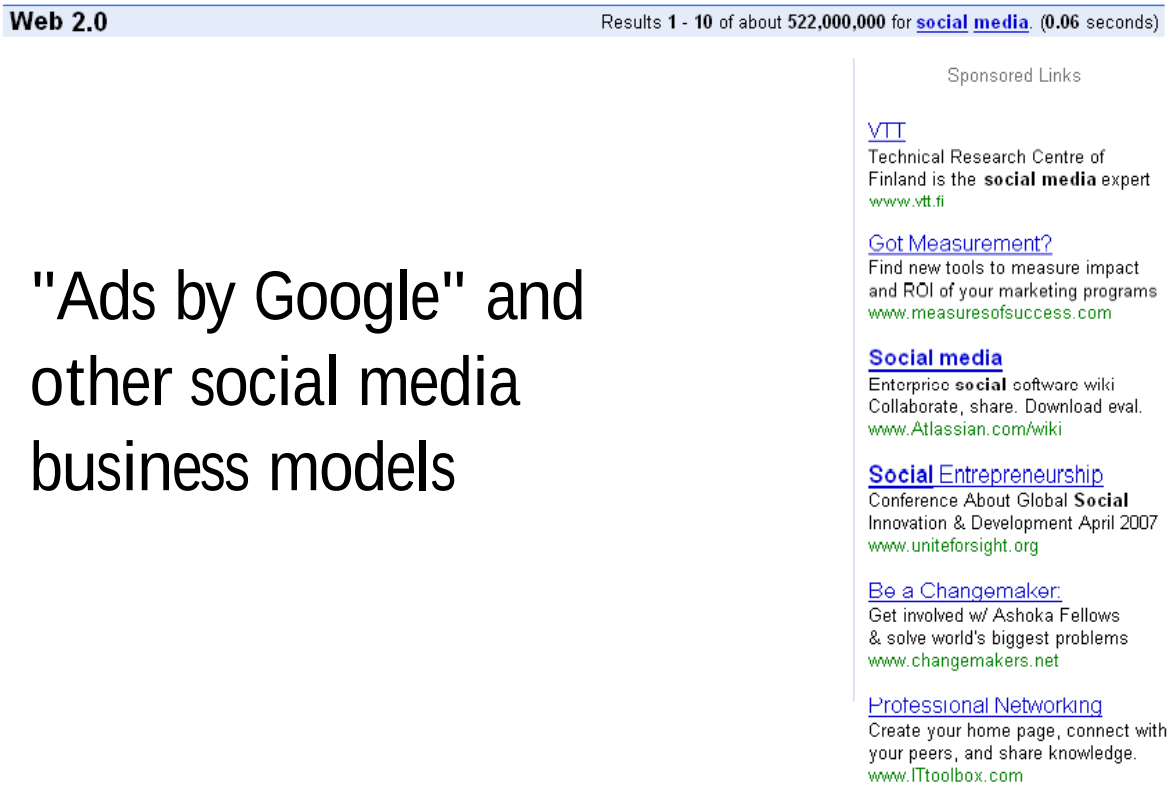

"Ads by Google" and other social media business models

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“Ads by Google” and other social media business models

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Avainsanat: social media, Web 2.0, Internet, business model

Abstract

Social media is becoming more and more attractive to Web users. However, the majority of social media services do not have a clear business model. Typically an innovative idea gives birth to a service, which people can use free of charge. The most common way to create revenue is via advertisements: Google ads appear in many services. In the long run, however, social media has to adopt alternative means for making money.

At the moment there are a few alternative business models, of which four larger themes are reported: Crowd-sourcing, revenue sharing between services and users, developing and selling underlying technologies, and adopting social media tools and approaches for professional use. Some examples of these approaches already exist.

The report also identifies and defines some core concepts of social media, as well as investigates various phenomena co-occurring with social media, namely user activeness, identity, copyrights, mobility, trust, and side-effects. These phenomena should be kept in mind when designing and launching social media products and services.

Foreword

In early winter 2006, a decision was made at VTT that social media business opportunities should be studied and identified. YouTube and MySpace received major media coverage almost every day. It seemed that enthusiasm about the possibilities of new technology intensified to a level comparable to the turn of the millennium. When Google acquired YouTube in October 2006, there was even talk of a "mini-bubble" in Silicon Valley with reference to the events at the turn of the millennium. However, very few had any idea of the business models on which the new social media applications were based. Is "Ads by Google" the only viable method of earning, or could some novel and different ways of making money be found?

During the work, we identified the business models presently in use and got some hints about the kinds of workable models that might be introduced in the future. Work with social media will continue at VTT, and the aim is to utilise the findings from this publication in the development of new technologies and services.

This publication was compiled in the spirit of social media: The publication was written in a wiki environment. Only the final version was transferred to a word processor. This publication was firstly published as closed beta version for a Finnish audience. It was written in Finnish in order to get better feedback. Based on the comments of the closed beta version, some modifications were made in this public version, which is written in English. The changes are mainly in the analysis of the future possibilities.

In addition to the editors, Jukka Kiviniemi, Jukka Hemilä and Matti Penttilä have contributed to the authoring in the wiki.

Espoo, April 2007

The authors

Contents

1. Introduction

There are more than 70 million blogs in the world. The online video service YouTube was sold to the search engine giant Google for more than one billion dollars after one year of operation. Time Magazine nominated Internet users as Person of the Year. Social media made a breakthrough during 2006. Is this just another Internet bubble or can ways of earning money be found behind the services?

The objective of the Resome[1] project is to create a clear idea of how social media is commercially exploited at present. The project surveys various business models surrounding social media. The objective is to answer the question: Is advertising, Ads by Google, the only business model for turning content into money? Our hypothesis is that there must be other viable business models surrounding social media besides advertising.

Furthermore, we aim to uncover the opportunities that Finnish industry and the research world have in the domain of social media. A further objective of the project is to define a clear and unambiguous glossary of social media terminology.

[1] Resome = Revenue from social media.

2. Definitions

"Social media, collective intelligence, content, community, sociality..."

This chapter defines the concepts surrounding social media that will be utilised later in this publication.

2.1 General concepts

Media refers to a means of communication, a carrier of information. Usually we refer to mass media regardless of whether it actually is the TV, radio, newspapers or advertisements in the cityscape. The Internet is one of today's most important media[2].

Sociality refers to[3]

- interaction between individuals
- belonging to a group
- caring for others.

A **business model** answers the questions: what does an enterprise offer, how and to whom. A business model is described by at least the following:

- What is the product's value to the customer?
- Who is the customer?
- Who are partners?
- Which are the enterprise's areas of core competence?
- What are the costs?
- What is the revenue – that is, how does the product make money?

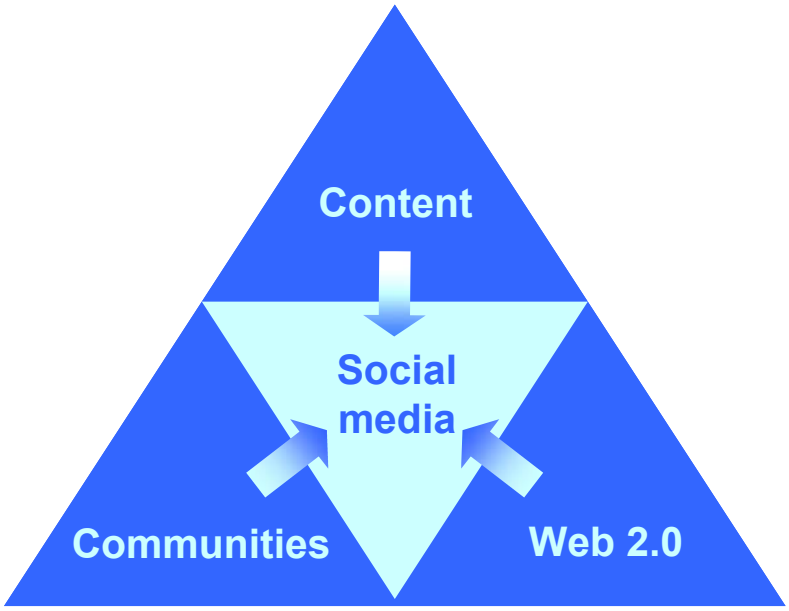
[2] Wikipedia: http://en.wikipedia.org/wiki/Media (12 January 2007)
[3] Wikipedia: http://en.wikipedia.org/wiki/Social (12 January 2007)

Business based on social media must adhere to the same basic rules applicable to other fields of business and applications. The starting point is a need and an idea based on it, which serve as the basis for building a product offering.

In this publication, **mobility** refers particularly to users who produce and consume social media contents when mobile. The terminal device used by a mobile user for the production and consumption of social media is typically (but not necessarily) a mobile phone or some other compact device with data connections. Mobility enables efficient recording and real-time distribution of world phenomena. Mobility can also be utilised when consuming information. For example, by determining the location of the user, a terminal device could emphasise content produced by people geographically close to the user or content related to geographically close objects.

2.2 Core concepts

The core concepts surrounding social media – Web 2.0, content and community – are illustrated in the following picture.



Picture 1. The core concepts of social media.

2.2.1 Web 2.0

In this publication, Web 2.0 refers particularly to a set of technologies that enable easy production and distribution of social media on the Internet. It provides a functional environment for the realisation of social media together with content produced by users

on the one hand and communities on the other, as is evident from the picture of core concepts. Below are some other characterisations of Web 2.0 from different sources.

Web 2.0 is a name invented by Tim O'Reilly for applications typically exhibiting the following characteristics[4]:

- The Web as a platform
- Harnessing collective intelligence
- Data is the next "Intel Inside"
- End of the software release cycle, "the perpetual beta"
- Lightweight programming models
- Software above the level of a single device
- Rich user experiences.

According to the same source, the characteristics of a Web 2.0 company include:

- Services, not packaged software, with cost-effective scalability
- Control over unique, hard-to-recreate data sources that get richer as more people use them
- Trusting users as co-developers
- Harnessing collective intelligence
- Leveraging the long tail through customer self-service
- Software above the level of a single device
- Lightweight user interfaces, development models, and business models

According to Wikipedia, the term Web 2.0 refers to the following[5]:

[4] http://www.oreillynet.com/pub/a/oreilly/tim/news/2005/09/30/what-is-Web-20.html?page=1
[5] Wikipedia: http://en.wikipedia.org/wiki/Web_2.0 (12 January 2007)

- The transition to more functional Web-based applications

- A more social approach to generating and distributing content, characterised by open communication, decentralisation of authority, as well as freedom to share and re-use information.

Mobile Web 2.0: This publication utilises the definition in the book *Mobile Web 2.0*, according to which the following characteristics make Mobile Web 2.0 special in relation to Web 2.0[6]:

- Using a mobile device as an information acquisition device

- Based on the Web, but Web protocols are not necessarily used at every stage (particularly at the customer end)

- The PC is used as a cache and configuration platform for services.

According to the book *Mobile Web 2.0*, contacts and links are the core of Mobile Web 2.0: "Contact is king".

2.2.2 Content

Social media is particularly based on user generated content (UGC), which may be:

- new content, such as images, videos, music or text

- modified content, such as compilations, video mixes or mash-up services

- categorised content, such as playlists, reviews or keywords (can also be classified as metadata).

With regard to content, this publication focuses particularly on user generated content and pays less attention to content produced by enterprises or public administration. For example, in the core concepts picture, "content" particularly refers to content produced (and consumed) by users.

