sometimes the actors doing so. However, business process modeling concerns itself with how a business case is implemented in processes. Magretta (2002) states that a business model is not the same thing as a strategy even though the terms are often used interchangeably. Organizations achieve superior performance when they are unique and differ from their competition. This is called a company's competitive strategy. Business models do not take into account competition, but explains how the pieces of a business fit together. If a company has a functional business model that needs no modification, it only has to consider where it should apply it – which geographic markets, which segments, which customers, and which products. Although business model is sometimes understood as an abstraction of a firm's strategy that is applicable to other firms, the majority of literature focuses on describing the elements and relationships that outline how a company creates and markets value (Osterwalder et al. 2005).

Another key issue that has been widely neglected in business model research is the study of relationships between business model design and its execution. Business models are more about how a business works as a system whereas business strategy has these qualities embedded in it. It is important to conceptually distinguish model (the business model concept) and execution (the form it takes in reality) because a business model is not able to be successful by itself. A sound business model can be implemented and managed badly and fail, just as a weak business model can succeed due to strong implementation and management skills. Business model implementation and management allows the actual model to be translated into more concrete elements, such as business structure, business processes, infrastructure and systems. Finally, the model has to have appropriate financial backing from internal or external environments (ibid).

3.3 Definitions

Timmers (1998) provides one of the first comprehensive definitions of a business model and it was meant to be a part of a more general framework of policy-making for global electronic commerce companies during the Information Technology Bubble. He defines business model as

an architecture for the product, service, and information flows that includes the various business actors and their roles in an organization. It also describes the potential benefits for these actors and provides a description of the sources of revenues.

Many authors define business models in terms of making money (Rappa 2004; Afuah 2004). Business model can be seen as a method of doing business through which a company is able to sustain itself, or in other words, generate revenue. This is done through specifying the position of a company in the value chain. In other words, business model is a framework for making money because it can be seen as set of activities that a company performs, how it performs them, and when it performs them so as to be able to offer its customers benefits in order to make a profit.

Amit & Zott (2001) were one of the first ones to discuss value creation specifically in business model context by stating that business models depict the content, structure, and governance of transactions in order to create value through business opportunity exploitation. Many authors have built on this notion by defining business models as a mean to articulate the logic, the data, and other evidence that support a value proposition for the customer and a viable structure of revenues and costs as well as key resources and processes for the company delivering the mentioned value (Johnson et al. 2008; Teece 2010).

As noted in the earlier section, the rapid advancements in information technology and the following confusion in business design were the main reasons for the initiation of systematic studies concerning business models. It does not come as a surprise that the majority of literature discussing the concept has devoted the greatest attention to companies that conduct business partially or completely in the Web. The dramatic growth in Internet businesses and their respective business models has also created the need to address or explain the strategic issues, such as value creation, competitive advantage, and firm performance that stem from value creation through the employment of the concept. Therefore, for the sake of this thesis and with respect to its topic, business model in this context is defined as means for creating value in digital business.

The existing business model literature discussed in this section can be explored considering three aspects, which are revenue- and product-specific, business actor- and network-specific and

marketing specific. The majority of the literature does not consider all three aspects and sometimes the approaches in the publications are highly abstract and they provide low, if any conceptual contribution. In addition, there has not been a profound attempt to break down the business model structure based on the above-mentioned aspects and the various components of the concept have not been defined accordingly. Therefore, the ontology by Osterwalder et al. (2002; 2003; 2005; 2010) was chosen for the basis of the theoretical framework.

3.4 Business Model Ontology

Osterwalder et al. (2002; 2003; 2005; 2010) outline a business model ontology that is meant to be a conceptual tool that contains a set of elements and their relationships and enables the expression of the business logic of a specific firm. The focus of the ontology is on the logic and concepts of value creation. The ontology is broken down into four main blocks that allow companies to express their offering, target market, the means of realizing the business, and the possible revenue streams (See Figure 2). The first block is *product innovation*, which describes the value proposition of a firm. The second block is *customer relationship* and it describes how a firm reaches out to its customers and what type of relationships it wants to establish with them. The third block, *infrastructure management*, explains what activities, resources, and partners are necessary to provide for the first two blocks. Finally, *financial aspects* block describes the revenue flows and the pricing mechanisms of a company. In other words, it tells how a firm makes money through the utilization of the other three building blocks. The main blocks are then further decomposed to nine components, which are discussed in detail in the following paragraphs.

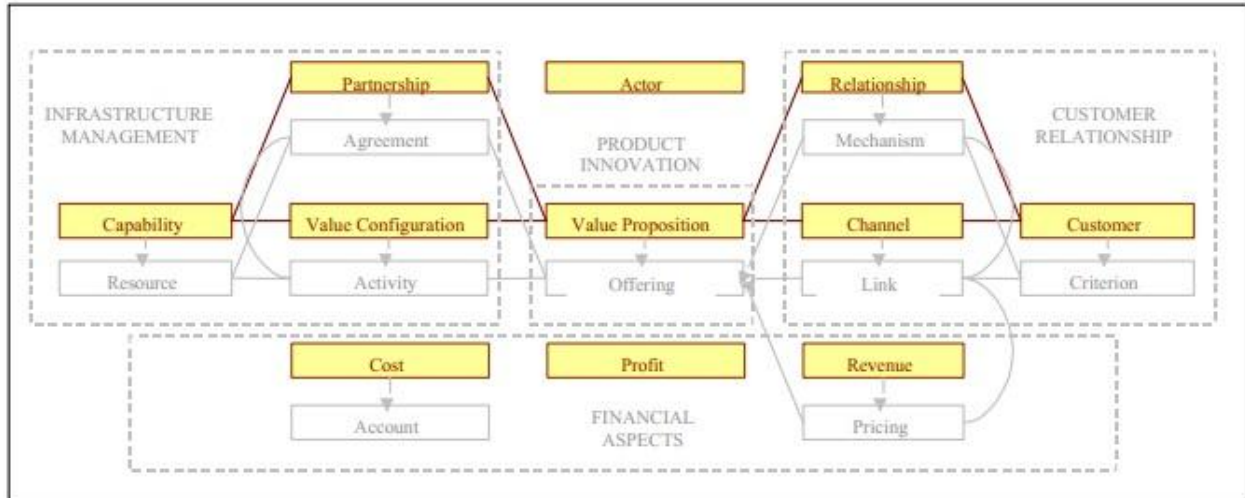


Figure 6: Business Model Ontology (Osterwalder & Pigneur 2002)

3.4.1 Product Innovation and Value Proposition

Companies that fail in product innovation are in risk to fall into the commoditization trap because successful products and services are constantly copied. Information and communication technology has made the separation of information from its physical carrier possible. Digital product and service providers need constant innovation if they wish to remain competitive.

Value proposition is described as the definition of how items of value such as products, services, and complementary value-added services are wrapped together and offered to fulfill the needs of customers. The value proposition is based on capabilities. Furthermore, these products and services represent value for specific customer segments. It is a method for differentiation for firms to stand out from their competitors. The elementary offering describes the different aspects of the value proposition and allows companies to situate themselves better amongst other firms based on a variety of attributes. It captures the reasoning on why the firm thinks its value proposition could be valuable to the customer.

3.4.2 Customer Relationship

Internet has enabled companies to manage their customer relationship in numerous new ways and the number of applications related to customer relationship management (CRM) has skyrocketed. Furthermore, data warehousing, data mining, and business intelligence have made

the exploitation of customer information a standard practice. This has enabled companies to discover new and profitable business ventures.

The customer relationship block is comprised of three components which customer segments, channels, and relationships. *Customer segments* component defines the different groups of people and organizations a company wants to reach and serve. Customers are at the heart of any business model because they are the source of revenue for any firm. *The channel* component provides insight on how a company communicates with and reaches its customer segments to deliver the value proposition. Communication, distribution, and sales channels form the customer interface, which work as touch points between the firm and the customer. *The customer relationship* component describes the types of relationships a firm establishes with its customers.

3.4.3 Infrastructure Management

The infrastructure management block describes how a firm creates value and maintains customer relationships. The activities that are needed in order to deliver the value proposition to the customers are located in this block. Infrastructure management outlines the value network that generates economic value through various dynamic exchanges between one or more enterprises, its customers, suppliers, communities and strategic partners. It specifies the capabilities and resources of a firm's business model as well as their owners, providers, and the appointed tasks concerning who executes which activity.

The infrastructure management block is composed of three components, which are key resources, key activities, and key partnerships. *Key resources* describe the most important assets required to make a business model work. The resources allow companies to create and offer the value proposition, reach markets, maintain relationships with customer segments, and earn revenue. Different types of resources can be categorized as physical, intellectual, human and financial based on their characteristics. *Key activities* component describes the most important actions a company must undertake to make its business model work. In other words, these activities are needed if a company wants to operate successfully. A company cannot offer a value proposition, reach markets, maintain customer relationships and earn revenue without them. Key activities

can be categorized as production based, service based, or platform/network based according to their characteristics. *Key partnerships* component describes the network of suppliers and partners that make the business model work. Companies utilize partnerships in order to optimize their business models, reduce risk, or acquire resources.

3.4.4 Financial Aspects

The financial aspects block is influenced by all the other blocks in the framework. It is comprised of two components which are cost structure and revenue streams. *Revenue streams* measure the firm's ability to transform generated value it offers to different customer segments into money. The revenue model is comprised of all incoming revenue streams, which all can have different pricing models. The chosen pricing models can have a big difference in terms of revenue generated. The pricing models can be divided into fixed and dynamic pricing. *Cost structure* describes all costs that occur from operating a business model. Creating and delivering value, customer relationship management, and generating revenue all create costs. Companies can calculate the incurred costs relatively easily after they have defined the key resources, key activities, and key partnerships. Cost structures can be divided into cost-driven models and value-driven models. Cost-driven models focus on minimizing costs whenever possible. Value-driven model is less concerned with the cost implications related to business model design, and instead focus on value creation.

The profit model in the middle is the outcome of the difference between the revenue models and the cost structures. The authors define it as the culmination of the entire business model ontology. Product innovation and customer relationship maximize revenue, an effective infrastructure management results in minimal costs and hence optimize the profit model.

3.5 Business Model Design

The early literature discussing business models concentrated on the single identification of typologies and taxonomies of different types of models (Tapscott et al. 2000; Amit & Zott 2001; Rappa 2004). Osterwalder (2004) was one of the first researchers to develop a clear and unambiguous ontology – it can be defined as the definition of the basic concepts of a theory,

which can be applied as a tool for supporting strategy analysis of firms. Ballon (2007) furthermore argues that the focus in business models has evolved from the positioning and marketing strategy of a single firm to the outset of the entire network, its interrelations and inherent hierarchies. In other words, business model design has gradually shifted from a single firm view to a network view and from simple concepts of interactions and revenue models to comprehensive concepts that cover the value network, the infrastructure, the financial aspects, and the concluding value proposition pitched for the customers.

Osterwalder et al. (2010) provide a strategic management template for developing and designing new or existing business models (See Figure 5).