[6] Jaokar, A. & Fish, T., Mobile Web 2.0. London, UK: Futuretext.

2.2.3 Communities

From the viewpoint of this publication, communities are an essential component of social media (see Section 2.2, Core concepts). While Web 2.0 provides the technological facilities for the realisation of social media and individual users provide the content, communities serve as efficient analysers with regard to finding interesting material. Communality has of course existed before Web 2.0, the Internet and other technological innovations but these have enabled new manifestations of communality, such as communities independent of time and place.

On the Citizens' forum[7], the concept of a community is defined as follows: *"The word community is commonly and inaccurately used as a general name for group formations. The scope of the concept of community may range from mankind to two or three people, and its area may range from the globe to a family. Most generally the concept of community refers to a method of human interaction, solidarity, interpersonal relationships or things common to a certain group of people.* Communities can be categorised by their objectives (such as care communities) and by the nature of interaction (such as ideological communities)."

According to Professor Peter Lyman of UC Berkeley, communality and social media can also be understood through the gift analogy[8]: *"In classic social theory, a gift is something given to establish or renew a social relationship. Thus the Web might well be described as a gift exchange economy, one within which millions of authors are giving away intellectual property for the sake of developing a sense of community. In giving away intellectual property, one expects to receive information of equal or greater value in exchange, or perhaps social status in the community."*

2.2.4 Social media

Social media is built of content, communities and Web 2.0 technologies. Social media refers to applications that are either completely based on user generated content or in which user generated content and the actions of users play a substantial role in increasing the value of the application or service.

Social media can be produced by an existing community, or a community may be formed of individuals who produce content to the same service. On the other hand, the

[7] Citizens' forum (Kansalaisfoorumi, in Finnish): http://www.kansalaisfoorumi.fi/sivu.php?artikkeli_id=113
[8] Peter Lyman, http://www.ischool.berkeley.edu/~plyman/articles/Lazerow.pdf

users of social media may include individuals who do not belong to the community and only utilise social media.

Social media applications are characterised by[9]:

- participation
- openness
- conversation
- community
- connectedness.

Related terms:

User driven applications is (most often) a synonym for social media, clearly raising the role of users and also the fact that the applications are not related solely to the media sector. It is essential for social media applications that users have a new role in the realisation of a service and the creation of added value provided by the service.

Participatory media emphasises the active participation of users[10].

Social software provides the information technology foundations for social media. Applications support easy creation and distribution of content and the formation of communities. Many applications are also developed and maintained by communities[11].

Social network sites display the (online) identities of people, their mutual relationships and comments on the identity by the person him/herself or others[12].

2.3 Derivatives

Swarm intelligence or collective intelligence originally referred to collective behaviour arising among social insects. Natural examples of systems with swarm intelligence are ant communities, as well as the behaviour of birds, fish and many mammals in flocks and herds. Swarm intelligence is a hypothesis stating that even though individual people

[9] Spannerworks: http://www.spannerworks.com/fileadmin/uploads/eBooks/What_is_Social_Media.pdf
[10] Wikipedia: http://en.wikipedia.org/wiki/Participatory_Media
[11] Wikipedia: http://en.wikipedia.org/wiki/Social_Software Social software
[12] Zephoria: http://www.zephoria.org/thoughts/archives/2006/11/10/social_network_1.html

do not know something in great detail, sufficiently precise knowledge can be obtained by aggregating the knowledge of many people[13]. The idea is holistic: the whole is more than the sum of its parts.

In the case of social media, swarm intelligence can be seen as an emergent phenomenon that increases when social media applications attract more and more users to produce content and form communities. Swarm intelligence is utilised, for example, by services that recommend books, records and films on the basis of similar tastes in a large group of users. This activity is also referred to by the more specific term *collaborative filtering*.

Mash-up[14] refers to a service that combines content from two or more separate services. A mash-up service can present different information in a new way: for example, bringing services onto a map provides many traditional services with a totally novel way of processing and presenting information. The number of mash-ups has recently snowballed. This is attributable to new Web 2.0 technologies such as open interfaces and the separation of content and appearance.

[13] General list of index terms (in Finnish): http://vesa.lib.helsinki.fi/cgi-bin2/ysa.pl?h=parviäly
[14] TKK: http://www.dipoli.tkk.fi/tietokoulutus/tiedote/tietovalays1_2006.html

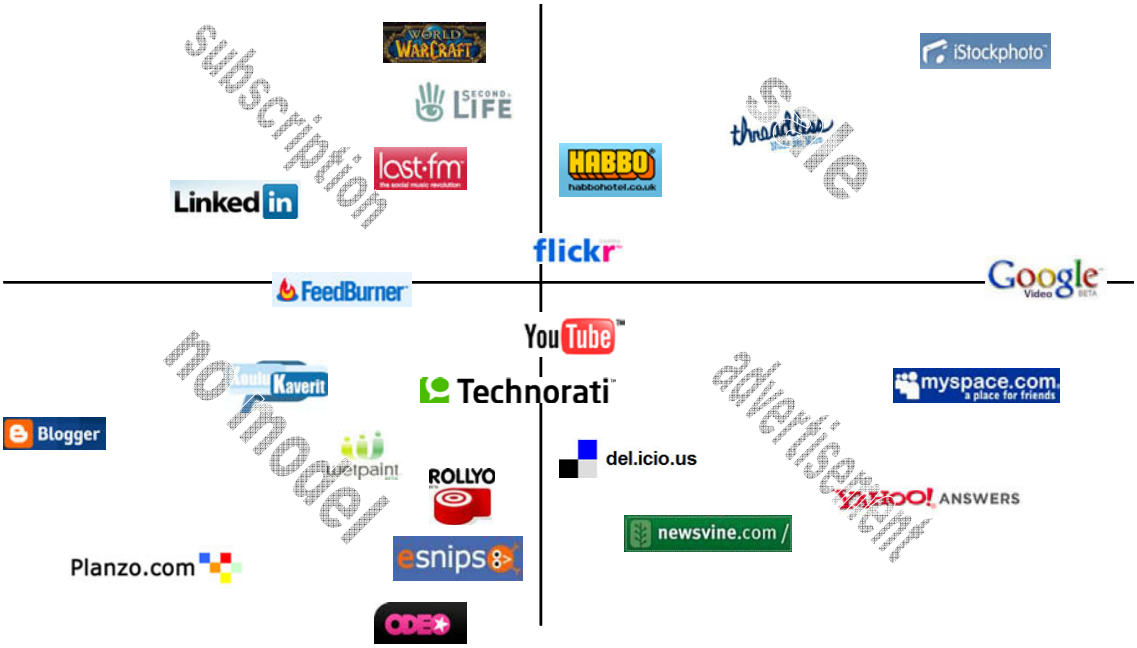
3. Present business models

Social media was the talk of the town in late 2006. The success stories of MySpace and YouTube made the most critical people recall the previous IT bubble. There is a lot of money around social media. From July 2005 to August 2006, there was about half a billion euros worth of risk financing around. In the summer of 2006, Google first bought advertising rights on MySpace for a billion dollars and later in the autumn acquired YouTube for 1.3 billion euro (see Picture 2).

Picture 2. YouTube's Chad and Steve laughing on their way to the bank.[15]

The report analyses the business models of a couple of dozen services based on social media. However, regrettably the services often do not have any clear earnings logic. The objective is only to grow large and powerful, inspired by the success stories. This chapter first deals with the analysed services, with additional detail on those considered most significant. After this, we present four identified business models and associate the analysed services with these business models. Picture 3 provides a general image of the services and the identified business models.

[15] Youtube: http://www.youtube.com/watch?v=QCVxQ_3Ejkg



Picture 3. Analysed services grouped in a fourfold table by their business models.

3.1 Analysed services

The analysed services are described concisely, explaining what the different services offer their customers. Why should one start to use a particular service among the thousands on offer? What is the value of each service to the customer? Three major services are described in more detail at the end of the chapter: MySpace, YouTube and Wikipedia.

Flickr: An easy way to publish digital photos online free of charge. The photos can be sorted by various social media methods: tags, favourites lists, various groups, as well as Geotagging[16].

iStockPhoto: An extensive photo agency for an ordinary user looking for picture material to use in his/her own works. An economical way for photographers to cash in on their pictures. Thousands of photographers around the world put their material on sale on iStockPhoto[17].

Last.fm: An individualised Internet broadcaster that plays music to the listener's taste and offers new interesting pieces. Playlists for people with similar musical tastes are created on the basis of user preferences. Users can sort music using tags. An alternative

[16] Flickr: http://www.flickr.com
[17] iStockPhoto: http://www.istockphoto.com

to powerplay stations. Free music[18]. The most recent version of Last.fm provides users with the possibility to share information regarding the currently playing music with one's Skype community – a good example of a social media mash-up.

ODEO: Provides tools with which users can create and publish their own podcasts. There is no need for special software or a personal Web server for storing the podcasts. Podcasts can be published as feeds, various lists can be created, and they can be sorted using tags[19].

Google Video: An opportunity to download and share videos independent of time and place. The service has a ready-made billing and distribution system for videos. The service can be used by media companies and home video enthusiasts alike. Users upload their own videos to the service. It is easy to share videos and search for them using a variety of search words. Users need not worry about expensive communications costs [20].

Blogger: A free blog for anyone. The service aims for ease of use. Blogs constitute a social media network in which the most popular topics spread rapidly[21].

Wetpaint: An easy-to-use publishing system for various groups. Users jointly create content for a wiki (cf. Wikipedia). The content develops and improves as a result of shared work. Wiki provides a holistic view of the matter[22].

Writely: A free word processor that can be used anywhere with a Web browser. The service also has an archive for user documents. Excellent groupwork features and support for publishing text in various formats (such as .doc, .pdf and blogs). A group of users may jointly edit a document. Documents are transferred from the user's computer to the network and can be easily published as a blog, for example. A tool supporting social media[23].

Habbo Hotel: A virtual comic-book/game-like community on the Internet. Users build content for the service by decorating their rooms, creating different kinds of communities and living in a virtual world[24].

Second Life: A virtual world created by its users. Users create content in the world and hold the copyrights. Content can be sold and bought inside and outside the game.

[18] Last.fm: http://www.last.fm
[19] ODEO: http://odeo.com
[20] Google Video: http://video.google.com
[21] Blogger: http://www.blogger.com
[22] Wetpaint: http://www.wetpaint.com/
[23] Writely: http://docs.google.com
[24] Habbo Hotel: http://www.habbo.com

A functional economic system in which money can be exchanged from euros into play money[25].

World of Warcraft: The most popular online role-playing game in the world. Users create content for the game all of the time: establish guilds, start wars and create utilities. The manufacturer supports all of this. Additional content creates a snowball effect. Furthermore, user generated content has a secondary market in online auctions. It is possible to exchange virtual money into real money[26]. However, the most popular online auction site eBay announced in January 2007 that it will ban the sales of virtual money on the site.

Technorati: The world's largest blog search engine. Technorati currently analyses 55 million blogs. The search engine analyses the popularity of the blogs and the most important topics appearing in them. An analysis of users' blogs and links to other blogs can be used to assess the popularity and quality of blogs and the hottest topics in the blog world. Furthermore, information of a similar type can be linked together.

FeedBurner: A centralised service for feed providers. A single service that generates standard feeds and provides tools and statistical methods facilitating use. A service built on social media that makes it easier to distribute information. Supports different types of source material and many of the most popular services such as Technorati and del.icio.us[27].

Newswine: World news ranked by users. Users decide on the significance of news. The service contains news written by professionals as well as the users themselves. Users can send important news to the service when browsing the Web. News can also be commented on[28].

del.icio.us: Users can quickly find high-quality sorted Web pages in this service. Sorting is done by other users on a voluntary basis. Users categorise Web pages they have visited using tags[29].

LinkedIn: An efficient tool for expanding one's network of contacts. Users of the service enter their own network into the service and invite new members to join the

[25] Second Life: http://secondlife.com/
[26] World of Warcraft: http://www.worldofwarcraft.com
[27] FeedBurner: http://www.feedburner.com
[28] Newswine: http://www.newswine.com/
[29] del.icio.us: http://del.icio.us

network. The service allows users to gain new contacts in the network. The entire service is based on user generated content[30].

Koulukaverit.com: The service allows users to find out the whereabouts of their old school friends. The service also provides contact information. The content is created by users who have specified the schools and classes that they attended[31].

HousingMaps: Provides a view to craigslist classified housing ads on the Google map. The service is similar to that of major housing agencies. It provides a new view to classified ads, geographically placed[32].

threadless: Sales of T-shirts designed by users. If a user designs the week's best print for a T-shirt and the image is printed on a shirt, the shirts are sold on the site. Users also vote on the winner[33].

Yahoo Answers: Answers to questions occupying your mind. The questions are answered by other users. Giving good answers will improve a user's status within the service and the community. This is the same phenomenon seen in forums and newsgroups: some answers are considered "good"[34].

Rollyo: The service provides the opportunity to create a tightly focused personal search on a handful of Web addresses only. This provides more precise search results with no unnecessary hits. Searches created by users are available to other users. Searches are sorted using tags[35].

Planzo: An opportunity to store your calendar data on the Internet. It is easy to share calendar data, and you can display your calendar in various services such as blogs. The calendars of users and groups are a part of social media[36].

eSnips: The user can store images, videos and music in the same service. Content stored in the service can be grouped by links and tags. Other users can comment on the content[37].

Big Brother: Viewers of the TV show can participate by voting for the exclusion of competitors, making up tasks for the competitors and speculating on the progress of the

[30] LinkedIn: http://www.LinkedIn.com/
[31] Koulukaverit: http://www.koulukaverit.com/
[32] HousingMaps: http://www.housingmaps.com/
[33] Threadless: http://www.threadless.com
[34] Yahoo Answers: http://answers.yahoo.com/
[35] Rollyo: http://www.rollyo.com/
[36] Planzo: http://www.planzo.com/
[37] esnips: http://www.eSnips.com/

show in discussion forums. Fans of the show form an online community that actively follows the competition and tries to influence the success of their own favourite. An active community increases interest towards the product[38].

The next three services follow the social media ideology even if they are not actually social media.

Zune: Users get rights to all songs in the Zune service (of which there are millions) for a monthly fee. You do not need to own the songs. Users can wirelessly distribute their favourite songs to the devices of other Zune users[39].

Lulu: An online bookshop for an author's self-published work. The service is an easy and inexpensive way to make your text into a book and sell it. No minimum print runs, the books are printed on demand. Lulu gives a substantially larger proportion of book revenue to the author compared to traditional publishers. A community of self-publishing authors[40].

FON: An inexpensive wireless Internet connection available around the world. The FON network is built by members of the community by sharing their connection with other users either free of charge or against a small payment. If a user shares his/her own connection free of charge, he/she is allowed to use other connections free of charge[41].

The following is a slightly more detailed analysis of MySpace, YouTube and Wikipedia.

3.1.1 MySpace

Background

MySpace was established in its present form in July 2003. To our knowledge the number of user profiles created so far is at least 100 million. MySpace is particularly popular among 14- to 24-year-olds. According to Alexa statistics[42], the MySpace site was ranked third in popularity in the US and sixth in the world in September 2006. However, the number of MySpace users has not increased significantly during 2006.

[38] Big Brother: http://www.subtv.fi/bigbrother/
[39] Zune: http://www.zune.net
[40] Lulu: http://www.lulu.com/
[41] FON: http://www.fon.com
[42] Alexa: http://www.alexa.com/data/details/traffic_details?compare_sites=youtube.com+wikipedia.org&range=2y&size=large&y=r&url=myspace.com

How and why is it used?

The core of MySpace constitutes user profiles and personal Web pages created around them. On these pages the user can tell about him/herself (picture, basic information, types of people he/she would like to meet, hobbies and interests such as music, film, books). MySpace has a search function for finding interesting people and an internal email system for communication between users. The users of the site typically comment on each other and send messages to each other.

MySpace is not the only such networking site, not even the first one. According to Danah Boyd[43], the popularity of MySpace is attributable to the following reasons:

- The target group, 14- to 24-year-olds, have more reason to create a public profile and seek visibility than older people, for example.

- MySpace's communication features suit the teenage modes of communication well: immediate communication occurs over IM and MySpace complements this as an asynchronous communications channel (unlike adults, youth do not use email).

- MySpace has become a part of everyday activities for many: when you are at the computer, MySpace is one of the sites open in the background.

- Youth need their own public space, and MySpace has provided such a space.

In addition to the profiles of individual users, MySpace contains clearly commercial profiles: bands, singers and film stars have their own MySpace profile pages to which other users can link theirs. This can be seen as a way of demonstrating one's "fandom". TV and film characters and some products also have pages on the site: for example, Toyota Yaris had some 75,000 "friends" and Honda Element had some 43,000 "friends" at the beginning of October 2006. The US Army created its own profile page on MySpace but removed it later as the environment did not ultimately seem to fit its image[44]. MySpace also contains classified ads: with regard to employment ads, MySpace is in co-operation with a company called Simply Hired[45].

[43] Danah Boyd: http://www.danah.org/papers/AAAS2006.html
[44] The Wall Street Journal: http://online.wsj.com/public/article/SB115490611980828259-O4ZzrfhaMSxyhFoeMI1vn4UUfkc_20060905.html?mod=tff_main_tff_top
[45] Simply Hired: http://www.myspace.com/simplyhired

Additional products around MySpace

- MySpace Magazine is being planned[46].
- A MySpace TV show on which users meet each other in the real world.
- Video and other editing tools for easily editing media material for presentation in the MySpace environment.
- Widgets are available from Widgetbox[47], for example; these can of course also be placed on other sites besides MySpace. (The role of WidgetBox is to act as a market and management site for widgets that ordinary users can attach to their pages.)

Problems

MySpace has attracted a lot of negative attention lately. There are problems on two fronts in particular. Real-world negative phenomena such as bullying or isolation arise among users, and above all, paedophiles use MySpace as a channel for finding contacts with young people. As a result, the US enacted the Deleting Online Predators Act (DOPA)[48] in July 2006, according to which computer connections to sites on which adults may seek sexual contact with minors are not allowed from institutions receiving public subsidies, such as schools.

In late autumn 2006, several articles were published on the Web revealing that interest in MySpace has declined and many users have deleted their MySpace user account[49].

As a counterforce to extensive open communities, other communities have emerged in which people who already know each other can communicate, and the public visibility of one's profile can be restricted.

3.1.2 YouTube

Background

YouTube was established in February 2005. It is currently ranked fifth in the popularity of Web sites around the world[50]. The increase in popularity has been unparalleled[51].

[46] Myspace Magazine: http://mashable.com/2006/08/24/myspace-magazine/
[47] Widgetbox: http://www.widgetbox.com/
[48] Technology review: http://www.technologyreview.com/read_article.aspx?id=17266&ch=specialsections&sc=social&pg=1
[49] The Washington Post: http://www.washingtonpost.com/wp-dyn/content/article/2006/10/28/AR2006102800803.html

The company was established by three former PayPal employees (Hurley, Chen and Karim) once eBay had acquired PayPal (Karim left the company to engage in academic studies). The company was financed by Sequoia Capital, a major California-based risk financier, which did not take any other financiers along. Google acquired YouTube on 9 October 2006. The sales price was agreed at 1.3 billion euro payable in Google stock. Sequoia Capital's share of the amount is expected to be 30%, which means that the value of Sequoia's 10 million euro investment increased to approximately 400 million euro.

Operating model

YouTube is a free distribution channel for videos. Users upload their videos to the service. They form and are formed into various communities, groups and Top 10 lists. Users can post reviews and comments on the videos, thus producing feedback and other metadata that facilitates the search for good material.

Anyone can upload video material to the YouTube Web pages. Videos are presented using Adobe Flash technology, and every video can be embedded into any Web page. This feature made YouTube familiar with the users of various social networking sites (such as MySpace). Easy integration with existing sites and networks made it possible for the company to become recognised quickly.

YouTube has adopted a simple approach to the copyrights and licensing of content. The terms and conditions of use provide only one option – that is, content must be freely available for use in YouTube or any potential successors. The same rights are also granted to the other users of the service. The right of use ceases if the material is removed from YouTube *("to use, reproduce, distribute, prepare derivative works of, display, and perform including without limitation for promoting and redistributing part or all of the YouTube website (and derivative works thereof) in any media formats and through any media channels*[52]*"*).

YouTube is criticised for copyright infringement. YouTube bases its operations on the US "Digital Millennium Copyright Act", which does not require advance inspection of materials; it is sufficient that illegal material is removed from the service when found. The DMCA was born in the 1990s when Hollywood demanded that Internet operators be held liable for forwarding illegal material but Bell lobbied for an act according to

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[50] Alexa: http://www.alexa.com/site/ds/top_sites?ts_mode=global&lang=none (26 January 2007)
[51] Alexa: http://www.alexa.com/data/details/traffic_details?compare_sites=myspace.com%2C+nytimes.com&range=2y&size=large&y=r&url=youtube.com (26.1.2007)
[52] Youtube: http://www.youtube.com/t/terms

which it is sufficient to remove illegal material. This provides publishers with the option to choose whichever is more advantageous: visibility or the prevention of distribution[53].

Hollywood is currently happy to use YouTube for the distribution of trailers and advertisements but not the actual content. The problem is that the gems of programming are distributed through YouTube (compare: people do not want to buy albums but only the best songs from each album). YouTube proposes sharing of advertising revenue as the solution but many regard the flow of advertising revenue too small to support both Hollywood and YouTube. YouTube has not taken the path of embedding advertisements in the videos, which is the most popular solution in other services today. The aim is to develop forms of advertising that people want to see. The strength of YouTube is that people want to use the largest and best-known channel to distribute their content in order to reach as large an audience as possible.

3.1.3 Wikipedia

Background

From the perspective of the social media boom, Wikipedia is quite a long-lived phenomenon as it started operations in its current form in January 2001. Wikipedia currently contains more than 5 million articles in total, of which more than 1.4 million are in English. There are several language versions of Wikipedia, including a Finnish version; a total of 17 different languages have more than 50,000 articles[54]. In many cases, the articles in English reflect the shared view of people from quite many backgrounds as people from a wide variety of countries have contributed to them. Such added value is much more limited in languages of limited diffusion such as Finnish.