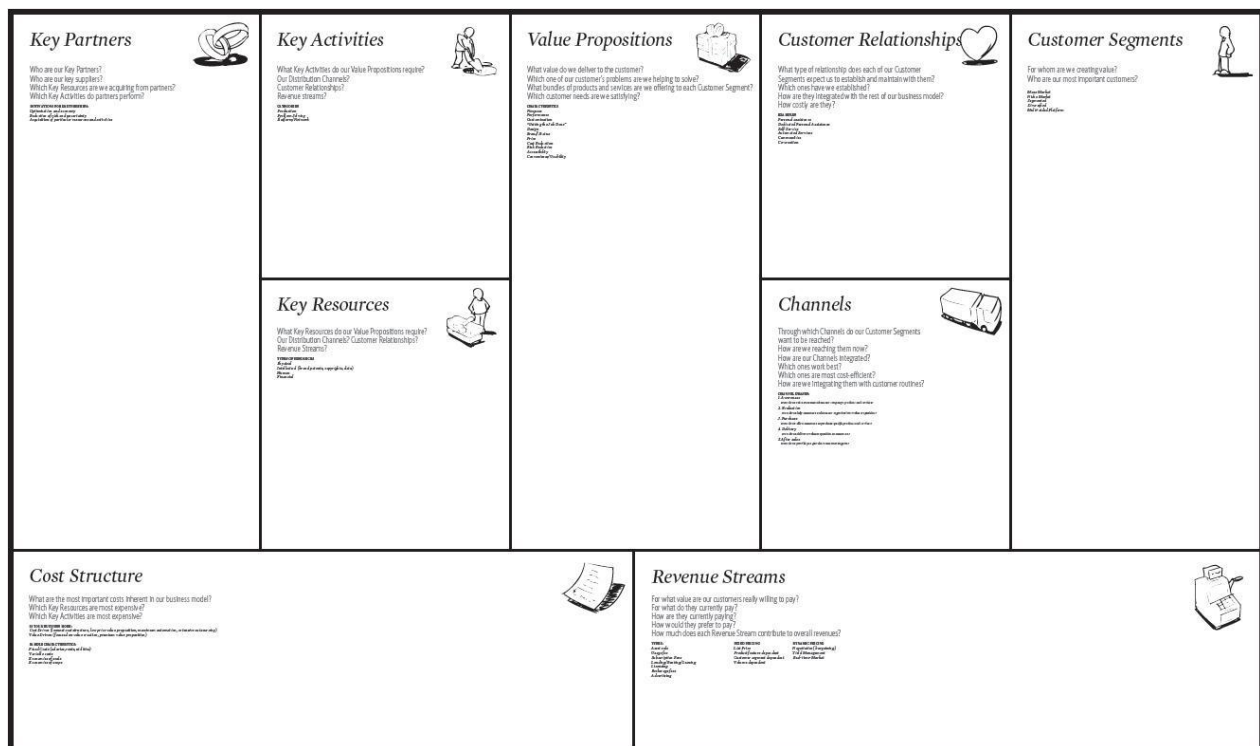


Figure 5: Business Model Canvas (Osterwalder et al. 2010)

A common deficiency in business model design is companies' unfaltering focus on creating business models and then assessing their efficiency in isolation. The success of a business model is heavily dependent on interactions that occur in a firm's external environment, namely with other models in the industry. This is easily justifiable because a business model would most likely perform brilliantly if it would be the only one in the market. Research by Casadesus-Masanell & Ricart (2011) shows that evaluating business models in isolation can lead to faulty assessments and their outcome may be difficult to predict. The interactions that occur between business models should be taken into consideration because a business model that performs well in isolation may create less value when other players in the field are included in the assessment. The competition and possible partners should be included in the design process because it is impossible to design a winning business model without considering these aspects.

Zott & Amit (2007) argue that business model design has a direct effect on a firm's performance. Business model design is said to revolve around two underlying themes, which are novelty and/or efficiency. Novelty-centered business model design tries to conceptualize and adopt new ways of conducting economic exchanges. These can be achieved through various means such as linking previously unconnected parties or designing new transaction mechanisms. A sound design either creates new markets or fastens transactions in existing ones. Efficiency-centered business model design tries to create value by imitating existing business models but in a more efficient way. They rely on industry standards and use them as the basis for the design. Efficiency-centered design refers to the measures that firms can take in order to achieve transaction efficiency through their business models. Transaction cost efficiency can be achieved for example through reduction of uncertainty, complexity, or information asymmetry in a firm. Other efficiency-centered design elements serve as ways to increase the reliability and simplicity of transactions, reduce the information asymmetry between the participants of a certain transaction, speed up transactions, enable demand aggregation and reduce the direct or indirect costs of a transaction. The authors (*ibid*) furthermore state that business model design is a crucial task for entrepreneurs if they wish a company to succeed and be innovative in their field. Firms should consider looking beyond industry boundaries in order to create and capture customer value.

Rajala & Westerlund (2008) analyze business model design in software industry context through a firm's internal and external capabilities that are required for a successful implementation of a functional business model. The authors identify four basic business model types based on two different dimensions, which are the degree of involvement in customer relationships and the level of homogeneity in the software offerings. The different business model types are categorized based on the dimensions and range from software tailoring to standard offerings. In addition, the authors identify the internal and external key capabilities that need to be present in different business model types. Capabilities such as technological knowhow, technical innovation, and network development need to be mastered in order to be successful. Rajala et al. (2012) continue the research by investigating the effects of open innovation in business model design and the capabilities that need to be present if firms decide to utilize this approach. The research shows that firms need to have reactive strategic flexibility in order to cope with the environmental diversity and variability. In open innovation approach, the development and innovations stem from participants' implicit needs. Companies are able to steer the co-production of innovations through asynchronous communication over the internet.

3.6 Business Model Analysis Framework

The literature review on social media and business models now provide a necessary understanding for business model analysis through the utilization of the business model canvas created by Osterwalder et al. (2010). The nine building blocks that can be found from the framework are used in the empirical part to break down the analysis of ISNS business models. As noted earlier, Osterwalder et al. (2010) define a business model as 'the rationale of how an organization creates, delivers, and captures value'. The nine building can be organized chronologically based on the above-mentioned definition in order to analyze 'value' in its different stages. Table 4 presents the building blocks based on their place in the value creation, delivery, and capture process.

Table 4: Value chain order

Value Creation	<ol style="list-style-type: none">1. Value propositions2. Customer Segments3. Key Resources4. Key Activities5. Key Partnerships6. Cost Structure
Value Delivery	<ol style="list-style-type: none">7. Channels
Value Capture	<ol style="list-style-type: none">8. Customer Relationships9. Revenue Streams

The building blocks of case companies' business models are analyzed in the chronological order described above due to its beneficial capabilities in terms of value lifecycle illustration. The business model analysis is clearer and the results can be more easily applied in real world situations. Furthermore, the analysis of case companies in the following sections has an emphasis on revenue models because of their importance in digital services. The pressure to be profitable from the start has increased dramatically in recent times due to the abundance of entry-level services. The other reason why financial revenue streams in business models are so important is the fact that it is one of the key methods for social networking services to differentiate themselves from competitors. Interest-based social networking services aim to engage their users in relatively similar ways and therefore it is crucial to find a stable way to monetize their platform without hurting the user experience.

4 RESEARCH METHODOLOGY

This chapter explains and justifies the research method that is used in the data collection of the empirical data. The chapter begins with a discussion of the chosen methodology and continues to explain the research sample and the reasons for choosing it. Data collection and analysis are briefly described and the chapter concludes by evaluating the quality of the research in terms of reliability and validity.

4.1 Choice of Methodology

The empirical part of the thesis is based on qualitative research. The studied phenomenon and the related subject matter are relatively new to the academic world and therefore qualitative research method was chosen. The qualitative research allows careful examination of the phenomenon due to its evolving features. Qualitative research is highly suitable for the studied phenomenon because the subject has not been thoroughly researched. Therefore, it can be said that the chosen methodology supports the research topic, objectives, and questions.

Multiple case study methodology was chosen for the data collection due to its suitable characteristics. Yin (2003) argues that case study methodology should be utilized in a situation where how or why types of questions are used when defining the research problem and its questions. He continues to argue that whenever a real-life contemporary phenomenon is researched, case study method is an appropriate method for data collection. The mentioned characteristics are present in the studied phenomenon because interest-based social networking services and the underlying business models are a real-life contemporary phenomenon and they are constantly evolving into new dimensions. Santos & Eisenhardt (2004) argue that multiple case study method is more suited for research that tries to obtain deeper understanding of specific instances of a phenomenon. It is important to attain sound data of the business models and the underlying components to gain an acceptable level of understanding regarding the required features that need to be present.

The purpose and objective of this thesis is to find out what are the common features of interest-based social networking business models and how do they compare with each other. Multiple case study approach permits replication, which allows using multiple cases independently to confirm emerging constructs and propositions (Santos & Eisenhardt 2004). In addition, it allows extension – that is, utilizing the cases to reveal supporting and complementary aspects of the phenomenon, which leads the results to be more robust and generalizable. This acts as a justification to the second research question which aims at finding out if there is a possibility to create a generalized business model framework or managerial suggestions for companies that are planning to offer interest-based social networking services or want to improve them to provide more value to the users.

Yin (2003) states that case studies are relevant for illustrating phenomena and for unique cases that shed light on an unknown issue. Mills et al. (2010) define descriptive case studies as ones that are focused and detailed where propositions and questions about a phenomenon are carefully examined and articulated. The main goal of a descriptive case is to study the research sample in detail and in depth, which can be accomplished by careful construction of research problem and the related questions.

The individual companies that are studied in the empirical part allow the understanding of critical relationships as well as differences between the different cases. Similarities spotted during the research are assessed and weighted against one another in order to form a clear picture about the traits of interest-based social networks' business models and their underlying components. The results can then be analyzed and generalized into implementable suggestions that allow companies to avoid the common pitfalls that are often present in launching of new services.

4.2 Research sample and Data Collection

The author has sufficient access to the case companies that are used in the research as well as previous knowledge about how the services that they provide function and operate. All services studied are public services that are more or less open in terms of their functionality, operability,

and revenue generation. This notion ensures that the data gathered is rich in quality and can be used for analysis. Yin (2003) states that a case study approach is suitable if the goal of the case is to test, confirm, challenge, or extend a theory while investigating a contemporary phenomenon.

Online social networks have been systematically studied for over a decade but the research has mainly focused on the traditional services while disregarding the new breed of online social networks. Furthermore, the research related to how the services actually create value to the users and are able to generate revenue has been relatively small. The author has used the studied services actively since their inception and assessed their strengths and weaknesses for personal enjoyment. Flick (2006) argues that this form of subjectivity can be seen as an asset in case study research.