The production of information in a voluntary, distributed and open manner is made possible by the underlying information system. The pages can be edited freely and directly, which makes it possible to add and correct information in small pieces without the immediate need to organise the actions. The flip side is that the pages can be intentionally distorted and that disputes over opinions are likely to arise. An important weapon in fighting vandalism is that complete change logs are kept of all pages, making it possible to restore any previous version of a page. This maintenance work is also carried out collectively; any user can restore a previous version if he/she detects vandalism. The editing of pages can be restricted or completely prevented if vandalism is repeated or if a dispute over opinions does not settle down. Vandalism has become more common with Wikipedia's increased recognition, and more restrictions have had to be set for editing pages. The newest method of creating trouble is to add links

[53] Slate: http://www.slate.com/id/2152264
[54] Wikipedia: http://en.wikipedia.org/wiki/Wikipedia (26 January 2007)

through which viruses can spread[55]. Discussion over the reliability of Wikipedia has also been quite lively for a long time.

There are two points worthy of attention in Wikipedia:

- Content: The success of the Wikipedia project as a large collective project compiling information for free access by everybody.

- Technology and methods: The tools and processes of generating Wiki-based information, which have application potential also in businesses and organisations as means for constructing and compiling information.

Operating model

A strong culture of **voluntariness** and **gratuitousness** has emerged in Wikipedia. The situation is contradictory: Wikipedia has become one of the most popular websites in the world, but its finances are running on a quite narrow base due to the operating principles chosen by the community. Most of the revenue comes from small donations from individuals. However, the Wikipedia community does not accept the most typical means of funding social media – that is, advertising.

Another principle is that nobody is paid for content creation. This is a partial impediment to Wikipedia's activities as it is not possible to accept donations earmarked for the creation of some particular content, for example. The fear is that if authors were paid to create some content, this would give rise to discord and questions, and undermine the operating model based on voluntariness. Other excluded funding options are subscription fees, selling user data accumulated through access to the service, affiliate marketing or allowing PR agencies to pay for the right to author profile pages for certain people. Monetary offers associated with the creation of content may be backed by an honest desire to promote the availability of information but the case could equally well be an attempt to weaken the commercial operating conditions of a competitor by promoting the provision of content free of charge. The community receives some brand licencing revenue and accepts this model. One question currently under discussion is the acceptance of a monetary donation to purchase some content presently protected by copyright for free use[56].

Copyright issues hamper the possibilities to sell the content as books or CDs. Before publication it would be required to ensure that the material does not contain anything protected by copyright. This is not such a big problem for Wikipedia on the Internet

[55] BBC: http://news.bbc.co.uk/2/hi/technology/6120268.stm
[56] Wikipedia: http://mail.wikipedia.org/pipermail/wikipedia-l/2006-October/045481.html

because if someone notifies of unauthorised content, it can be removed, but in the case of books or CDs this might call for the destruction of the entire print run.

Wikipedia has grown so large that it requires many kinds of administration and maintenance work to ensure continuity, to keep the finances running and handle PR and legal issues. Enterprises are offered the option to support Wikipedia through pro bono work, meaning that an enterprise allows its employees to attend to Wikipedia's needs during working hours.

Direct **financial gain from Wikipedia is enjoyed by**

- Jim Wales, the founder of Wikipedia, who travels around the world speaking about Wikipedia
- lawyers negotiating for and against Wikipedia
- technical developers, as the Wikipedia culture after all accepts payment to technical staff for their work.

The position of content producers is the weakest as far as finances are concerned.

The sale of YouTube at a high price has naturally brought up the question of **Wikipedia's market value.** Jim Wales is strongly in favour of Wikipedia's present foundations. On the other hand, Wales has been involved in the creation of a wiki service called [57]Wikia that funds its operations from advertising revenue. Larry Sanger, who was involved in Wikipedia's forerunner Nupedia, recently announced that he would initiate a project called "Citizendium" with the editing done by experts using their real names[58]. There may be a risk that "wikipedia" splits into several separate projects.

Wikipedia is a good example showing that **clear rules** are required for services based on user generated content:

- what kind of content to produce
- who and how is entitled to use the result
- how should potential financial benefit be allocated.

[57] Wikia: http://www.wikia.com/wiki/Wikia
[58] Citizendium: http://www.citizendium.org/

The rules should allow long-term operation on a solid basis. So far, the parties gaining the most benefit from social media in general have been the providers of technical platforms and the sellers of advertising, above all Google. Content creators have gained benefits very seldom and marginally. User created content should also be genuine homemade content, not commercial content disguised as such; this has also become evident in connection with YouTube even though it does not have any major objective similar to Wikipedia's.

3.2 Identified business models

Ads are a natural, traditional and easy way to fund services. Popular services are also attractive in the eyes of advertisers. In addition, the analysed services have other ways to generate revenue. Some of the analysed services were partially or fully subscription-based. Some of these sold something, either virtual or concrete products. The best services combine these methods, and the service has a functional business model from the very beginning.

3.2.1 No business model

Most social media services do not have a clear business model. There is a clear demand for services based on good ideas, and the best ones attract large numbers of users. Users are not prepared to pay for services even if they are useful. Services are assumed to be free.

Free basic services are a good lure that makes users produce content for a certain social media service. The best services grow so large that their content is valuable as such – examples include Flickr and YouTube – even if they do not have a clear earnings model.

Blogger and Wetpaint provide users with a platform, tools and storage space for various kinds of blogs and wikis. The objective has been to create easy tools that make content production very simple and straightforward. Both services are free of charge for users. eSnips is based on the same idea but offers slightly more universal storage space for different types of content on the Net – free of charge.

The Odeon service includes not only space for publication and storage but also tools for creating podcasts. Usage is – once more – free of charge for the user.

The Planzo service allows users to store their calendar data. Various communities such as hobby clubs can use the service for time management. It is easy to export calendar data to other social media services. The calendar is free of charge for the user.

The Rolloy service allows users to create searches free of charge.

Koulukaverit.com offers information and news from old schoolmates free of charge. As consideration the user supplies the service with information about him/herself, which adds to the service's information content and increases its accuracy and value. The site introduced a small fee for contact information a few years ago. The consequence was a a mass of objections from the user community. This represents a good example of how people used to free content have a hard time accepting a service becoming chargeable all of a sudden.

Technorati, Feedburner, del.icio.us, newswine and LinkedIn are also free for the user. The operations are largely based on users producing content for the services. However, these services have real business models in place. In the best cases, the models have been developed at early stages of the service. However, in many cases new earnings models have been added gradually as the founders of the service have realised that it would be important to receive some revenue.

3.2.2 Advertisements

Most social media services contain advertisements. Ads by Google are the most widespread and popular business model. The model is equivalent to that of traditional media, such as free papers and commercial TV channels: the contents and distribution are funded by selling advertisements in the media.

Google and Yahoo are the largest enterprises that mediate advertisements on the Internet. They provide an easy way for the maintainer of a new service to gain additional revenue for a site that is increasing in popularity. However, the greatest winner in advertising is the enterprise that mediates advertisements.

For example, Technorati, YouTube and del.icio.us are funded by advertising. It pays to advertise on popular sites. With millions of users each day the advertising has a target audience.

Among the services analysed, the Google team includes

- MySpace

- YouTube
- ODEO
- Google Video
- Blogger
- Wetpaint
- eSnips.

Yahoo advertisements are used by

- Flickr
- del.icio.us
- Yahoo Answers
- Rollyo.

MySpace is an extreme example of the opportunities of advertising on the Internet. The millions of pages within MySpace are an excellent platform for advertising. In 2006, Google actually paid approximately one million euro for exclusive rights to MySpace advertising.

MySpace also serves as another type of advertising channel. Many musicians and bands have risen to fame through the service (an example is the English band Arctic Monkeys). The service is a testing field and a collector of fans for the bands, and thus a very valuable advertising medium. Many bands that have already gained popularity have created their own MySpace page to serve their fans. An existing Web page has not been enough, the band has to be on MySpace as well. MySpace also contains paid advertising pages for different products and services.

YouTube serves as an advertising location for film trailers. Film studios want to display their advertising on the most popular video service of the Net. YouTube's objective is to legally provide music videos as part of its service.

The Big Brother TV series uses social media efficiently as an advertising channel for a TV programme. The online community that has developed around the series accelerates

discussion and produces a huge volume of free content for the programme. This creates added value that can be utilised in the actual TV programme as well as in media supporting it, such as tabloids. Big Brother's business models are traditional: selling a TV programme and newspapers; selling advertising space on TV, in newspapers and on the radio; collecting revenue from SMS messages and by selling a pay-tv channel. In this case, social media is a means for boosting the efficiency of traditional business.

Advertising is a significant source of revenue for social media services. However, the greatest winner in advertising-based business is the company mediating the ads, often Google or Yahoo. The most popular sites are able to sell their advertising space themselves. However, the use of existing services is easy and efficient. Other business models besides advertising should also be developed and used in the social media sector.

3.2.3 Subscription-based services

Subscription-based business can be developed around social media services. Basic access to a service is often free of charge. This makes it easy to pull users in. Furthermore, the value of a service increases with increased volumes of users and content. If a user wants additional features for a service, they are often available against a monthly or annual fee.

Partially free services

Basic access to the Flickr service is free as anyone can upload his/her images. However, a small annual fee will give you more space for your photos, and the number of photos that can be transferred each month will increase substantially.

The Last.fm Internet radio allows listening free of charge. At the same time, users add to the service's database listing the musical tastes of different people. A monthly fee of a few euros gives access to radio channels better personalised to the user's tastes.

Access to Feedburner is free. However, the service can be extended by paying a few euros. For example, the use of one's own domain name in the feeds is subject to a monthly fee.

The LinkedIn service is available free of charge. At the same time, the user enters his/her network into the service and increases its value. If more extensive information of the surrounding networks is required, the user needs to pay for the service. Basic

information is available for a few dozen euros per year but the most extensive access rights go for several thousand euros.

Paid additional features are being planned for the MySpace service. However, basic use will remain free.

Completely fee-based services

World of Warcraft is the most popular online game in the world. It currently has 8 million users – equal to paying customers. Each customer pays the game manufacturer approximately 10 euros a month. The game is not available free of charge.

Zune is Microsoft's counterpart to Apple iPod and iTunes. The service gives out music for rent: a monthly fee provides rights to all songs in Zune (of which there are millions). The access right is valid as long as the user pays a monthly fee. Once the user terminates the subscription, the rented music no longer works.

Subscriptions are a good way to bring more flows of revenue to social media services. In many cases, the services were initially brought to the market free of charge. As the services have grown and gained popularity, fee-based additional features have been built.

It is difficult to say how many users pay for these additional services. Probably a very small percentage of users buy additional services on top of the free ones. Completely fee-based services are a different thing. In this case, however, it is less common that users would produce substantial content for the service. If you pay a monthly fee, you expect value for your money.

3.2.4 Merchandise

Some social media services distinguish themselves by selling products. The products can be either virtual or physical.

Products for sale

iStockPhoto is an online photo agency. Photographers put their photos up for sale through the service, which sells them at an inexpensive price. The purchaser is allowed to use the photos in his/her own works, e.g. as part of the illustrations in a magazine. The price of photos varies from one euro to more than ten euros depending on the quality.

Zune also provides users with the option of purchasing music for permanent use (in addition to renting).

Users who have uploaded their videos to Google Video can set a price for them. The service offers commercial pay videos, pay videos from private users and free videos side by side.

Habbo Hotel sells Habbo Coins that can be used to buy various products in the virtual world. One Habbo Coin equals 20 cents.

In the Second Life game, the game producer leases out virtual land to users. If users want to construct buildings in the virtual world, they have to lease land from the service provider. The price depends on the size of the parcel.

The Threadless Web store sells T-shirts designed by users for a few dozen euros each.

Lulu sells books authored by users online.

FON offers an inexpensive wireless connection from around the world.

Revenue sharing

Flickr provides its users with the option to have prints made of their photos and receives a part of the revenue.

Last.fm provides its users with the option to purchase the currently playing music from Amazon. Last.fm receives part of the revenue.

Together with SnoCup, MySpace is planning to sell music as part of the MySpace service.

YouTube has signed an agreement with Warner Music that will hopefully be a model for other companies: Warner's material is identified and advertising revenue is shared between YouTube and Warner[59]. YouTube is introducing technology that can identify the material of a certain copyright holder and therefore makes it possible to share advertising revenue from the use of such material.

[59] The New York Times: http://www.nytimes.com/2006/09/30/business/30tube.html?ref=business

Secondary markets

Interesting secondary markets have emerged around certain services. In particular, the large numbers of users and money around games have created interesting earnings models.

In the Second Life game, users build the contents of the virtual world. They also own the virtual content they have created and can sell it onwards. Business based on user generated content has emerged around Second Life. In addition, the game currency, the Linden dollar, can be exchanged into other currencies, e.g. the euro.

The World of Warcraft game has several built-in mechanisms for trading between players. Virtual goods can be exchanged for virtual money. Furthermore, there is a functional market for virtual goods outside the game. A user can buy virtual money or goods for the game. The laziest and richest players can hire a professional player to develop their virtual character. It is claimed that there are thousands of people in Asia who play World of Warcraft for a living[60].

3.3 Risk financing

Companies providing social media services have been able to collect substantial amounts of risk financing. From July 2005 to June 2006, social media involved approximately 550 million euros of financing (risk financing, mergers and acquisitions). The deal between Google and YouTube in the autumn of 2006 alone was worth 1.3 billion euros.

Here are some examples of social media applications that have received risk financing between July 2005 and June 2006[61]:

- Social networks: a total of 24 enterprises and 94 million euros of risk financing
- Images and videos: a total of 22 enterprises and 102 million euros of risk financing
- Games and entertainment: a total of 6 enterprises and 35 million euros of risk financing
- Avatars: a total of 6 enterprises and 42 million euros of risk financing

[60] Chinese gold farmers: http://chinesegoldfarmers.com/
[61] Ali, R., Social Media Deals Report (H2 2005 and H1 2006), available at http://paidcontent.org

- Music: a total of 6 enterprises and 14 million euros of risk financing
- News: a total of 4 enterprises and 34 million euros of risk financing
- Citizens' journalism: 9 enterprises and 18 million euros of risk financing
- Mobile social media: 13 enterprises and 54 million euros of risk financing.

Concrete examples of risk financing between July 2005 and August 2006:

Stardoll.com provides a virtual doll's house in which users can dress their dolls in virtual clothes bought with real money. The intention is to bring actual real world brands to the service. The idea is related to Habbo Hotel. Stardoll.com has received 8 million euros of financing.

Affinity Engines is building a tool for university alumni networks. The objective is to create a meeting point for the former students of universities. The enterprise has received 3.5 million euros of risk financing.

Minti is an Australian enterprise building a service for parents in need of help. The service allows users to share and evaluate advice on child care. The enterprise has received one million euros of risk financing.

Doppelganger offers a virtual nightclub for young people free of cover charge. The idea is to collect money from advertising and the sales of virtual goods. The enterprise has received 9 million euros of risk financing.

Yelp.com is a location at which users can evaluate services in their home district (restaurants, bars, etc.). The enterprise has received about 4 million euros of risk financing.

RealTravel is the online home of travel diaries. The enterprise has received one million euros of risk financing.

SingShot Media is a service built around online karaoke that has received one million euros of risk financing.

OhmyNews is an online news service that mediates news authored by the community. The service has 40,000 freelance reporters in Korea. The intention is to bring the service to the world. It has received 10 million euros of risk financing.

Automattic is developing a commercial version of the free Wordpress tool. It has received one million euros of risk financing.

Lala.com is a brokerage for CDs. Users can exchange discs with each other and pay a small commission to the enterprise. It has received 8 million euros of risk financing.

Major transactions:

- YouTube was sold to Google for 1.3 billion dollars.
- MySpace's advertising rights were sold to Google for approximately one billion dollars.
- MySpace was sold to Fox Interactive for 400 million euros.
- Friends Reunited was sold to ITV for 240 million euros.
- Xfire was sold to Viacom for 80 million euros.

As demonstrated by these examples, there is big money involved in social media. Some of the investments are surely justified and good but a large part of the services lack any clear business model. It seems that the original developers' model has been to sell the enterprise at a high price to a large player such as Google. On the other hand, the attitudes of risk financiers and new owners towards services lacking a clear business model are amazing.

Social media will probably bring about a phenomenon similar to that seen during the dotcom fever at the turn of the millennium: only a few best enterprises will survive.

4. Specific issues

Copyrights and copyright infringement readily come to mind in connection with different social media services. For example, YouTube is full of comic sketches from Finnish TV series such as Kummeli and Pulttibois. It is easy to steal text from another user's blog to create quality content for one's own pages.

Concepts tangential to copyrights are trust and reputation. Many social media services are based on trust in people. For example, YouTube in principle trusts that copyrighted material is not distributed through it. The efficiency of some other services is based on the fact that users have a reputation. Reputation is built on the basis of their actions in the service. On the basis of reputation information, users are able to form their own opinion on whom to trust. A classic example is the seller reputation on eBay or Huuto.net, which is based on a peer review of the trustworthiness of trading partners.

Because advertising income currently is the most important – and almost the only – source of revenue for many sites, it will be addressed in greater detail in this section, making this a specific issue of its own.

Advanced tools and easy content creation may also lead to various kinds of side-effects. It is equally easy to produce illegal or legal content. Powerful servers and large disk storage spaces also enable unwanted and suspicious material to spread online easier.

4.1 Activeness

Social and communal media is based on the concept that users are not only consuming but also producing content. It is a vital question for many services whether they can make people become excited and use the new service. However, a common hypothesis of the social media user base is: "1% produce content, 9% provide comments and the rest are passive consumers". This is called participation inequality[62].

Active users are seen to share the following characteristics:

- An ambition and desire to express oneself.
- "Ego-casting" or emphasising one's own competence to peers or head-hunters.
- Membership in a larger community (such as Wikipedia content producers).

[62] http://www.useit.com/alertbox/participation_inequality.html

- A particular hobby creating a desire to produce and comment on content associated with it.

- Tools have become easier to use, which has resulted in less technically oriented people becoming content producers.

- An increasing proportion of people are fluent with computers as computers are becoming more and more important both at work and in leisure time.

Passive users can be characterised as follows:

- Passive consumption of information without an ambition towards critical evaluation or enrichment.

- The view that almost all necessary information is already available on the Net and that it is sufficient to pick the subjects that interest you.

- One's own expression is not at its best using "recordable" media methods (the user would rather speak than write, draw, take photos, etc.).

- The tools differ from the conventional.

- Social media is not considered important and there is no desire to learn about it.

- Sufficient information and networks can be gained through conventional media (news, letters to editors, hobby clubs, etc.).

- Available time is limited.

- Individuality and anonymity issues (the desire to protect one's real-world identity from the online identity and make a clear difference between them).

However, it is noteworthy that a user can change from a passive one to a more active one once the applications become more familiar. Therefore it is important that the service provides different possibilities of participation in order to take small steps towards an active role. A transition from the 90% group of passive consumers to the 9% group of minor contributors is significant as such.

4.2 Identity

With regard to privacy, websites and services require either complete identification, provide for various types of pseudonymity (such as pen names in newsgroups) or allow complete anonymity.

Identity is a crucial concept. Generally it can be said that protecting your identity is easier on the Web than in the "real world". A user can create different "online identities" for different services, and for outsiders, these can seem completely detached from each other and need not get back to the user's true identity (person). On the flip side, such freedom brings a variety of problems. All kinds of malpractice are possible; using an online identity, a user can act in ways that he/she would not in real life. On the other hand, identity theft, i.e. acting in someone else's name, is a dangerous phenomenon.

The incoherence and diversity of online identities also pose disadvantages for the user. Practical problems include remembering user IDs and passwords.

However, the problem is more serious on the psychological level. The more time a user spends in a virtual world and the more different the virtual identities are from real-world identities, the greater the risk of damage to one's own mind. Second Life and World of Warcraft are examples of services in which many users have already developed an addiction-like state. An explanation for addiction may be that an online identity provides an opportunity to act outside everyday reality and the norms dictated by it.

It would be desirable that people behaved on the Web roughly in accordance with the moral code they have adopted in everyday life. This objective is served technically by various single sign on solutions and "lightweight identity solutions" such as Light Weight Identity™[63] and OpenID[64]. However, these tools do not solve the more extensive problems; for example, a single user may create several OpenID identities.

4.3 Copyright

In the field of social media, it is easy for a user to distribute not only his/her own material but also content produced by others in his/her own name without asking the original producer for permission. This phenomenon raises issues of copyright. If the original content producer is a private individual, this opens the way for all kinds of cases hampering privacy, as well as defamation. On the other hand, if the content

[63] Light Weight Identity: http://lid.netmesh.org/wiki/Main_Page
[64] OpenID: http://openid.net/

producer is a commercial party, the potential issues include brand deterioration and the distribution of commercially significant material through free channels. For example, episodes of TV series have been available through YouTube, which has resulted in several lawsuits against the company.

With today's methods, copyright enforcement is a kind of "cops and robbers" activity that aims to remove infringing material from the network after it has been made available. There is a huge number of different hosting services on the Web for the purpose of sharing videos. If one service removes copyright-infringing or otherwise questionable content, the user can distribute it through another site. It can be asked whether it is a probable development that commercial content producers and distributors (such as TV and record companies) will actually not try to remove their material shared free of charge but turn the situation to their benefit and aim to further increase their presence at least in the best known social media hosting services.

Hietanen et al. have published a guide on the copyright issues facing social media. Copyright is one of the most important things that must be taken into account in business models related to social media. An additional problem is that the services are often global but copyright law is partly national. The guide provides guidelines and basic information on the issue[65].

A specific issue related to brands is the distribution of original material through a suspicious hosting service, alteration of material before distribution, or imitation of material. So-called spoof commercials imitate the style and/or storyline of original commercials to a certain point but ultimately try to shock the viewer in various ways. An example is a "commercial" in which a terrorist blows himself up in a Volkswagen and the car is undamaged. The commercial ends with the line "VW Polo - Small but Tough". The producer of a spoof commercial may have several reasons to create such content; it can be based on humour, globalisation criticism or bad experience of the company in question. However, all of these motives affect the brand of the party targeted by the spoof commercial. On the other hand, there is some speculation that such spoof commercials may actually be produced by the companies themselves, even though they strongly deny this in public. Is the saying "any publicity is good publicity" true also in this respect?