Four services were chosen to be analyzed for the thesis. The author did not have a contact person for three of the companies (Pinterest, Tumblr, TribeSports) and the data collection was mainly conducted from frequent use of the services, careful examination of their features and functionalities, following of relevant news from the companies themselves, and from prestigious and dependable technology news sites. The author had full access to the fourth case company, Dreamdo, which is a relatively new interest-based social networking service and is based in Helsinki, Finland. The author took part in brainstorming sessions, development meetings, and had full access to the development plans of the service. This additional case company provides rich data because it provided unique value to the research process and findings. The company allowed the author access to competitive material that was valuable in understanding the development process of a service provider. It was clear from the beginning that there would be no access granted to the three other case companies due to their highly competitive nature and due to lack of connections to employees of these firms. However, the remaining companies are very high-profile firms and there is news coverage dealing with various aspects of their functionalities, business models, strategy, and future plans in major technology publications. Therefore, the data collection was possible and sufficient amount of information was gathered from these companies as well.

As mentioned earlier, secondary sources such as company websites, company archives, existing academic research, and media and press releases were used extensively to complement the lack of primary data. Yin (2003) acknowledges these sources of evidence, documents, archive records, and observation as sound sources of secondary data. Observation played a major role in the data collection since the author used the studied services frequently over a longer period of time and kept track how they evolved during the writing process. The author also frequently observed Dreamdo's brainstorming sessions as a spectator in order to gain an understanding of the company's internal activities. Utilization of multiple data sources adds credibility and reliability of the research in question (Yin, 2003). Each case is first treated individually, after which a comparative analysis is conducted to find out the similarities and differences. The similarities are given the first priority due to the research problem that tries to uncover the common characteristics of different services. The findings are then related back to the literature and the research question.

4.3 Quality of the Research

The quality of the research is most often assessed through reliability and credibility. Quality is often disregarded during the data collection and analysis stage (Yin, 2003). The data collection and analysis were conducted in conjunction with the practices found from the related literature. The careful examination, use, and following of the analyzed services add reliability and credibility of the study. This is because the phenomenon is approached from multiple angles. As the research concentrates on certain type of online social networking services, one needs to bear in mind that the findings may not be applicable to similar networking services that are emerging in the industry.

As mentioned earlier, secondary data sources are utilized frequently to support the primary data and the adjacent empirical findings. The author's previous experiences and knowledge also support the findings and add positive subjectivity to the research.

5 EMPIRICAL RESEARCH

This section evaluates interest-based social networking services through the business model framework described in the previous chapter. This section investigates the services that share similar characteristics and how they create, capture, and deliver value. A number of services were chosen for comparison based on their shared characteristics. These services all share the common traits of interest-based social networking services that were described in the literature review. A variety of companies was chosen based on their popularity, similarity, and business model characteristics.

The main goal of this section is to gain an understanding of the general requirements that need to be present in an interest-based social networking service. Even though there are unlimited ways of designing these types of services, ISNSs share multiple characteristics that have not been documented accordingly. The services are evaluated using the framework provided by Osterwalder & Pigneur (2010) that was described in the previous chapter. The data for this section is gathered from trusted online sources such as company websites and prestigious technology news websites. The author has also followed the majority of the services from their inception, which allows him to use valuable insight when analyzing their respective business models.

Dreamdo is analyzed through its current state with an emphasis on its business model. The business model analysis is conducted in a similar fashion, as with the other analyzed services but the author has also had access to the company on a personal level through conducting interviews and participating in brainstorming sessions related to the development of the service.

The section describes the company profiles, shortly evaluates their general strategies for growth, and then proceeds to analyze their current business models based on the framework provided in the previous chapter.

5.1 Pinterest (<http://www.pinterest.com>)



Pinterest is a San Francisco based interest-based social networking service that provides a tool for discovering topics and points of interest and doing them in real life. In practice, the service allows users to create virtual pinboards that contain photos and links to products that are appealing to the user. Users are able to follow pinboards of others that they find interesting and share their experience through the service. The company was founded in March 2010 and has since enjoyed skyrocketing growth. According to comScore, it was the fastest growing site ever to break through the 10 million unique visitors mark.

The company introduced business accounts to its service in late 2012, which marked a turning point in its strategy towards monetization. Especially retail companies have started actively using Pinterest as a marketing platform due to the service's ability to provide an ideal layout for displaying your products online. Furthermore, the service is said to be an ideal place for gathering affinity data, which is a resource that has high potential for realizing substantial demand and income.

5.1.1 Pinterest Business Model Analysis

The main reason for Pinterest's growing popularity is its unique 1. *value proposition* when compared to other major social networks. Pinterest allows users to 'pin' images or videos of items that hold some interest to them. They range from their own photos and videos to the ones found on other users' pinboards or on the web. The service then aggregates the pins on a board that usually follows a common theme. Pinterest offers a social network that is optimized for creating visually intriguing boards and therefore profiles. Images and videos are the most shared media on Facebook but the service's emphasis is not on this activity. Pinterest has made this its core activity and exceptionally easy which has contributed to its skyrocketing growth. Pinterest offers companies a platform where they are able to advertise and market their products and services. After the introduction of business accounts, companies gained the ability to create profiles and engage themselves in the same activities that only individual users were able to do before. Pinterest has marketed their platform as a creative and interactive place for companies to advertise their products and services. The emphasis on richer media makes the company boards

more engaging and fun to follow which has been one of the main selling points of the service for companies and individuals alike. Therefore, Pinterest allows companies and consumers to communicate, discover, and curate to make the experience more entertaining and rewarding.

Pinterest for individual users is not officially aimed at any specific 2. *customer segment* but it is relatively easy to argue that the service is mainly adopted by users who already have some experience from other social networks. Furthermore, the value proposition makes the service especially intriguing for users who wish to express themselves through rich media formats such as photos and videos. Users who have grown during the era of social networking have a huge appreciation towards the service because it allows the rich media expression so well. The other main segment is obviously businesses who utilize the service for marketing, advertising, and overall social media presence. The service has been especially popular amongst retailers due to the great opportunities that it offers for product-driven businesses. Pinterest has noted this popularity and created a variety of tools for retailers that enable them to make their profiles and boards more interactive and engaging. These will be covered in a later paragraph.

Pinterest's 3. *key resources* include significant funding from venture capitalists (raised \$100m in 2012 and \$200m in early 2013) and talented engineers. Pinterest employs around 100 people and therefore makes it the largest social media platform in users per employee. This means that Pinterest has around 400,000 users per employee. Therefore, it can be said that the number of employees can be seen as a key resource because it proves that you do not need many employees to get many users. Pinterest currently has over 40 million users. They have plans to double the amount of employees in 2013, which requires the user base to keep growing because the company does not currently have any significant revenue streams besides venture capital. Pinterest new headquarters are located in San Francisco, CA, which supports future growth. The other major resource that the service has is naturally the data that it has of its users. This data is highly valuable and it is a major point of interest to companies when they are measuring their influence on the service. Pinterest's main 4. *key activity* is the continuous development of its web and mobile platforms. For example, the company released an improved version of its web service in January 2013, which featured bigger images, better navigation, and a new menu of related pins that makes the site stickier. It also improved the performance of its backend systems to make the

site run more efficiently. Pinterest announced in March 2013 that it is rolling out a data analytics tool that allows businesses to monitor how many visitors the content-sharing service is referring to their sites. Although the tool is currently free of charge, the company is clearly laying out the foundations for monetizing the tool on a later stage. The other key activities are expansion through increasing the user base, translating the service into multiple languages, and acquiring other companies. For example, in January 2013 Pinterest acquired Punchfork, which was an ISNS service for sharing pictures of meals and food recipes. Punchfork site and the entire community were moved to Pinterest to make the expansion as effective as possible.

Pinterest established a partnership with Skimlinks that allowed the addition of affiliate links to products that showed on the service. The partnership was dismantled relatively quickly due to a variety of issues. The partnership was very prominent because it marked the first time that a major social media platform entered into partnership with an affiliate link provider. Pinterest has since established the affiliate model again and established 5. *key partnerships* with e-commerce retailers. In this context, key partnerships refer to all the companies that utilize Pinterest for driving traffic to their websites and boosting sales. The other key partnership is with Pinfluencer, which is a service that pulls company information such as recent pins from their website, boards, pinners, followers, and their boards. Pinfluencer offers a Promotions platform that provides a suite of tools for companies to create efficient branded experiences for fans and followers. It also allows companies to gather audience data and manage your content with special tools. The number of partnerships is growing constantly. For example, in February 2013 Pinterest collaborated with Michelle Obama and five major media companies in order to promote healthy eating and cooking. The company will most likely to establish similar partnerships with influential individuals with abundant amount of followers.

Pinterest's 6. *cost structure* is relatively lean. The biggest costs are stemming from platform development, maintenance, administration, and real estate costs. The users-employees ratio is very low which shows that the service is relatively cheap to maintain. Furthermore, Pinterest deploys Cost-Aware Architecture to its system, which allows the company to reduce costs dramatically through traffic and system uptime optimization. Despite the cost optimization, Pinterest can be seen as a value driven business because its major goal is to provide a service

with a premium value proposition. It has secured massive amounts of funding that enable it to concentrate on platform development, expanding its user base and reach and investigating the different possibilities for monetization.

Pinterest is delivering its service through two main 7. *channels* which are the website and official mobile applications for iOS and Android. Pinterest also has a website that is optimized for mobile phone usage to cater the needs of operating systems that do not have official applications. Furthermore, 3rd party apps for Pinterest are common and are used widely. Pinterest has become a widely known service and a significant number of web sites employ Pinterest widgets and 'Pin It' buttons that allow instant pinning to Pinterest. There is a designated website for businesses, which aids in establishing an online presence on the service.

Pinterest requires a registration to its service to gain full functionality. The service is free-of-charge to use for individuals and companies alike. The service has an emphasis on functionality and design and is currently ad-free which makes it appealing to users. Pinterest informs business account users regularly about updates and tools that they can use to enhance their presence on the service. The service is growing constantly in terms of users and content. This makes the service appealing and sticky. The constant development of the platform also contributes to the customer relationship. Pinterest also has a business support forum that aids companies in using the service. The 8. *customer relationship* is established instantly after the registration. New users have instant access to all the functionalities of the service. Since the service is free and there are no visible ads, Pinterest offers great value. Pinfluencer deepens the relationship between businesses and the service by selling additional tools and services.

Pinterest currently has very few 9. *revenue streams* because it has chosen growth over monetization. The current valuation of Pinterest is around \$2,5b dollars and there is a constantly growing pressure to start earning revenue. Pinfluencer is the premier marketing partner for brands that want to run Pinterest campaigns and Pinterest naturally earns revenue through it. The second stream of revenue comes from affiliate links that Pinterest has on its service although this is not a fully functional stream yet.

The potential revenue streams can be divided into four major categories which are: Charging advertisers, charging e-commerce partners, charging users, and charging other B2B partners. Pinterest has plans to launch paid advertisements. It will most likely offer additional features for companies that they can use in their native advertisement campaigns. The service will naturally take a percentage of brands' sales revenue that is generated through Pinterest. The trend is also to offer premium features to individual users who wish to make their profiles/boards more attractive and appealing (highlighted posts etc.). The user data is becoming more and more valuable all the time and companies are willing to pay for it. Pinterest also has the possibility to create its own ad network. Pinterest has established itself as one of the major social networks with a unique value proposition. It is interesting to see how users will react to its monetization plans and how it will affect the growth of the service.

5.2 Tumblr (<http://www.tumblr.com>)



Tumblr is an interest-based social network that offers an interactive microblogging platform. Users are able to create mixed-media blogs and related posts and publish them through the service. Users can start following other users and blogs that they find interesting. Tumblr was founded in 2007 and is based in New York City, NY. According to TheNextWeb, Tumblr had over 100 million blogs in late March 2013. According to Quantcast, the service had 170 million visitors in January 2013.

Tumblr has started monetizing its service aggressively and it launched its first major advertising campaign with Adidas in June 2012. It has also introduced a variety of services and features that users can purchase through the service. Tumblr wants companies to create native advertisements and ‘tell stories’ through their microblogs in order to make them more appealing to the consumers. The company believes that they are setting a new bar for creative advertising on the web. Traditional display advertising is disabled on the site, which leaves room only for truly native advertising through the blogs. The company’s goal is to utilize only novel approaches to revenue that do not harm the user experience in any way.

5.3 Tumblr Business Model Analysis

Tumblr won the competition for social blogging due to its strong 1. *value proposition* which offers a microblogging platform that is extremely rich in content and easy to use. Tumblr allows its users to post, follow, and share media from other websites to their blogs on the service without much effort. The result is a varied string of media ranging from links and text to pictures and videos that takes little effort and time to maintain. One of the main selling points of Tumblr is that it offers a comprehensive platform for self-expression. Users are able to create unique and fully customizable blogs that can be rich in content without putting too much effort in the design process and they are easily accessible by other users of the service. For avid users Tumblr offers a variety of tools to customize their blogs from colors to HTML code within the blog. The second main value proposition is that the service allows users to start following creative people who host influential and appealing blogs and be inspired by them. The service is based on one-

way following which allows users to choose what they want to follow, a common feature in interest-based social networks. Tumblr offers a platform for companies to advertise their products and services in engaging ways. Tumblr has set relatively high standards in terms of advertising and this creates pressure for companies to put their minds in their campaigns. This can be also seen as a value proposition because Tumblr directly motivates companies to create meaningful campaigns that are perceived well by the users.

Tumblr is not aimed at any specific 2. *customer segment* but the main user groups are teens and college-aged individuals. Younger generations have grown with social networks and they appreciate creative blogs with rich media. Individuals from all age groups currently use the service and it has become a standard for microblogging. The popular blogs are updated constantly with new content that keep the users to come back to the service. Tumblr has had one of the highest retention rates in the history of social networking due to this quality. The service allows easy following of interesting blogs, which has allured more unconventional users to use Tumblr as well. On the other side of the multi-sided platform is the other customer segment, the companies. Tumblr became the ninth most popular site in the US in 2012 and companies want to have a presence on the service. Tumblr is used for marketing, advertising, and overall social media presence. Tumblr is in a unique position because it combines a social network and a blogging site with an impressive amount of users.

Tumblr's 3. *key resources* include significant amount of funding from three different venture capital firms (\$125m). The company is currently having negotiations for additional funding rounds and the estimates have placed the company's succeeding valuation to over \$1 billion dollars. Tumblr currently employs over 150 employees with various skillsets. The company's software engineers have been able to make service very scalable and the number of employees shows again that you do not need abundant amounts of employees to make popular service running smoothly. The massive and especially active user base can be seen as one of the major resources because it makes the service more appealing to individual users and companies alike. Tumblr's headquarters are located in New York City, NY. The physical headquarters house all the staff and supports the future growth plans of the company. The users of the service create massive amounts of data from their activities, which the company can potentially sell to

advertisers in the future. Tumblr as a brand is considered very valuable since it has become the dedicated place to host influential blogs. The 4. *key activities* are the constant development of the web and mobile platforms with an emphasis on supporting more traffic and providing richer user experience. For example, Tumblr rolled out a dedicated iPad application for its service in December 2012 and dramatically improved its iOS and Android applications to match the current standards of mobile applications. In addition, the company released a photo taking application in November 2012 to reach new audiences. The application allows its users to share the taken photos instantly in a variety of ways. The company wanted to take part in the mobile photo movement that is dominated by single-purpose applications that allow users to improve, enhance, and share their photos with minimal effort. The company currently provides user data for companies through Google Analytics but it has plans to create its own analytics suite, which is a natural activity for popular social networking services. The company has started slowly but surely to monetize the service with a number of ways. The company has always stated that it is against traditional display advertising and it wants to concentrate on providing rich content to its users. Therefore, it is crucial for the company to monetize the service in ways that do not intervene with the user experience.

Some of the early advertisement campaigns on Tumblr were seen as 4. *key partnerships* because they were all encompassing brand campaigns with carefully selected advertisers. Tumblr has since changed this to be a paid feature for advertisers to promote their brand. These and other revenue streams will be covered in a later paragraph. Tumblr currently has partnerships with data analytics companies that are able to provide sufficient tools for companies to track their brand influence on the service. Union Metrics, a social media analytics company allows companies to dive into Tumblr data, was made as the ‘preferred’ analytics provider for brands. Although this is not a fully-fledged partnership, it clearly shows that Tumblr is choosing an analytics company it wants to promote. Tumblr has also picked a group of preferred agency partners such as creative agencies, media agencies, and ‘theme specialists’ who are responsible for the design of Tumblr theme pages. Furthermore, the company has established preferred partnerships with a variety of technology providers that are able to offer fully equipped tools that offer the ultimate Tumblr experience. The goal of establishing these partnerships is to make sure that the quality of the

native advertisements and brand campaigns remain high while the created advertisements are delivered successfully to the users.

The 5. *cost structure* of Tumblr is comprised of platform development, maintenance, administrative, and real estate costs. The biggest costs are coming from maintenance, which are reported to be millions of dollars every month due to the vast amounts of traffic on the service. The company is constantly improving its infrastructure in order for the service to be more scalable and to serve more users. The company is a value-driven business although the operating costs are relatively high. The user experience is its first priority and therefore value creation and premium value proposition are the main points of interest for the company.

Tumblr is currently delivering its social network to customers through two main 6. *channels* which are the website and official native applications for Android and iOS. The company also launched a native iPad application in December 2012 to address the massive tablet user segment. Tumblr also provides a mobile optimized web version of its service for platforms that currently do not get native applications. Furthermore, numerous third party applications allow the use of Tumblr on other mobile operating systems. Tumblr also offers a wide range of follow and social buttons that users can assign to other websites. These enable users to instantly follow other users and share media. They can be easily embedded into the HTML code of a website and they allow basic sharing, sharing pull quotes, sharing images from articles, sharing links to articles, quoting article paragraphs, and sharing video embeds.

Tumblr requires a registration to its service to gain full functionality. The basic service is free-of-charge for individual users and companies alike. The 8. *customer relationship* is established through the registration after which users are able to personalize their Tumblr feed to match their interests. Tumblr offers additional features for individuals and businesses to promote their blogs and posts. The service has one of the highest retention rates in social media networks and this is mainly because it is ad-free and rich in terms of media content. The service also offers extensive support forums and FAQ sites for individual users, companies, and developers alike. The customer relationship between Tumblr and companies that use the service is furthermore

deepened through the preferred partners who offer a variety of services such as theme design and technical knowhow.

Tumblr started to monetize its service February 2012 and has since introduced a variety of ways to increase its 9. *revenue streams*. The first monetization scheme was the ‘highlighted posts’ feature which allows individual users to promote their posts on the dashboard which is equivalent of news feed on Facebook. The second scheme was launched in March 2012 and introduced premium themes that users can buy to make their blogs stand out from the crowd. Third party companies create the designs and receive the majority of the revenue. The third scheme was launched in April 2012, which allows advertisers to promote their blogs and posts on Tumblr’s Radar – a small box on the dashboard that was previously used to highlight interesting and trending posts. The advertisers are also able to promote their posts on a separate Spotlight-tab that allows companies an easier access to gain more followers. The entire revenue model is based on creative brand advertising which is why the price tags of Tumblr’s Radar and Spotlight products are very high, starting from \$25,000. Tumblr announced that the average advertising sale is just under \$100,000, which means that major brands have so far been behind much of the site’s current revenue. Radar and Spotlight are only available for selected advertisers. This is a way to ensure that the quality of rich paid content is high from the beginning and will continue to be so when more advertisers will join the service. A social advertising company 140 Proof expanded its social ad technology to be used on Tumblr in January 2013. The company allows advertisers to deliver the ads in native format, which means that they can be reblogged and shared like any other blog post. Tumblr takes its share of the advertising revenues that 140 Proof makes. The company announced in an interview in January 2013 that it would bring pay-per-view advertisements to its mobile applications during the first half of 2013.

It took Tumblr around five years to start monetizing the platform. The company strongly opposed advertising on the service for the first years of its existence and was able to stay alive due to sufficient funding from venture capital firms. The company has two ways of dramatically boost its revenue streams. The first one is the potential development of its own data analytics tools for companies to measure their Tumblr presence. The company can also establish official partnerships with other companies that already provide these tools or even consider acquiring

them. The second way is to develop the advertisement platform further on the service. The recent announcement by collaborating up with 140 Proof shows that Tumblr has already chosen this route to increase its revenues. It is important for the company to continue developing the advertisement platform without intervening too much to the pure user experience that is has promoted from the very beginning.

5.4 Tribesports (<http://www.tribesports.com>)



Tribesports is an interest-based social network, which aims at helping and motivating people to do more in their sports. Users can join ‘Tribes’ based on their sports interests, location, playing position, ability level and attitude. Furthermore, the service enables the communication of similar minded users, which aids in getting advice and insights from sports people like them. It tries to motivate users to do more sports through ‘Challenges’ that can be anything from individual goals to organized events. Tribesports is an UK based company founded in 2010 and its headquarters are in London. The company has been non-specific of its user numbers but in April 2012 over 80,000 challenges had been taken, with nearly 50,000 achievements and one million ‘encouragements’ recorded by users. Achievements are completed challenges and users can encourage each other, which is a similar action to ‘liking’ on Facebook or Pinterest.

Tribesports has been using the affiliate model from early stages of its inception. The company will take a commission of all products sold through its website. These commissions are supplemented by offering companies targeted sponsorship and advertising packages that reach a specific group of athletes or sports fans.

5.4.1 Tribesports Business Model Analysis

The social network’s 1. *value proposition* is to connect active people everywhere to share their passion, motivation, and advice for their sport. Numerous dedicated applications and websites aid and support an active and healthy lifestyle, but Tribesports tries to bring everything together into one single platform that also offers the connectivity feature. The service is said to motivate people into doing more sports by utilizing the Challenges-function. Users can create challenges for themselves and others can join, follow, or encourage them in accomplishing the created challenges. Therefore, the main selling point of the service is the activation of users to do more sports and live a healthier life while having fun doing it. The service states that seeing the sports activities of friends will motivate people to do more sports. Users are also able to get encouragement and advice through the service from people who are interested in the same sports. The service allows advice sharing with other people which is perceived rewarding and allows people to learn more about the sports and activities that they are interested in. The service offers

an influential advertising platform for companies selling sports-related products and services to reach a highly targeted audience who are likely to purchase products through the service. The interest graph allows companies to deliver advertisements to the right group of users, which makes the site an intriguing platform to have a presence on.