[65] Hietanen, H., Oksanen, V. and Välimäki, M.: Community Created Content – Law, Business and Policy: http://turre.com/images/stories/books/Webkirja_koko_optimoitu2.pdf

4.4 Mobility

A large part of social media content is produced using mobile devices. For example, video material on YouTube and image material on Flickr is recorded using a camera that can be seen as a mobile device (whether integrated into a mobile phone or not). Therefore the production of social media is essentially linked with mobility. Different situations or contexts vary around the content producers, and this has an effect on content production.

Mobility and situational awareness can be taken into account in various ways also when consuming social media. For example, the location of a user can be utilised as a filter when offering content. It can be assumed that a user looking for a place to eat, for example, will be interested in opinions about a particular restaurant if the opinions are those of people located sufficiently nearby. A specific social media application related to GIS (Geographic Information System) is geo caching[66], in which users can search for various kinds of physical objects cached by each other with the help of GPS devices.

In addition to location, a user's social environment – that is, the people in his/her company (either physically or through another kind of connection) at each time – can affect the filtering and offering of essential material to the user. Jaiku[67] is a Finnish enterprise that provides users with the possibility of sharing their "presence information" with other users. Jaiku can also be connected to Flickr so that the "presence flow" allows access to photos taken and shared by the users.

Emphasising mobility in connection with social media imposes special requirements on the usability of applications. The input and output features of mobile devices are more restricted compared to conventional PCs. This is typically also true of the data communications connections between the servers hosting social media sites and the user applications residing on mobile devices. These special issues must be taken into account in the design of mobile social media applications and services.

It can be assumed that there is demand for mobile social media in the field of professional applications. For example, several service technicians working on the same object might share information about the object with the help of social media without needing to use a shared information system or even be aware of each other.

[66] Geo caching: http://www.geocaching.com
[67] Jaiku: http://www.jaiku.com

4.5 Trust

4.5.1 Trust in general

Trust is a subjective relationship between a trustor and a trustee. Because trust is subjective, no general metrics associated with the level of trust, for example, can be defined. However, trust is affected by trustworthiness, which is an objective value or set of values. Trustworthiness can be measured and compared with a threshold that contributes to the trust decision of a rational trustor. When establishing trust, the trustor examines the different features of the trustee, trying to establish an aggregate on the basis of which to make a decision regarding the trustee. The decision may lead to starting to use a service, buying a product or engaging in other interaction. In some cases the factors contributing to the assessment may be context-linked.

In addition to the quality and context attributes prevailing at the time of establishing trust, the trustor may rely on existing information about the trustee's earlier behaviour. Reputation tells about the trustee through the trustor's personal opinion and is thus based on earlier interaction between the trustor and trustee. Recommendations, on the other hand, comprise information on the trustee communicated to the trustor by others. Sometimes the trustor does not have any direct experience of the trustee and does not know any referees/recommendations. In this case the trustor may rely on sufficiently similar trustees/referees.

The establishment of trust in the Web environment is very essential. If a user of a Web site or service is satisfied with the content or service received, it is more probable that he/she will later come back to use the same provider's services. This can be interpreted as an expression of trust.

4.5.2 Trust and social media

When comparing Web 2.0 with the "traditional" Web or "Web 1.0", it can be argued that the significance of trust is further emphasised. In Web 1.0, it is more straightforward to make a difference between the producers and consumers of content or services. Furthermore, it is by default easier for the consumer to find out the identity of the content/service producer, which is significant for the process of establishing trust. In Web 2.0 anyone can produce and distribute content easily and in a more straightforward way. You no longer need to know even the basics of HTML: it is enough to upload text or multimedia material from a terminal device to a server.

On the other hand, Web 2.0 also provides good tools to support the establishment of trust. YouTube and eBay, for example, provide consumers with the opportunity to express their opinions on the producers of material and the quality of their services or products. Reputation information can also be efficiently monitored in the Web environment. The number of visits to a certain Web page can be considered a manifestation of its reputation, and it is straightforward to monitor this on the Web and draw conclusions. For example, the fact that Google acquired YouTube in October 2006 can largely be explained by the popularity of the site – that is, a manifold number of page hits compared to the competitors.

Context issues and their effect on the establishment of trust in Web 2.0 are particularly applicable to mobile Web 2.0. Naturally desktop activities on the Web can also be made more efficient by taking the context into account. For example, a user's navigation through different links can be saved, and conclusions can be made on the user's potential interests and the content that should be offered to him/her. However, the mobile world brings new dimensions to the situation through changes in the user's physical and social environment, for example. A user can be offered social media content associated with geographically nearby objects, or in a popular blog, messages from people within Bluetooth range can be filtered and highlighted.

Traceability is an important factor affecting the establishment and upkeep of trust that probably becomes a challenge in the social media and Web 2.0 field. Traceability means that the consumer of content/a service can at his/her option find out who the content producer or service provider is. The challenge is caused by the open nature of the Web on the one hand and the possibility for anonymity on the other. The huge and constantly increasing volume of available material makes it more difficult to find trusted parties, requiring the application of filtering mechanisms based on trust. Traceability is linked to online identity.

The large and constantly increasing volume of social media creates a need for filtering essential and meaningful content. With respect to this, there are many approaches, with reputation, recommendations and context awareness described above. Recommendations can be either explicit or implicit. At the simplest, implicit recommendations refer to the most viewed content, measured by the number of hits on a Web page or video, for example. In many cases, limiting the scope to smaller communities and determining the relevance of information through collaborative filtering applied to these communities works more precisely. However, in this case the community must be sufficiently coherent: reviews of CDs provided by five people with totally different profiles are not necessarily useful for the user but the comments of 20 reviewers roughly similar to him/her may be helpful.

Explicit recommendations may be comments on Web content or services actively provided by users, for example. Comments can be either positive or negative. The ability to provide negative comments distinguishes this approach from implicit recommendations, such as page hits, and therefore provides additional dynamics. Extensive utilisation of explicit recommendations would require the provision of feedback to become a natural part of user activities. It can naturally be supported by various external incentives (prizes, participation in competitions, etc.), but a more sustainable alternative would be to motivate the users for the sake of the activity itself. Users should find it important to "be a referee" and belong to a community of referees.

The division between automatic and manual content production creates another special feature associated with the accountability of social media. In the manual version, a content producer actively and knowingly creates the content and publishes it online. On the other hand, automatic content production refers to activity lacking active, case-specific human decision-making, in which a system produces and publishes content online. Naturally the background of automatic content production is permission for the automatic storage and distribution of information granted manually by a user. If the output of automatic content creation is utilised in other applications (and applications implemented by others), it is important to be aware of the accountability issues with regard to incorrect information, for example. Applications for automatic content production can be seen particularly in the mobile sector and in applications utilising sensors, in which a system could store the user's location and the weather around him/her, possibly enrich it, and subsequently publish it online in a form that allows others to use it in their own applications.

Generally speaking, at least the following factors can be said to affect the establishment of trust[68]:

- The service provider's brand and reputation
- Recommendations from peers
- Recommendations from well-known/recognised parties
- The general reputation of the service (based on previous experience)
- The country (the service's or the server's)
- Privacy protection

[68] Pasi Ahonen

- Information security practices and policy
- Information security for the network connection (encryption in particular)
- The party implementing an application, method of implementation
- A terminal device's support for an application
- The operation and usability of an application
- The appearance of an application
- Application maintenance (number of updates and effort required)
- A user group's properties / assessments of a user group
- Recognition of an application (in traditional media and online)
- The age/history of an application
- The type of content (fact, entertainment, advertisement)
- Consequences of use (spam, viruses, etc.)

4.6 Advertising

4.6.1 Ads by Google

Advertising has turned out to be the best-functioning means of collecting revenue from Web services, particularly from those related to social media. The Google AdWords and AdSense services could be regarded as the breakthrough of advertising. AdWords focuses advertising on the basis of searches made by users. On the other hand, AdSense makes it possible to show advertisements procured by Google on the pages of other publishers. From Google's viewpoint, AdSense brings money from the so-called "long tail" of the Web[69]. This means that the service can be offered inexpensively also to small players, making the potential customer base huge. For publishers located in the "long tail", AdSense provides opportunities to develop the flow of revenue without requiring the publisher to try to sell advertising space itself.

[69] Wikipedia: http://en.wikipedia.org/wiki/Long_tail

There are two main types of invoicing for online advertising: time and clicks. Finnish online services, for example, quite generally use time-based advertising. On the other hand, Google primarily uses click-based billing; advertisements are shown, and only those advertisers whose ads are clicked will be billed.

The correct focus of an advertisement is important because the revenue of Google as well as the publisher providing the advertising space is dependent on actual reactions to the advertisements. The advertisers define the price that they are prepared to pay for each click, and Google subsequently maximises its revenue by trying to calculate the formula (number of actual clicks) x (price paid for each click).

Click-based advertising is threatened by so-called click spoofing, which means that the advertisements are clicked by people other than genuine contacts. The parties responsible for click spoofing are either those behind a site, accumulating revenue for themselves, or competitors clicking each other's advertisements in order to dry up a competitor's advertising budget. A proposed solution for this has been to base pricing on actual sales or other activities that prove the existence of a true contact. Naturally, Google and other providers of click-based advertising such as Yahoo and Microsoft aim to develop monitoring and methods to detect such activity quickly.

4.6.2 Product placement

Product placement is seen as a promising area of growth in advertising in general, as it is becoming increasingly easy for viewers to skip actual advertisements. In respect to social media applications, this means that it should be possible to place advertising in an application in a natural way. This, in turn, means that advertisements have the opportunity to be noticed without interrupting natural use of the service. When developing social media applications, it is important to consider how advertising can be placed in the service even if there was not too much advertising at the initial stage.

An example of apparently well-functioning product placement is Second Life, where enterprises can build their own online presence. A user interested in the enterprise can become familiar with its offering and operations within the Second Life framework.

Correspondingly, advertising can be easily included in some games – in game environments imitating the real world, advertisements are a natural part of the streetscape. In another type of environment, such as a game placed in ancient Rome, product placement is naturally much more problematic and the outcome may seem artificial, resulting in a bad user experience.

Product placement has also been used with apparent success in networking services such as MySpace: Products to be promoted have established their own profiles in the service, and users can include the product in their "circle of friends". The incentive for taking a product into one's circle of friends can be, for example, access to a special feature of the service.

In some cases, product placement can also be seen as a side-effect, e.g. with regard to minors. If a Web user is not aware that he/she is dealing with advertising content, a large number of moral issues are raised.

4.7 Side-effects

Several side-effects related to social media can be identified. These include, for example, spamming, which refers to intentional serial production and extensive distribution of material, aiming to fill disk space or bandwidth with "junk" lacking any content. In addition to contentless spam, various kinds of extensively distributed advertising content can be seen as a negative phenomenon as it eats up disk space and attracts user attention.

Another adverse phenomenon is harassment of individuals on the one hand and enterprises on the other hand by distributing harmful material related to them. One of the differences between the Web and traditional media is that material once distributed is very difficult to remove completely; it is probable that another Web user has copied the content before its removal, and the new copies can now be distributed through different channels and services. (See also Sections 4.2 Identity and 4.3 Copyrights within this report.)

Various problems associated with identity and privacy have arisen in connection with the increased presence of social media. A user can impersonate someone else, by, for example, lying about his/her age and gender on Web sites for making contacts. One of the most well-known and far-reaching cases was LonelyGirl15, in which an adult actress impersonated as a high school girl in an apartment set up by TV professionals[70]. Identity theft has also become easier. One phenomenon violating privacy is the disclosure of the true identity of an anonymous or pseudonymous user.