Tribesports is aimed at multiple 2. *customer segments* but the main group is people who are actively involved in sports. Since the service tries to activate people to do more sports, it tries to accomplish this through the social platform. Therefore, the main individual customer segments are people who are already active and want to share their sports experiences with other users and people who would like to be more active but do not yet have the motivation needed to start doing more sports. The service also tries to motivate people who are not active in sports. Companies are the other main customer segment and the service is especially aimed at advertisers who are selling sports related goods and services. Companies are a very important customer segment since they are the only source of revenue for Tribesports. However, as with all multi-sided platforms, both sides are of importance and therefore efforts need to be made on the entire spectrum of the platform.

Tribesports has received \$400,000 of Venture Round funding in 2011 and \$2,8m in Series A funding in the beginning of 2012. Other 3. *key resources* are the current technology behind the platform and existing partner network, small but resourceful and skilled staff of around 50 people, physical headquarters located in London, England, and the end-user data which can be used for multiple purposes. The users of the service profile themselves by the equipment they use in their respective sports which means that the company has very rich information about them. The service has very active user base, which is supposedly growing constantly although the company has kept quiet about the numbers. The service has established itself as the leading interested-based social networking service in sports, which has increased the brand value. Tribesports has been covered by multiple technology news agencies for additional coverage. The first 4. *key activity* is the constant development of the platform in terms of design, functionality, and scalability in order for it to support bigger amounts of user traffic. The second key activity is the establishment of new partnerships with sports organizations who then create official challenges on the service. This is one of the most effective ways for the service to grow because

it brings favorable visibility for the company. The consequence is the organic growth of the service when the user base expands. The third key activity is the promoting of the service to potential advertisers since it is the current main source of revenue for the company. Tribesports recently expanded to Singapore in order to engage in activities that fastens user acquisition. The company should concentrate on growing its user base on both sides of the multi-sided platform.

As mentioned in the previous paragraphs, the company has established 5. *key partnerships* with numerous sports event organizers and sports clubs. These partners then create official challenges on the service, which in turn makes Tribesports more appealing to individual users. The partners strongly contribute to the organic growth of the service and make it more visible. Tribesports has also established blog partnerships with influential users who report their progress on the service and on other websites. Blog partners report about their sports or health related activities and challenges that they are undertaking, and post motivational accomplishment pieces to excite the users to start doing more sports related activities. These are all grass roots level partnerships because the partners are using the service in the same way as individual users. Still, it is a good way for a younger startup to create buzz around it before it starts building paywalls to the service. The company has not yet announced any partnerships with data analytics companies and it has not revealed if it has plans to sell the data to other companies. Currently it is only using it to target advertisements by third parties to the users to increase sales. Tribesports should consider official partnerships with sports equipment manufacturers and sports events organizers to expand its influence in under-serviced active sports market.

The 6. *cost structure* of Tribesports is comprised of platform development, maintenance, administrative, and real estate costs. As with the majority of social networks, maintenance costs are relatively high since the more popular services get a lot of traffic to their sites. The company recently expanded to Singapore in order to gain a foothold in Asia, which has increased the costs significantly. It also launched an iOS native application in order to support the expansion. The company is purely value-driven business because it wants the users to have a premium experience when using the service. The service does not currently deploy visible advertisements that might interfere with the user experience.

Tribesports is currently delivering its service through two main 7. *channels* which are the website and a native iOS and Android applications. The native applications translate the core functions of the service into the users' pockets. The goal of the application is to be around the user all the time and motivate him/her in their sports related endeavors. The service naturally has a presence on other social media websites where users and potential users may find additional information on the service and events that it helps to organize. Tribesports holds physical events with sports events organizers, which are an important channel for the company to gain more publicity and advertise itself. For example, when Tribesports launched its service in Singapore, it established partnerships with cycling clubs who organized events on behalf of Tribesports. Furthermore, Tribesports advertises its service frequently in colleges and universities because students are seen as potential power users of the service.

Tribesports requires a registration to gain full functionality of its service. The 8. *customer relationship* is established through e-mail sign up, Facebook, or Twitter. The service is free-of-charge for individual users and companies alike. Tribesports has established customer relationships with individual users on the other side, and companies and organizations on the other. Companies use the service for advertising and sales, which means that they expect Tribesports to be able to target the advertisements to the right users. Sports event organizers expect that the company brings more people to their events and boosts up the publicity of these projects. The service is highly personal for individual users since it allows them to decide what tribes (sports and activities) to follow, what challenges to take, and who to follow. It is important for Tribesports not to disrupt this notion when it starts to monetize the service more aggressively.

Tribesports currently has only a few 9. *revenue streams* although it is highly likely that it will create more streams in the near future. The company has built a product-side to its platform that works as a database, and an aggregated shopping solution that allows users to search through a massive amount of sports related products from a variety of retailers and then add the equipment they use to their personal profiles. Users are also able to write reviews of the products, or place them on their wish lists. The revenue comes from commissions on all products sold through the service. Tribesports supplements these commissions by offering organizations targeted sponsorships and advertising packages. The recommendation engine behind the platform is based

on user interactions and the data that they provide themselves. Companies can also advertise their products and services on Tribesports' newsletter and write advertorials.

Tribesports is an interesting company since it is one of the first popular interest-based social networks that aims at motivating people to do more activities with the help of social integration. Obviously, there are numerous websites and applications that cater these needs but Tribesports truly aims at bringing this all under one virtual roof. The service has a variety of monetization options but it is likely to concentrate on native advertising and affiliate commissions. Therefore, it needs constant development of its recommendation engine to offer highly targeted advertisements and sponsored challenges while not interfering with the user experience.



dreamdo

5.5 Dreamdo (<http://www.dream.do>)

Dreamdo is an interest-based social networking service, which aims at motivating its users to start fulfilling their dreams through its platform. It connects people who share similar dreams and provides a place where the users can motivate and help each other in fulfilling their dreams. The company was founded in 2010 with headquarters in Helsinki, Finland. The service currently has around 1700 users and is growing constantly.

Dreamdo has started monetizing its service from the beginning by establishing partnerships with companies to display their activities on the service. In other words, native advertising will be a central way of earning revenue in the near future. The goal is to provide a platform for companies to offer highly targeted stories and advertisements to the users of the service. Dreamdo plans to create multiple revenue streams, which revolve around companies who are interested in using the service for various activities. These will be discussed in the following subchapters.

5.5.1 Value Proposition

Dreamdo's value proposition revolves around connecting people who share similar dreams that they want to accomplish but do not know how. The majority of people do not have resources and courage to try to realize their dreams, which can lead to unhappiness. Many people do not even have dreams because they do not know what they want to do/accomplish in their life. Dreamdo is a company that aims at aiding its users to make their dreams come true. Therefore, happiness is in the core of the value proposition of Dreamdo for users. The company tries to address three issues that people all around the world are facing when trying to find something fulfilling to do in their lives: 1. Some people do not have dreams, 2. Others do not act on their dreams, 3. Most people are unable to get any support regarding their dreams. The service aims at delivering a right balance between dreaming and doing. Dreamdo provides a network of encouragement for its users where they can see that the world is a place with infinite possibilities. The international network of people is already well connected and Dreamdo provides the necessary tools for the users to help each other in accomplishing their dreams.

The users of the service can create a ‘Dream Page’ where they can describe what they are trying to accomplish and how they are going to do it. The service is based on one-way following where other users can start following the dreams of others and see how the project is advancing. Users are also able to adopt dreams that allow them to start doing them as well. The service is designed to be digitally rich so that users can create visually intriguing pages that are pleasing to look at. Therefore, the service can also be used as an inspirational blog platform where the topics revolve around people trying to accomplish various things in their lives to make them more fulfilling.

From a company standpoint, the value proposition is a platform that has a highly accurate interest graph of their users. Since the idea of the service is to report your dreams that in reality are projects, trips, and new hobbies, Dreamdo can offer highly accurate user data for companies that are using the service. For example, when a dream is created on the service that has multiple followers, companies are going to be able to target these micro communities with highly targeted product/service offerings. The platform also offers a place for companies to tell inspirational stories about their business activities and other projects in which they are taking part. Social media presence is a necessity for companies nowadays. Dreamdo offers a place for companies to become something more than just an entity that provides products/services for its customers. Through the service, companies can engage with people in more profound ways.

5.5.2 Customer Segments

Dreamdo is a multi-sided platform that has two main customer segments, which are individual users and companies and other organizations.

The service is mainly aimed at people who have previous experience in social networks. Most people are trying to find ways to make their lives more rewarding and Dreamdo tries to address that group. In reality, this means the majority of people since everyone are constantly trying to find new ways to make their lives more meaningful. Value is created for people who are inspired through the service to start making something happen in their lives.

Companies and organizations are the other major customer segment of Dreamdo. These customers have an incentive to have a presence on the service since it provides a communication channel that allows them to communicate their visions, missions, and causes to the masses. Any type of company/organization can use the service since all of these entities have something that they are trying to accomplish during their existence. From a monetization standpoint, getting companies to use the service is very important since they are going to be the primary source of revenue for Dreamdo.

5.5.3 Key Resources

The main resource for Dreamdo is the users. The company currently has a little over 1500 users, which is a very small amount for a social network that aims at providing an intriguing platform for companies to have a presence on. However, the service has been public for a relatively short time and has already established a formidable presence in Finland. The company currently has an active staff of around ten workers and numerous volunteers who promote the service through various channels. The users are the most important resource for Dreamdo due to the data that they provide when they are using the service. Dreamdo is able to collect highly valuable data from their users since they are willing to provide a lot of information about their interests. The platform itself is already relatively developed and is a resource that is growing its value constantly.

Dreamdo has been able to get funding through TEKES, ELY-centre, and YLE. The people behind the service naturally have provided funds from their own pockets to allow the continuous development of the platform and related activities. The company is currently in the process of trying to acquire funding from venture capital firms. This would allow the company to concentrate on the development of the platform and growing its user base that needs to be increased if Dreamdo wishes to become successful.

5.5.4 Key Activities

The most important goal of Dreamdo is to attract more users to its service in order to become a fully functional social network that allows it to cater the needs of all customer segments. The company is constantly developing the service technically, functionally, and visually. Dreamdo

has organized multiple promotional events that introduce people who have accomplished something by using the service. The company has also participated in a variety of events such as Slush and MassChallenge. In terms of establishing partnerships with potential advertisers, Dreamdo has marketed the service for a variety of Finnish companies in order to get them to participate in pilot programs. Dreamdo is going to expand to Russian and Chinese markets during 2013 and the company is registered in the US as well. The main activities therefore currently are expansion, platform development, and marketing.

5.5.5 Key Partnerships

Dreamdo has established partnerships with a number of companies. Companies such as Finnair, TeliaSonera, and Unicef are participating in the development of the platform. The goal of these partnerships is to tune the service so that it is more attractive for companies' purposes. Dreamdo has also collaborated up with an enriched media company Kiosked in order to develop an advertisement model for an undisrupted user experience with emotional product integration. Kiosked allows future companies to sell their products/services directly from the service without the need to go to a separate website to make the purchase.

In terms of expansion, Dreamdo has collaborated up with various international communities in target countries like China and Russia in order to establish a presence in the local markets. These partners organize local events in collaboration with Dreamdo where people can share stories about their lives and how Dreamdo has helped them in the process of accomplishing their dreams. Dreamdo is about to establish partnerships with numerous educational institutions in Finland in order to create a platform for students to undertake projects. The platform allows students to collaborate with each other and work towards a common goal.

5.5.6 Cost Structure

Dreamdo's cost structure is comprised of platform development, maintenance, administration, and real estate costs. Marketing and expansion costs are currently at a relatively low level but they are expected to grow during 2013 since the company is starting to expand to other countries.

The majority of costs are currently coming from the day-to-day operations that are needed to run the service properly. Maintenance costs are relatively low since the amount of traffic that the service gets is rather low. The cost structure is currently quite heavy since the company does not have steady revenue streams. The need for platform development is still high which eats the majority of the company's resources. Real estate costs are very high in Helsinki area and they are one of the major cost factors for the company.

Marketing and expansion costs are going to become major part of the cost structure in the near future. Dreamdo aims at localizing its service in Russia and China during 2013 and this activity will require a local presence in these new markets.

5.5.7 Channels

Dreamdo currently utilizes the website as the major channel in reaching its users. The company recently launched a native iOS application and the development of native applications for other major mobile platforms has started as well. The purpose of the mobile applications is to act as a way for people to report the progress that they are making in fulfilling their dreams and keep in touch with the people and communities that motivate them in their respective endeavours.

Dreamdo has also produced video content to display the success stories that have been accomplished through the service. These have been equally distributed to a variety of digital media services to promote the platform. Dreamdo has already organized multiple offline events where people give presentations about the projects that they have accomplished with the help of the service. The events are called 'Do Days' and they are going to be an integral part of the service in the future as well. The company will also create a modified version of its platform for educational environments where students can use the service for learning purposes.

5.5.8 Customer Relationships

The service requires a user registration in order to gain access to the service. This can be done through email sign up, Facebook, Twitter, Google Account, and VKontakte. The service is free to use. The service does not yet have business accounts and the aforementioned pilot partners are in the process of creating their company pages in collaboration with Dreamdo.

The service is already able to offer personalized experience for its users since they are able to define who and what they want to follow. Furthermore, the lack of advertisements is a pleasing feature for many current and potential users. Although this is about to change in the near future, Dreamdo should capitalize on this for the time being.

5.5.9 Revenue Streams

Dreamdo does not currently have established revenue streams since the monetization effort has just recently started. Therefore, the planned monetization strategy will be discussed in this section since it is ready to be implemented in the near future.

Dreamdo is currently working with a number of companies and will be launching advertising campaigns on the service. These companies are able to create company profiles and dream pages that are highly customized. Dreamdo will charge for the campaigns and offer consulting advice related to the design of the profile and dream pages. The service will also start offering in-service purchasing options through micro-payment services. Dreamdo will take a commission from the purchases made through its website. Dreamdo will offer companies targeted sponsorships and advertising packages with the help of the recommendation engine behind the platform that pulls the necessary data from user interactions and the information that the users provide of themselves.

5.6 Key Metrics

Table 5: Key Metrics

Company name	Founded	Employees	Funding	Users	Revenue model
Pinterest	2010	100	\$300m	40m	Affiliate, Data selling, consulting
Tumblr	2007	150	\$150m	+100m blogs	Ads, Premium-features
Tribesports	2010	50	\$3.2m	+80,000 challenges taken	Ads, Affiliate
Dreamdo	2011	10	n/a	1600 users	Advertising campaigns, consulting

The metrics above are the latest available company figures that were attained from a variety of sources. Naturally, these metrics develop relatively quickly and can change dramatically but they give a general overview of the direction where the services are going and how the different services compare to one another.

All of the companies put user experience above everything else. Therefore, advertising on these services has been relatively moderate and the traditional display ads have not been present on any of the services. Pinterest is most likely going to start charging companies for business

accounts and the content that they create on the service which means that all of the services have advertising in their cores in terms of revenue streams.

The new interest-based social networks that started emerging during 2010 have started monetizing relatively quickly in comparison to the older ones. However, Tumblr started out as a basic blogging platform and therefore did not fall in to this category in the early years of its existence. This clearly shows that there is a constantly growing pressure in terms of monetization when it comes to these services. Tribesports is a good example of a smaller interest-based social network that has been able to survive in the market due to its differentiated value proposition and well-designed recommendation engine that is very attractive to the advertisers using the service. It is clear that Dreamdo is going to have to concentrate all of its efforts in growing its user base before it can truly start monetizing its platform.

In the next section, the findings from the empirical study as well as the case study will be analyzed and discussed. Suggestions will be given in relation to the best practices in business model design of interest-based social networking services.

6 FINDINGS

The empirical findings from the analysis of the already well-established interest-based social networks as well as from case study discussing the ISNS entrant Dreamdo allow us to discuss the best practices related to the business model design of these types of companies in more depth. This chapter discusses the common traits that are present in the business model components of these services and provides information for new INSNs when they start considering how the service should be built in terms of value creation, capture, and delivery. Furthermore, concrete suggestions are made related to the business model design of new interest-based social networks and what these new entrants should consider before starting the design process.

The findings are first discussed in a similar fashion as the business model analyses were made in the empirical part in order to provide a clear and coherent view on the best practices that interest-based social networking services should utilize when designing their service. Therefore, the components of the business model canvas are discussed on an aggregate level in order to provide insight on the similarities and differences in the practices that the investigated companies have undertaken during the course of their existence. The chapter also provides a summary table, which provides an aggregate view on the typical business model components of interest-based social networking services as well as some final thoughts regarding the findings.

6.1 Key Findings

Value propositions

It is clear that successful interest-based social networking services have unique value propositions that are aligned with the underlying technology that provides the service for the users. Interest-based social networks provide the users with something that allows them to express themselves in new and engaging ways. Tumblr offers a functional and easy-to-use platform for blogging with social features, Pinterest offers a visually stunning service where users are able to create collages from individual posts and share them with their followers or keep it to themselves to enjoy. All ISNSs provide a technologically functional service where

HTML5 plays a big role. It is clear that consumers want visually pleasing services that allow them to post rich media content to their respective directories. The skyrocketing growth of mobile devices has made ubiquitous access to these services a norm because they allow users to constantly update their content and keep in touch with people who they are interacting with on the service.

The other major value proposition of these services is that they aim at radically enhancing the lives of their users. Let it be online or offline, ISNSs promise to improve the quality of life of their users. New services that enter the market are usually targeted to specific user groups who they are trying to activate in numerous ways. Tribesports aims at motivating people to do more sports and have fun while doing them and Dreamdo's goal is to make its users' dreams come true through social motivation and visually intriguing reporting possibilities. In other words, ISNSs aim at resolving specific customer problems through either motivating them to take action related to something, or by allowing them to uncover new ideas and interests and make their lives better that way. Interest-based social networking services are for the most part free which means that the true value comes from the service's ability to monetize its platform without hurting the user experience. Although the newer services have introduced monetization plans rather quickly, they have put the user experience before anything else. Traditional display ads are considered spam, and even native advertisements should be highly relevant and embedded into the content without disrupting the usage.

The most popular interest-based social networking services have been able to make advertisers as an integral part of the service's content creation scene. This has spurred a completely new type of native advertising where companies tell stories and act as part of the communities. For example, many Tumblr's blogs that are operated by companies are the most popular ones due to their rich and creative content. Interest-based social networking sites have a highly specific user data, which make them ideal for companies to advertise on. The recommendation engines that power up these services can be used to deliver highly targeted content to the users who actually are going to find it relevant. Tribesports has been extremely successful in this activity and it can be listed as one of the factors for its success in a relatively short period.

Customer segments

Interest-based social networking services are usually aimed at specific segments amongst the individual social media users. Tribesports is mainly for people who are interested in doing sports. Pinterest is for people who want to express themselves in visual ways instead of words. It is common for these types of services to first target their service for a specific target group and then start expanding it when it gains more traffic. Individuals from other segments more easily adopt the services if the service already has established itself in the social media field.

In terms of advertisers, it is obvious that companies whose customer base is mainly comprised of the people using these services are willing to spend considerable amounts of effort and resources to have a presence on these networks.

ISNSs are constantly targeting smaller and smaller user segments with their offerings. There are already own networks for food enthusiasts, dog owners, and medical personnel and these types of networks can be considered the next generation of interest-based social networking services. They are most likely to be acquired by bigger companies that are trying to establish themselves as reputable social media companies.

In terms of customer importance, both sides of the multi-sided platform are equally important. However, these types of services first need to attract the critical mass in order to become self-sustaining and create further growth. The size of the required mass varies greatly depending on the service and the market in which it is operating. For example, Dreamdo can reach the critical mass in its native country of Finland relatively easily since the social media market is small and there is room for locally operated services.

Key Resources

New interest-based social networking services can be considered as children who do not have to worry about serious issues. They can concentrate on themselves without the need to address problems outside their comfort zones. The majority of new ventures starts their operations from the founders' premises and work their way up from there. The only resources they have are the

skills that are needed to develop the service. Obviously, this is not a sustainable situation and the need for resources grows constantly. In addition to technical and other skills, funding plays an important role because it frees the developers to concentrate on the things that are most important for the success of the service. Hosting is nowadays an easy task since the services can be run in the cloud through cloud service providers. Hosting expenses for a new low-traffic network are small which furthermore frees resources for the development of the service and therefore we can conclude that technical, visual, and functional knowhow are the most important resources that a new interest-based social network has to have.

Interest-based social networking services that are more mature and have already attracted a larger audience need to keep up with the changing trends in the industry and therefore need talented people who are able to predict and adapt to the requirements of the industry. The bigger a service gets, the more complicated is the process of deciding the direction that the company should undertake if changes need to be made. Similarly, the operating expenses drastically increase when the service expands its value offerings and attracts more users. This requires extensive funding from third parties and venture capital is usually the target for all companies if the owners do not have the necessary funds to keep the service running. As mentioned earlier, there is a constant pressure for new networks to monetize their service relatively soon after the launch which means that the companies need resources to establish partnerships with potential advertisers who have not heard of the service. Therefore, existing professional relationships with other companies are highly valuable resources that should be utilized to the fullest.

The user data is one of the most important resources for any social network because advertisers are willing to pay for it. The data is used internally for mapping user behavior and patterns and externally for targeting advertisers' content to the appropriate users. Therefore, it is essential that the user data is indexed accordingly and the underlying technology of the recommendation engines is in order because it is the only way that the services are able to attract advertisers to the service. Obviously there needs to be a certain amount of individual users before the service starts attracting the money-side but as mentioned earlier, this can be achieved with a relatively small user base if the service functions well and it delivers the value that it promises.