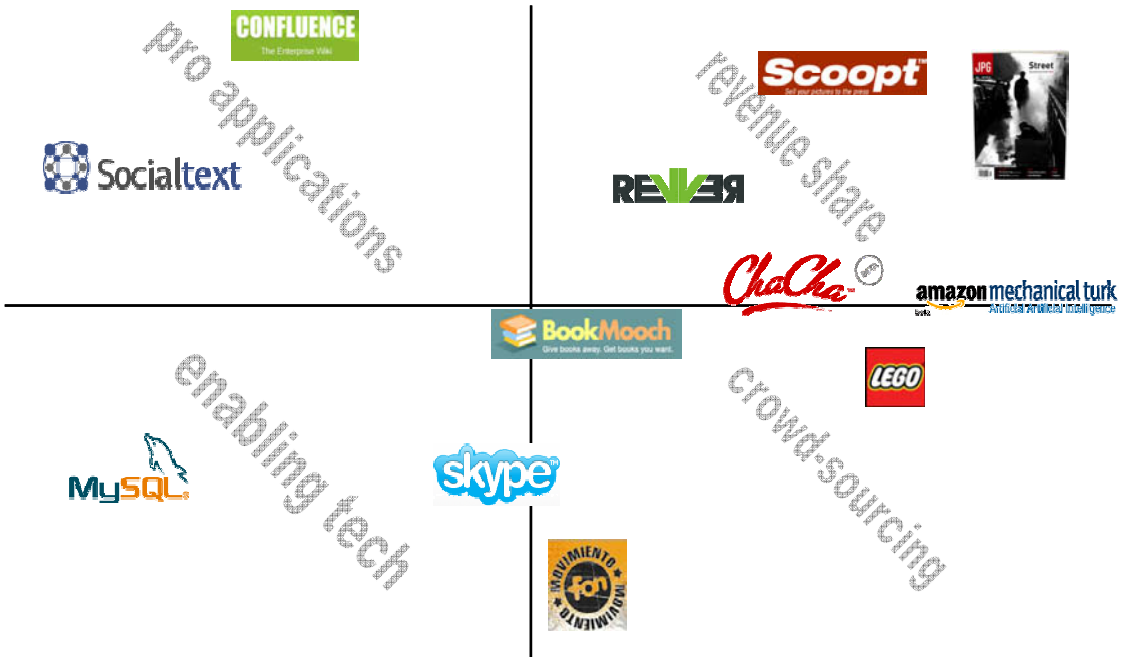
Flogs (fake blogs) are one of the side-effects arising from social media. For example, a flog can be a site established by an enterprise that seems to be separate and independent but contains messages praising the enterprise or its products. Commercial activities around blogs are seeking their shape also in other respects. For example, users can be

[70] Wired magazine: http://www.wired.com/wired/archive/14.12/lonelygirl.html

paid to provide positive comments on some subject. In some cases the fact that payments are made is disclosed, but not always. From the reader's viewpoint, this hinders the assessment of objectivity and calls for good media literacy. It is also a phenomenon comparable to manipulation if someone tries to influence the contents of blogs knowing that they will be used in market research.

5. New business opportunities

This report has so far dealt with present business models and their deficiencies. The majority of social media services operate without a business model or have at least started their operations without one. The most popular actual model today is advertising. A smaller proportion of the services have more advanced business models such as subscriptions or the sales of products.



Picture 4. New identified business models for social media services along with a few examples of each category.

This chapter aims to identify new business opportunities that could be used in the field of social media. Picture 4 outlines some of these opportunities. References concerning the functionality of these services already exist in the form of some services. Crowd-sourcing is used in several services. A few technology development enterprises in the background of services have succeeded along with social media. When transferred to professional use, social media tools and methods provide a new lightweight operating model. Revenue sharing among services is an interesting opportunity: Users have begun to get paid for producing content.

5.1 Crowd-sourcing

Social media and the power of the masses are already being utilised in several services. This is commonly called crowd-sourcing. Users can be used for creating content, for

product development and design, or even for doing some virtual tasks requested by companies or other users.

User generated information is made a part of mainstream media. Examples of this amateur media are:

The users of You Witness News[71] can send their own images and video clips to the service. The material is evaluated by Reuters' journalists. They pick the best pieces that can be used as part of the news flow of Reuters and Yahoo. The original source of the material is mentioned. The user gains reputation but no monetary compensation.

Perässähiihtäjä – the elections blog of Helsingin Sanomat[72]: An elections blog that was in use for the first time in the Finnish presidential elections in the spring of 2006 as part of the product package of the Helsingin Sanomat daily newspaper. The objective is to create a community supporting the newspaper within which the parliamentary elections in the spring of 2007 will be actively discussed. Helsingin Sanomat is reinforcing traditional print media through new means provided by social media.

The Wikileaks[73] service allows users to anonymously upload sensitive material to a server. The objective is to create a channel for civil activism, a site on which anyone can report the grievances of the world. The reliability of material remains a question. Wikileaks might be an easy place to defame people. However, it is an indication of increasing citizens' journalism.

A marvellous example of crowd-sourced product development is put forward by the Lego Company. Lego provides tools for the customers to build a custom designed Lego models in Internet. After a design is ready, the newly designed model is sold, produced and shipped to designer and all the other potential customers [74].

5.2 Revenue share

In the future, a model in which revenues are share between users and services will become more common. The best user generated content corresponds to that created by professionals. In this context, content must be viewed extensively: in addition to purely digital content, "physical" products can also be included in this model. In this case, social media also covers products and services in which the role of the Internet is to serve merely as an introducer and a marketplace.

[71] You Witness News: http://news.yahoo.com/you-witness-news
[72] Perässähiihtäjä: http://blogit.helsinginsanomat.fi/unski/
[73] Wikileaks: http://www.wikileaks.org
[74] Lego Factory: http://factory.lego.com/

At best, the skills of amateurs are available at a clearly lower price compared to professionals.

Examples of revenue sharing between services and users:

The iStockPhoto photo agency allows amateur photographers to solicit their photos. The prices are clearly lower than those of official photo agencies, and the service hosts a large number of photos. Newspapers, magazines, advertising agencies, journalists or speakers, for example, can buy photos from iStockPhoto to use in their own works.

The Scoopt[75] service allows users to sell images and texts to newspapers and magazines. A user notifies the service where to find his/her images (Flickr, for example) and where to get stories (a blog, for example). Newspapers and magazines can subsequently search for stories and purchase user generated material for their use.

The ChaCha[76] service pays for users to act as the "artificial artificial intelligence" of the service. An expert in a specific field searches for information in accordance with user requests and gets paid for his/her help. The service offers work in small pieces.

The Amazon Mechanical Turk[77] service harnesses users to carry out tasks that are very difficult to assign to a computer but very easy to complete by humans (such as pattern recognition). The users are paid for their effort.

The Threadless service has outsourced T-shirt design to users. If a user-designed shirt is printed, the user will be paid for his/her effort. Threadless has actually been successful in attracting top designers to design models for the service. The enterprise itself does not have any risk because only the best designs are rewarded and the popularity of the products is quite certain. Particularly for designers in the early stages of their careers the service provides a good opportunity to gain reputation and subsequently build a career.

In the Revver[78] service, the producer/distributor of a video and the maintainer of the site share among themselves revenue based on the number of downloads and advertising.

JPG Magazine[79] is a printed magazine whose contents comprise images produced by users and submitted to the magazine. In addition to the editorial staff, users can influence the choice of images for publication by voting, and qualifying photographers receive a reward of one hundred dollars.

[75] Scoopt: http://www.scoopt.com
[76] ChaCha: http://www.chacha.com/
[77] Amazon Mechanical Turk: http://www.mturk.com/mturk/welcome
[78] Revver: http://www.revver.com
[79] JPGMag: http://jpgmag.com

At the beginning of 2007 YouTube announced that it would start to pay compensation for video screening to the authors of the most popular videos. YouTube says that it will reward creativity. Advertisements will probably be added to the most popular videos, funding part of the rewards[80].

In addition, revenue sharing can be done between different services:

Mash-up services as a form of social media have attracted a lot of publicity. Mash-up refers to a service whose content is formed by combining the contents of two or more services. An example is Chicago Crime[81], which combines the committed crimes and the Google Maps service[82] into a new way of viewing the distribution of crime within the city.

Mash-ups also provide business opportunities. Services can often be established with a very small investment: Most of the needed information technology and software already exists in the services utilised by the mash-up. Large servers or high data transmission capacity are not needed as the information is collected from the original servers. Mash-ups are therefore light to build and maintain.

Mash-ups could serve as a new way of marketing various services. For example, HousingMaps combines classified ads on craigslist[83] with the Google Maps service. Users can view the housing advertisements of private sellers in a way similar to that used by large real estate agents. The mash-up may expedite the sales of housing. Igglo[84] represents a similar model in Finland.

Revenue sharing between different service providers will emerge as a new business opportunity. Because mash-ups increase the efficiency of product sales, it would seem reasonable that the creator of a mash-up received its share of the revenue. A similar model is in place in the Last.fm service. Last.fm player shows the CD in which the currently played song was included in. In addition, it provides the listener with a link to Amazon's e-commerce site. Last.fm receives part of the revenue from Amazon.

Revenue sharing between different operators becomes more difficult should the number information sources increase. What happens if a mash-up combines information from three different sources is an interesting question. What is the appropriate proportion of sharing the revenue? What are the mechanisms for transferring money in such a network? These issues have not yet been unambiguously solved. The expansion of

[80] BBC: http://news.bbc.co.uk/1/hi/business/6305957.stm
[81] Chicago Crime: http://www.chicagocrime.org/
[82] Google Maps: http://maps.google.com
[83] craigslist: http://www.craigslist.org/
[84] Igglo: http://www.igglo.fi

mash-ups creating business depends on whether different parties will be able to agree upon these issues.

In addition to the above-mentioned business challenges, the development of mash-ups involves technological issues. Various applications are implemented using different technologies (mainly different programming and markup languages). In addition, the mash-up's implementor must have the command of all the partial applications and carry out various kinds of conversions and conflict resolutions between contents provided by the services. For example, there are many practices for representing location information, and the conversions between these are not necessarily straightforward.

The technological challenges are linked with issues of responsibility and therefore also with business issues. One of the proposed solutions to facilitate the creation of mash-ups is using some Semantic Web technologies that in order to define content unambiguously and respond to many challenges of compatibility.

It can be considered quite probable that a major player such as Google or Yahoo will create a method, tools, and interfaces for revenue sharing in mash-up services (similar to the PayPal service), and the system will thus become a de facto standard for business based on mash-ups. Yahoo has already a simple service, Yahoo Pipes[85], for building mash-ups. It is likely that in the future the revenue sharing mechanisms will be added to these kinds of tools.

5.3 Underlying technology

There is technology underlying social media services. This technology is related both to usability and the user interface, making the use of the service easier, and to server and database applications running in the background.

The usability of a service is a factor by which social media services differentiate. In many cases, the service that is easiest to use and most comfortable will become the most popular among a group of similar services. Services are seldom unique – copycats will emerge immediately. The first service entering the market is not too often the winner. For example, YouTube offered an easy way to embed videos into any Web page and in this way won over users.

On the other hand, the information technology in the background of the services provides opportunities for "traditional" IT companies. The services often require large numbers of servers, as well as heavy and scalable database structures. This makes it

[85] http://pipes.yahoo.com/pipes/

possible for enterprises selling servers and software to build their business underlying social media services as service providers, for example. By way of example, in October 2006, all significant Web 2.0 enterprises except MySpace utilised MySQL databases in their day-to-day operations.

Mobile phones, terminal devices and in the future, also a persistent wireless network connection, provide social media with a mobile dimension. In this case, the transfer of content back and forth increases the traffic and business of traditional telecom enterprises. The expansion of fixed broadband connections has also filled the revenue gaps of telephone operators. However, enterprises providing data communications capacity should draw up reasonable pricing models: a threat is represented by solutions such as FON and Skype which, once they have reached a critical mass, may wreak havoc on the old business model.

Information security providers surely have a field of work also in social media. Even though social media is partially based on openness, the modification of content and borrowing from others, major services always have substantial information security risks. If money comes into the picture more intensively in the future, this will increase the risks further.

Mash-up services provide a new perspective: these services are built on top of other services. The provider of a mash-up may do well with very lightweight IT solutions as the service utilises the capacity of other services. This allows the creation of an attractive service with modest resources. An example is HousingMaps, which combines classified ads from one source and map services from another.

One very essential technological phenomenon that is already taken for granted in its triviality is the digitalisation of content in general. This is particularly evident in the case of photographs and films. Attitudes and behaviours concerning photography have substantially changed with the transition from paper prints requiring development to digital photographs. The reason is not so much the speed and ease of the image production process – way back in the print era, Polaroid cameras allowed for immediate completion of the products of one's mind. This is rather an issue of the inexpensive price of taking pictures. Taking an individual digital picture does not cost anything, which clearly lowers the threshold for photography. The possibility to share pictures with large crowds at negligible cost also creates new dimensions.

5.4 Social media in professional use

The progress of social media, like most technological innovations today, is fuelled by consumers. The first applications and services cater for private individuals, while any potential professional applications lag behind. There are several explanations for this phenomenon in connection with social media. Enterprises typically have a greatly higher threshold to introduce new applications and services; time and money is spent on investigating the correctness and quality of services. Furthermore, the use of external servers and their software in strategically important operations may be a decisive issue for many enterprises.

However, a variety of methods can be seen through which enterprises could benefit from social media applications and methods in their operations. One approach is the use of social media innovations in an enterprise's internal functions. For example, the use of wiki technologies as a platform for project reporting and other distribution of information is becoming more common. Even this report was edited largely on a wiki. The introduction of wikis and other methods based on open sharing of information will probably be most successful in enterprises in which the atmosphere is already open and which aim at efficient communication between different organisational units. In some cases, new technology can also serve as a "trigger" for a new open way of operation.

After a successful internal launch, the enterprise can consider extending the scope of social media tools and practices towards partner enterprises and customers. Tools and technologies implemented using Web 2.0 technologies are typically very lightweight, they do not require installation on the user's terminal and work with standard browsers. This means that integration between the information systems of different enterprises takes little effort when utilising social media applications. For example, the development of shared documents, time management and customer relationship management in general are processes in which social media solutions might be applicable to enterprise use. This is well in line with the general turning point in work methods that is currently visible: jointly operating partner enterprises can vary their roles as the producers and consumers of information.

Social media applications have a clear advantage compared to many traditional applications: they are often free of charge or at least very inexpensive. Furthermore, the applications are based on open source, providing enterprises with modifiability and transparency. Enterprises must naturally invest in IT support but it costs very little to obtain and test a certain piece of software. This makes it possible to test different applications with a rapid cycle, and turning down a certain application will not result in a loss of investment. All of the funds used for the introduction project can be spent on service content – not on buying or developing software. The payback period is short.

The utilisation of social media in mobile use opens up new ways for enterprises to monitor and manage their employees “in the field”. Mobile employees can produce and share content concerning a variety of tasks in real time with easy-to-use applications. The produced content can be accounted for in enterprise resource planning systems either automatically or manually depending on the case. Also in this approach, social media contributes to enterprise networks. For example, the different functions of a building, such as ventilation, electrical supply and cleaning, are probably the responsibilities of different enterprises. All of these enterprises could share information by using lightweight applications operating with standard browsers. For example, if a cleaner noticed a deficiency in ventilation, he/she could share this with the appropriate enterprise with no effort.

Enterprises can harness the huge potential of social media also at the brand level. By monitoring online writings about themselves, enterprises gain valuable and unfiltered information on how customers feel about them, their products and activities. A step forward is to establish a blog or an online community focusing on the enterprise’s activities or its sector of operation. However, when doing this, an enterprise must be careful in order to retain its own credibility. For example, it should be considered whether to maintain a blog or online community on the enterprise’s own server and under its address, or whether the operations should be outsourced. Furthermore, it must be ensured that users do not categorise the activity as a flog (see the section on Side-effects). Today, substantially more attention must be paid to maintaining credibility.

6. Conclusions

Most social media services do not have a clear business model. The services have been built around a great idea without a conception of who would pay for the idea. The most popular ideas grow so large that they start to live a life of their own. YouTube, for example, with its enormous contents attracts millions of visitors every day and is an interesting investment target for large players. The services also need people who produce content free of charge in order to make the service interesting as such. Some social media pioneers have made money with services having no clear business model: YouTube was sold to Google for 1.3 billion dollars. There are only a few such success stories and there will not be many more – at least not in the same scale.

The most common and at least partially functioning business model in social media applications is advertising. When a new service gains popularity, advertisements are the first thing to step in. Both Google and Yahoo have made it very easy to add advertisements as part of one's own service. Ads by Google are the most popular model among new services. With good luck, advertising revenue can indeed be used to cover the costs of the service. Some services, such as MySpace, become attractive objects for advertising, and advertising rights can create substantial revenue, in the case of MySpace about one billion euros. However, the greatest winners in social media funded by advertising are Google and Yahoo. It is also true that not all social media can be based on advertising.

Good social media business models already in use are subscriptions and the sales of products. A service can be designed as fee-based from the very beginning. The most widely known example is the World of Warcraft game tangential to social media, which is based on monthly fees. The service collects approximately one billion euros of annual revenue from monthly fees. On the other hand, a free service can offer its users better features against payment: Flickr, for example, offers additional features against a small annual fee.

iStockPhoto is an exemplary social media service. The service operates as an online photo agency, mediating inexpensive photographs from photographers to the media. The service is based on payment for the rights to use images. This is known to the photographers and the buyers of photos. The service utilises the power of the masses of social media but is based on a clear way to sell content – this service has a business model.

6.1 Specific issues

Social media should be viewed as a phenomenon rather than a set of technologies. In this publication, Web 2.0 is seen as the technological manifestation of social media. A set of special characteristics describing social media as a phenomenon can be listed. The first one is activeness. The very existence of social media is based on user activeness, whether artistic content production, commenting on existing enterprises or phenomena (either positive or negative), or social networking. The proportions of Web usage are evident from the fact that even though it is estimated that 90% of users merely consume content, there is still enough material to guarantee the success of a large number of social media enterprises.

Identity, privacy and privacy protection are crucial issues related to social media. The Net allows a user to impersonate someone else – on the other hand, his/her identity can be stolen and purchases can be made or even crimes committed in his/her name. Identity-related problems are a subset of the side-effects of social media. Various types of copyright problems and, on the other hand, the production of digital "junk" by social media methods are side-effects that must be addressed in one way or another. Social media applications must gain the trust of users. Trust must also be achieved between users, particularly in applications that involve the transfer of money or that can have a negative impact on the reputation or brand of the parties.

Advertising has been an absolutely necessary factor for the existence and spreading of social media up to the present day. It can be fairly assumed that advertising will continue to play a central role. It will probably take on new forms such as the embodiment of advertisements in other content through various kinds of product placement.

The utilisation of mobility will increase its significance in social media. Mobile devices have so far been utilised mainly in the production of social media, e.g. as a storage medium for photos and videos. Services and earnings models offering social media to mobile users are still to come. In such activities, it is useful to utilise operating situations when distributing information. For example, the physical location or social environment of a user can be utilised for filtering essential information from all of the information available.

6.2 New models

Crowd-sourcing can be seen major possibilities for companies. For example the traditional media has noticed the possibilities of social media: the best social media content corresponds to content created by professionals. Content produced by voluntary

forces has indeed started to become part of traditional media. An example of this is You Witness News by Reuters and Yahoo, bringing user generated images and videos to Reuters' news desks and actual news. In addition, the masses can be used for product development as Lego has done, or doing virtual tasks as in the ChaCha search engine. The next natural step that can be seen is that revenues of new better services are shared between users and services: The best content will be valuable enough for the revenue share to be justified.

The first examples of this exist already: the Scoopt service mediates stories and images for the media against payment. The revenue is shared between the service and the content creator. Money will certainly become part of social media: At the beginning of 2007 YouTube announced that it would start to pay compensation for creativity to the uploaders of the most popular videos. When users are being paid for content, services based entirely on free content may fall into trouble. For example, this may happen to Wikipedia with its strict principles.

Various types of mash-up services provide completely new opportunities for revenue sharing between different services. The services combine different sources of information and create new methods of viewing the information. For example, HousingMaps brings private classified ads on top of a Google map. A new service and view to the information has the potential to increase revenue flows to the services. In such a case the revenue should be shared between different players.

No clear rules have yet evolved nor regulated for revenue sharing, particularly if a mash-up is based on combining three or more services. However, mash-ups provide a lightweight and agile method of building new applications on top of existing ones, and there are interesting business opportunities in such services.

Social media services are often backed by large servers and extensive databases. The services are used over broadband and wireless networks. Enterprises offering traditional information, communication and software technology have good opportunities to succeed with the support of social media. An example of this is MySQL, which underlies most of the significant social media applications. More traditional players will be able to receive their share of the flows of revenue by offering services and solutions to social media enterprises.

Social media tools and methods developed by users can be transferred to the corporate world. The tools are often free of charge and refined by a large number of users. Enterprises can adopt these tools to their own operations with very small investment. Social media tools can also be used to change the working methods of an enterprise by, for example, encouraging openness and networking. The tools also operate in complex

enterprise networks. Enterprises offering these new tools as part of the operations of the corporate world will have business opportunities.

Social media provides many new business opportunities. When designing services, it is also important to develop a business model. You cannot succeed without a model, and advertising is not sufficient to create reasonable revenue, at least not for all players. This is particularly true with small countries and language groups, such as in Finland. The designer of a service can utilise the business models presented in this report. In addition to an innovative idea, someone should be ready to pay for the service, at least through some route.

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Title

"Ads by Google" and other social media business models

Abstract

Social media is becoming more and more attractive to Web users. However, the majority of social media services do not have a clear business model. Typically an innovative idea gives birth to a service, which people can use free of charge. The most common way to create revenue is via advertisements: Google ads appear in many services. In the long run, however, social media has to adopt alternative means for making money.

At the moment there are a few alternative business models, of which four larger themes are reported: Crowd-sourcing, revenue sharing between services and users, developing and selling underlying technologies, and adopting social media tools and approaches for professional use. Some examples of these approaches already exist.

The report also identifies and defines some core concepts of social media, as well as investigates various phenomena co-occurring with social media, namely user activeness, identity, copyrights, mobility, trust, and side-effects. These phenomena should be kept in mind when designing and launching social media products and services.

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