Key activities

Change is constantly present in digital industries and therefore social networking services need to concentrate on constant development of their respective services. Development is the key activity for every interest-based social network since the competition is fierce and the ones that are technologically, functionally, and visually superior will usually win. The mobile revolution has also made it a necessity for new ISNSs to provide mobile applications to supplement the web service. The other major activity that ISNSs concentrate on is expansion. The fact to the matter is that there are so many networks that users can choose from that expansion has to be done with more unconventional ways than in the past. Older social networks were able to grow organically because the market was not full of new entrants with similar value propositions. Nowadays it is crucial for new entrants to establish partnerships with other companies who support the growth efforts through providing additional services to the network. Therefore, these efforts can be seen as marketing activities. The majority of new interest-based social networks organize events in collaboration with local organizations/institutions to host events where the two join forces to promote both entities. This can be seen as one of the most effective new user acquisition strategies because physical presence is still considered more effective than digital presence. Physical events usually create a lot more buzz around a service because they reach individuals in more appealing ways.

Key Partnerships

Interest-based social networks establish numerous partnerships already in the early stages of their existence because it is one of the main ways for them to grow in terms of users and geographical reach. Partnerships are commonly established with organizations that provide similar types of services in the physical world. Tribesports and its deals with sports event organizers is a good example of a symbiotic partnership where the service provider brings the digital capital and the event organizer brings the physical capital to the table. ISNSs are heavily reliant on the activities that their users do in the real world, which makes these partnerships a crucial part of their strategies. The partnerships are mainly meant for promotional purposes. In other words, they are a way to acquire more users and expand the service to new geographical areas. Physical presence

of digital services is a growing trend in the industry and partnerships provide an effective way to do this. This is only natural because the services usually aim at motivating people to discover new points of interest or motivating them to do something new in their lives.

The other major type of partnership is the ones with data analysis companies. The user data is something that the service providers may not be able to handle by themselves and therefore there is a need for a company that is specialized in data analysis and recommendation engine tuning. This is especially true when an ISNS reaches the critical mass and is starting to become a more dominant player in the industry. Another type of partnership that is closely linked to data analysis is the affiliate seller partnerships. It is natural in the earlier stages of an ISNS to establish partnerships with e-commerce retailers who are trying to drive traffic to their own sites. Similarly, there is a growing trend to utilize third parties to integrate product selling directly to the services (Kiosked).

Cost Structure

It is clear that most costs stem from platform development and maintenance. Services that wish to remain relevant and successful need constant platform development, which eats up resources and remains usually constant the entire life cycle of the service. Maintenance costs remain relatively low during the initial stages of a service due to low traffic and the possibilities that cloud hosting providers offer nowadays. As the traffic to the service grows, maintenance costs can become the single biggest cost that a company will ever see. For example, Tumblr was reported to spend millions of dollars per month on maintenance costs and therefore started looking into traffic optimization strategies and related activities.

As discussed earlier, expansion of interest-based social networking services follow more unconventional ways than their predecessors did. User acquisition is done through localized promotional events, which can result in significant costs if these types of events are hosted in multiple sites around the globe. Establishing local offices is also a growing trend in the industry and this shift has changed the cost structure as well.

It is clear that all of the services that continue to operate in the industry are value-driven businesses. Therefore, it can be said that user experience incurs the majority of the costs that are associated with these services.

Channels

Internet browser and native mobile applications are the major ways for reaching the users of ISNSs. The difference to the older social networks comes with the ‘physical integration’, which means that ISNSs are often used in combination with the physical world and the surrounding environment. Therefore, the main channels need to be designed in ways that allow users to interact with the service while they are performing activities in the real world. This naturally means that native mobile applications and mobile optimized web sites are becoming the dominant channels through which users are reached. The challenge is to design the mobile channels in ways that allow users to perform the same activities in simplified ways as they do them in the traditional channel. Different channels should therefore have tight integration with one another in order to provide a universal experience. The key to success is to integrate the different channels with user routines. For example, if it is easy to post a progress report of a new hobby, users are obviously more likely to do so due to a better value proposition. In terms of mobile channels, native applications are still by far the most used channel when it comes to social media usage. The majority of time spent with smart mobile devices goes to the utilization of native applications rather than web browsers. There is a possibility that this will change in the near future since developers have started developing mobile websites using HTML5 instead of building native applications.

Naturally, the physical integration also means that companies need to establish physical channels to reach the users of the services. Physical channels, such as promotional and marketing events are a way for these services to reach existing and potential users. These physical channels are fundamental in helping users to evaluate the value proposition behind a service. Successful ISNSs have realized this notion of delivering the value proposition to the customers in physical ways as well.

Customer Relationships

It is a common practice for every ISNS to require a registration before the users are able to access all the features of a specific service. The networks offer some basic features without registration such as accessing the content without the ability to modify it, personalize it, or create your own content. This is a natural way for the services to display their product before the different parties establish an official agreement with one another. User account creation allows the services to be able to offer personalized content to individual users. This is one of the key features of any interest-based social networking services and service providers need to consider this when developing a service. Personalization allows companies to offer unique customer experiences and relationships but there is also a risk that the personalization engine is misbehaving in the background and does not provide any additional value to the end-users. This phenomenon often occurs when a company introduces advertising to its revenue model. Native advertisements that are irrelevant to the user are considered spam and they can dramatically hinder the user experience.

The customer relationship with advertisers and other organizations is the other side of the coin. ISNS companies have recently started introducing business accounts that are specifically designed for promotional purposes. Usually fee-based features allow companies to customize their accounts so that they resemble the company's usual colors and themes. Functional personalization is one of the key success factors for these types of services.

Multihoming costs are low in all ISNS services and therefore it is crucial for these companies to offer unique customer relationships that are perceived valuable. The user experience that immediately occurs after registration is the most important phase in the relationship. Therefore, it is crucial to establish the relationship in non-intrusive ways from the beginning.

Revenue Streams

Individual users are still heavily subsidized when it comes to the characteristics of multi-sided platforms. Practically every social networking service starts out without any revenue streams but there has been an increasing pressure for these companies to be profitable from the start. Older

social networking services were more reluctant to introduce advertising to their revenue model because they wanted to concentrate on growing the user base. The case is different with the newer generation of interest-based social networking services, which face increasing pressure from owners and investors to generate revenue relatively quickly. This notion has led to the adoption of native advertisements that are delivered in-stream to the users. Although some services are still ad-free, it is clear that there are plans to introduce some form of advertising on every service since it is the most natural way of earning revenue. The other common revenue stream that new ISNSs are introducing is affiliate links, which are usually in the form of product selling. Links and integrated storefronts are the most common way of utilizing this technique to earn revenue.

ISNS services often provide premium features that allow individuals and businesses alike to stand out from the crowd. It is also a way for users to boost their content to a wider audience than merely the users who are following those specific individuals. Premium features might also include consulting or design services that provide additional value for the users. For example, Dreamdo organizes advertising campaigns in collaboration with the advertisers and aids them in executing the campaigns on the service.

The third major revenue stream is user data. Currently only Pinterest sells user data to third parties through Pinfluencer but this will most likely to change since companies are willing to pay large amounts from highly accurate user data that can be used by various organizations. This is something that can only happen after a certain amount of users is actively using the service and therefore companies should concentrate on creating other revenue streams in the beginning. From another standpoint, every ISNS company is selling user data to companies indirectly. Advertisers are willing to pay the service provider for advertising, which is targeted through the platform's recommendation engine.

6.2 Key Findings Summary

The key findings related to the typical characteristics of interest-based social networking services business model components are summarized in the two following tables. Table 6 provides a

summary on the typical business model components that are in connection to the both sides of the two-sided network. Therefore, the components are broken into subsidy and money sides due to the different perspectives through which they are observed.

Table 6: Typical Business Model Components (Two-Sided Network)

	Subsidy side	Money side
Value Proposition	Unique value propositions coupled with easy-to-use interface that allows the creation and consumption of rich media content. New ways for self-expression and motivation	New and creative ways to reach out to new and existing customers with the help of advanced recommendation engines
Customer Segments	Initially aimed at a specific customer segment	Initially aimed at advertisers that are of interests to the subsidy side users
Customer Relationships	Registration required for full functionality and personalization.	Business accounts with a variety of customization possibilities
Revenue Streams	Free basic usage and a growing number of additional paid features	Advertising, premium features, data selling, consulting and design services

Table 7 provides a summary of the typical business model components that are present in an ISNS service provider.

Table 7: Typical Business Model Components

Key Resources	Technical skills related to development and maintenance, funding as the service grows, user data and the interest graph which are the main sources of revenue
Key Activities	Constant development, expansion to new markets through partnership events and other marketing activities
Key Partnerships	Symbiotic partnerships with event organizers and organizations with similar offerings in the physical world, partnerships with data analysis and affiliate seller companies
Cost Structure	Platform development and service maintenance, geographical expansion, event hosting
Channels	Browser and mobile applications designed to support ‘on-the-move’ interaction, i.e. deep mobile integration, physical channels

The summary clearly shows that there is a design pattern in terms of business model components. These findings allow us to make the concluding remarks that are presented in the following chapter.

7 CONCLUSIONS

The findings allow us to make concluding remarks related to this thesis. The research questions are discussed again with the support from the empirical study. Best practices related to the ISNS business model design are discussed and consideration topics are given to potential new ISNS entrants. The thesis concludes with discussion how the findings compare to previous research, some closing remarks and suggestions for future study.

7.1 Research Question discussion

The main research question of this thesis asked: what common features can be found from the business models of interest-based social networking services and how do they compare to one another. The secondary research question asked if there is a possibility to create a generalized business model framework for these types of services that enables them to avoid the common pitfalls made during the creation process.

The analysis of the case companies uncovered the common features of interest-based social networking services which means that the primary research question was answered. It was clear from the beginning that the question would receive robust and coherent answers from the research.

The secondary research question was partly rejected because the business model analysis of the case companies showed that there is not a predefined formula for creating and interest-based social networking service. A framework can be seen as a preferred approach to the creation of a service and therefore it is not academically sound to refer to the suggestions made in the findings as a framework. However, the secondary research question is still answered through consideration points that describe the most important aspects that companies need to consider when launching a new interest-based social networking service. During the writing process, it became clear that the more successful services could not be too similar to one another. This notion was confirmed when the business models of the case companies were broken down to the underlying components.

7.2 Common Features of Interest-based Social Networking Services

The common features of interest-based social networking services are discussed here in relation to the research question. Although these features became evident in the previous chapter (see Table 6; Table 7), it is important to conclude the main findings of this research paper and discuss the approach that new entrants should take when considering to enter the highly competitive market of ISNS industry.

It is not a surprise that ISNS services possess similar characteristics. The services offer many similar basic functions that can be considered as prerequisites for success. It is important to note that common characteristics reflect the general similarities that ISNS services share with each other. As stated earlier, if the respective business models are broken into the building blocks and analyzed more deeply, the differences are relatively big and the value creation logic of the different services differs from one another quite dramatically. There are also numerous similarities between the different services, which are related to their common technical and basic characteristics, functionality, and revenue stream logic.

The main characteristic that defines interest-based social networking service is how the interest graph is built. New companies need to understand that the user profiles need to be created around interest-focused activities rather than existing social connections. All ISNS services have this as the basis for their interest graph. The user is usually prompted in the beginning of the customer relationship to provide details about his/her points of interest after which social connections can be made. The important thing is that the service provider values more the interests that are linked to specific accounts because it allows the services provider, as well as potential future advertisers and other organizations to target their offerings to those specific accounts. The fact that users start with their interests makes the services different from the older social networks and allows them to build the recommendation engine to be more effective in terms of relevance and reach. The emphasis on the interest graph is the basis for all the other functionalities and features that are present in ISNS services. The recommendation engines rely completely on the interest graph, which means that ultimately the revenue streams are in a direct connection with it as well. This is something that new entrants need to consider when planning to launch an ISNS service.

Table 8: Business Model Canvas for ISNS Services

<p>Key Partners</p> <ul style="list-style-type: none"> -Event Organizers -Companies with similar physical offerings -Data analysis and affiliate companies 	<p>Key Activities</p> <ul style="list-style-type: none"> -Development -Maintenance -Management -Expansion -Marketing <p>Key Resources</p> <ul style="list-style-type: none"> -Technical skills -Funding -User Data 	<p>Value Propositions</p> <ul style="list-style-type: none"> -Free social network for consumption, creation, and exchange of media -Tool for connecting users with similar interests -Motivational tool -Informational tool -Advertising tool -Customer data collection tool 	<p>Customer Relationships</p> <ul style="list-style-type: none"> -Registration required for full functionality and personalization -Business accounts becoming common <p>Channels</p> <ul style="list-style-type: none"> -Web browsers (desktop, mobile, tablet) -Native applications -Events 	<p>Customer Segments</p> <ul style="list-style-type: none"> -Social network users with specific interests -Advertisers with product offerings that match the needs and wants of the users
<p>Cost Structure</p> <ul style="list-style-type: none"> -Platform development and service maintenance -Geographical expansion -Event hosting 		<p>Revenue Streams</p> <ul style="list-style-type: none"> -Advertising (native ads, affiliate links, company profiles) -Premium features -Data Selling -Consulting and design services 		

Table 8 illustrates the common characteristics of ISNS services in Osterwalder’s business model canvas. The purpose of the canvas in this context is to show the common characteristics on an aggregate level. New entrants should refer to the canvas during the initial design process in order to make sure that the necessary components are present and properly in place. The canvas above represents all the common characteristics that were uncovered during the empirical research and therefore it is important to remember that not all qualities need to be present in a new service. The canvas should be used as a ‘pick and choose’ tool in combination with the characteristics of the envisioned service. The following section lists some concrete suggestions for new entrants, which are based on the author’s knowledge as well as the underlying research done during the writing process of the literature review.

7.3 Suggestions for New ISNS-entrants

Companies that are planning to launch an interest-based social networking service should carefully evaluate their value proposition, value delivery, and value capture in more detail because it allows them to truly see how the service should be built from the ground up. The analysis of the studied companies' business models allows us to see how successful services turn their business models into their real-life counterparts and what components need to be present in the design. It is good to remember that there can be as many business models as there are services but this notion does not remove the fact that when the business models are broken down into the underlying components, similarities exist in every service.

Prospective ISNS companies are in a good position to start developing a service because they usually create it around their own points of interest that lack their digital equivalents. This is an easy way for the developers to define what needs to be built and how it should be done in terms of functionality and features. The social media landscape has exploded in recent years but there is clearly room for more services that address the problems and needs of social media users. Even social media experts argued that after Facebook's IPO there is no more room for social networking services and Facebook would be all the social we need. This new breed of online social networks can be commemorated for creating new ways for people to communicate over the internet. The huge number of service providers also makes the environment for new entrants tough. Bigger social networks develop their services and add new features all the time to address the growing needs of existing users as well as to acquire new ones.

Therefore, it is crucial for new entrants to consider the following points before making the decision to start developing a service:

- 1. The value proposition should be unique because it defines how the service differentiates itself from the other players in the market.*

Therefore, it is crucial for new ISNS entrants to consider what makes them different from the other services that are currently operating in the industry. If the service's value proposition is too similar to the successful services' business models, reconsideration should take place. A careful

study of the similar services should be conducted and compare them to the one that the new entrant has been developing. Hundreds of new services surface the scene every month and these need careful studying because some of them are bound to offer similar value propositions. The existing services already solve problems such as the need for users to easily post rich media on to the web and allow others to see it. New entrants should consider if there really is a need for another service that offers this basic function or should they build the service around another premise. Furthermore, new entrants should consider to whom they are creating value before launching the service. Target customers need to be defined because they are the ones who are most likely to start using the service before anyone else. New successful services usually offer a network that concentrates on a specific interest or activity and starts out by luring in the users that are already interested in the same subjects. Although they may provide the same functions as other networks, these existing functions are built around the interest or activity that the service concentrates on. From the money-side's point of view, the value proposition is obviously the platform and how it enables companies to reach potential customers. Traditionally this has taken quite some time because services need to attract the critical mass before advertising becomes topical. The new climate has changed this notion and new services are able to introduce business accounts from the beginning and start building up the money-side from a local standpoint.

2. *Make sure you have the technical expertise to implement the service that is built around a unique value proposition*

Good ideas are obviously not enough and there is a critical need for technically functional services. New ISNS services need to be technically functional from the beginning and they need to meet the standards of today's technical and aesthetic norms. Even though many see the technical implementation as the main driver behind a service's success, the reality is that it is only included in the mix to support the value proposition. Therefore, if the idea is not something that provides value, ISNS service cannot survive over a longer period.

3. *Build the platform to support the user interest graph*

In terms of revenue, user data is the most important asset that any ISNS service can have. New entrants should build the platform in ways that allow the service provider to gather the user data

in coherent ways from the beginning. It is recommended to gather and index the user data from the beginning because this allows the company to utilize and sell it more easily. The ability to provide relevant content to the individual users, as well as for advertisers, is the key if an ISNS company wants to be successful in its venture.

4. *Technical and functional upgrade cycles should 'spin' constantly*

It is not a surprise that digital services are upgraded often from a functional and technical perspective. However, this consideration is especially true when it comes to ISNS services because there are so many players in the market who are competing with one another. Therefore, it is crucial for all new-entrants and more mature services to develop the technical and functional aspects of their service if they wish to remain relevant. Users rely on these services to be fully functional with zero downtime, which they can access ubiquitously from a variety of devices. New entrants should take this point very seriously because technical and functional issues have killed hundreds of services even before they really got started.

5. *Find the right balance between digital and physical and make sure your users have the opportunity to accomplish something by using the service*

The research showed that ISNS companies are increasingly trying to offer services to users that aid them to do or accomplish something in the real world. ISNS companies should design their services in ways that motivate the users to undertake their respective projects and activities. Companies can accomplish this by designing a service with a social motivation function and a mobile application or a website that allows users to update their information easily on the go. Companies should also organize local events that allow them to expand their physical presence within a specific geographical location. They should also consider doing these events in collaboration with organizations that have existing members that fit the target audience of the ISNS service.

6. *Revenue streams should not get in the way of the user experience*

The most important thing is to understand why the users start and continue to use a service that an ISNS provider is offering to them. This has a direct connection with the perceived value that comes from using a service. The perceived value comes from a service's ability to solve customer problems, whether they are known or unknown to the customer at the time of the service adoption. Revenue usually comes from the main money-side of the multi-sided platform and therefore there is always a tradeoff when allowing the money-side to gain access to the subsidy-side of the network. Therefore, it is crucial that the recommendation engine behind the service works in a way that it does not hinder the user experience and allow companies to target users with messages that they do not perceive relevant. Still, ISNS providers should remember that users perceive advertiser and business presence normal in online social networks. The problems arise only when irrelevant content is presented to the end user. Interest-based online social networking services work through one-way following which means that the above-mentioned problem only arises if the service introduces promoted content that is shown to users who have not subscribed to it. This is something that every service should consider carefully before implementation. If done correctly, promoted posts and other advertisements can actually provide value to the users if they perceive them as relevant.

7.4 Comparing the Findings to Previous Research, Suggestions for Future Research, and Concluding Remarks

Previous academic research on online social networks' business models is mainly concerned with the old generation of social networks. Additionally, many of the theories and concepts even used in this thesis were aimed generally at the software business and therefore can be seen highly generalized. This thesis continues the research by applying these theories in the context of ISNS services. For example, Rajala et al. (2008; 2012) argued that software industry has four different business model types, which can be categorized through two dimensions. These are the degree of involvement in customer relationships and the level of homogeneity in the software offerings. In terms of interest-based social networking services, the level of homogeneity is high and low at the same time. The basic service is the same for everyone, however the service also offers a wide

range of personalization and customization options that dramatically alters the service. Rajala (2012) discussed the role of open-innovation in business model design. Although not widely covered in this thesis, ISNS services are highly dependent on this type of activity. Well-established ISNS services are highly dependent on open innovation and they actively steer the coproduction of innovations through interactive communication over the internet.

The interest graph of online social networks was one of the major topics that had little or no mention in academic research. Although social graphs have blended with interest graph in the newest versions of Facebook, Twitter, and other major social networks, it should be treated as a separate entity. One of the aims of this thesis was to concentrate on the interest graph because it forms the basis of all ISNS services.

Advertising on online social networks has been one of the most widely research topics in the field. There has been a major shift in the past years in user attitudes regarding display advertising on social networks; it is simply not acceptable anymore. Native advertising on online social networks can be seen as a buzzword that is used constantly in media publications but the systematic study of the effects has been relatively insignificant. The results in this thesis point out that positive user experience and relevant content are the two major contributors to the success of a service. Therefore, the successful delivery of relevant in-stream advertisements is crucial for any company wanting to enter the highly competitive field.

This thesis contributes to the academic research by being one of the first academic publications that systematically studies the business model design of the new generation of online social networking services. It provides information that allows additional research on the topic and pointers to young companies who are planning to launch an ISNS service.

The amount of interest-based social networking services is growing constantly. In the near future, it will be easier to study how the industry and market conditions have changed over time. Interest-based social networking will eventually grow bigger and bigger and more academic studies will be conducted about the topic. A theoretical study discussing the social network dynamics with an emphasis on interest-based social networking services would allow us to understand the deeper characteristics of these types of services. As the number of services grows

and more of them become public, there is a possibility to conduct a quantitative study based on the key metrics that define these services. The effects of native advertisements on ISNS services are also a potential topic for future research. The shift from traditional advertising to native has not been studied widely and therefore makes a sound research topic. The interest graph of ISNS services would also be a natural research topic. Interest graph should be studied as a separate entity and not in combination with the social graph in order to fully understand the effects that it has on different aspects of online social networks.

During the process of writing this paper, the case companies developed dramatically. It was interesting to follow how the business models evolved over the past eight months. It was easy to forecast what direction different services would take and how it would affect the different sides of the multi-sided platforms as well as the service design. The aftershock of Facebook going public created these new services and the pace at which everything is moving forward, there is a great possibility that the next big thing is just around the corner waiting to take over the social digital world. The device revolution that is currently taking place (Google Glass, Pebble smartwatch) will interlink digital and physical worlds even more and this will create numerous opportunities for new companies to change the way people interact with these different realms.

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