Social Networks and the Business Value of Social Media

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Abstract. Social Media (SM) is a participatory people-to-people media that leverages Web 2.0. Internet technology to facilitate individuals to connect to one another. SM assists in an effective dialogue between users, thus, enabling them to dynamically participate, review and contribute their thoughts, feelings, ideas, photos, videos, among others. Businesses are using SM to see how the products are being reviewed and rated by consumers and what the blogs and discussion boards are telling about their company and its products. Others are building businesses around this technology. By observing several blogs, discussion forums, social networking sites and general websites, we critically evaluate the impact of SM in the development of business. We also argue that description of SM should not be restricted to just social networking sites but must also include sites that bring service providers and customers together. We finally conclude by distilling our interpretations and findings.

Keywords: Social Media, Social Networks, Business Value, Online Social Networks

1. Introduction

Social Media (SM) is the product of people's desire to connect. Millions of people use clicks on their computers to form relationships with other people using social networking sites, blogs, micro blogs, photos sharing, video sharing, online games, news, etc. SM also spans online platforms that results in social production. Wikipedia (www.wikipedia.com) is a good example of this. It is inexpensive as it does not require the costs of setting up a traditional printing press with paid employees and reporters. This media, with its manifestations, has opened unlimited doors for business development. Business development could be for developing business network, for product or services marketing or for starting a SM site itself. For an individual (e.g. an entrepreneur) it is important to see where he finds himself in the network – how many strong and weak ties he has [1]. The larger his network, more are the opportunities for creativity and business development. In Social Networks the focus is on the relationship and ties than on the attributes of the nodes (individual or organization) [2].

SM facilitates companies with a necessary tool set for developing, improving and sustaining their business, not to mention the invaluable channel for social good such as fund raising, volunteer development, activism, etc. SM plays pivotal role in entrepreneurship and it is being increasingly recognized that entrepreneurs embed their business decisions in social structures [3]. Entrepreneurs use relations and networking to get advice and resources to launch a business ([4-6]. A research carried out to study the importance of social relations in the business development process found that entrepreneurs are embedded in networks and they rely on their family and business relations to set-up and develop their businesses [7, 8].

This media has given a platform for people to communicate in horizontal with one another through multimedia (text, photos, videos, music,etc.) capabilities. So much so that people have become social reporters and publishers themselves. The technology is barely a decade old but its impact could be gauged from the fact that just one SM site, Facebook (www.facebook.com), added 100 million users in only 8 months [9]. Technology as influential, self-participatory, engaging and addictive as this is creating thinking shifts, similar to those created by radio, televisions and internet in the past.

Through online media and technologies SM gives an individual tremendous power to interact, participate and build his or her network. Companies are leveraging SM to recruit talented people into their organization. Social Network website, Linkedin (www.linkedin.com), has 100 million users and is growing at the rate of close to 1 million users per week [10]. A recent Social Recruiting Survey found that about 78.3% of the companies were using Linkedin site as the primary tool for recruitment of their employees [11]. Proper development of Social capital is a determinant in career improvement and business success and web tools like Linkedin help individuals improve their ties by effectively using SM. [12, 13]

There is buzz created because of the sheer number of people engaging in this form of media. As SM is new on the market, there are hardly any best practices. Hence, most of the companies are still dabbling with the fundamental questions – what are the best tactics to use, how to measure the effectiveness of SM and others. The aim of this study is to understand the present status of SM as a driver that adds value to business. We apply two parameters to see business value – Running a Online Social Network Business and Business Networks. Based on our findings, we give our concluding remarks.

2. Research Design

We carried out a cross-sectional study of 20 websites which included general websites, social networking sites, discussion forum and blogs

List of these sites are given below:

Wikipedia.com	Facebook.com	Google.com	Ebay.com	Linkedin.com
Youtube.com	Flickr.com	Xing.com	Happyschoolsblog.com	Elance.com
Twitter.com	Plentyoffish.com	Traderji.com	Clickbank.com	Xing.com

In addition to the above 20 sites, several other websites were browsed for the purpose of developing our understanding. Based on the content analysis and observation of these websites, we develop our argument on two aspects of SM's business value – Running an SM business and business networks

3. Findings and Discussions

3.1. Running a SM Business

Although Social network does not cost (or costs little in terms of the time, internet and electricity usage) a user, these in itself are huge businesses commanding billions of dollars of market value. For example, Facebook with 600 million active monthly users is worth over 50 billion (although various market studies value it lower). Owners of social networking sites are receiving millions of dollars of funding. Investors hope that the future of these sites is promising and they would be able to find a sustainable way to monetize the traffic coming into these sites. Google (www.google.com) found a remarkable way to monetize their Search, through Adsense and Adwards (PPC - pay per click). Similar model is being searched by the Social networking and SM sites. However, despite the fact that these sites command such huge valuations, their earnings have not kept up to their valuations. Facebook, the leader among social networking sites, had a total revenue of US 2 billion in 2010, which is 5% of its total market valuation. Facebook has done far better than most of its peers when it comes to increase in its revenue in proportion to its market value. Facebook was worth US$ 15 billion and had a revenue of about US$350 in 2008 which is just over 2% of its total market value in 2008. In 2011, Facebook expects a profit of over US$ 1 billion [14]. However, many of the other SM sites are yet to see profits.

The founder of Facebook, Mark Zuckerberg, who is all of just 25 years of age and commands a several billion dollars in networth, started his business in the University dorm. He dropped out of University and moved to Silicon Valley in 2004 to grow his business. Facebook is a wonderful example of how a creative idea can turn out to be a business phenomenon. Mark Zuckerberg developed the initial Facebook application with the help of his class friends, that let people interact and share photos. Facebook soon grew at geometrical pace, getting out from the confines of campuses, to break barriers of countries and continents. The ideas was simple – people found a great communication vehicle in Facebook. Today, Facebook is the most active social networking site, followed by MySpace (www.myspace.com).

Wiki Technology provides a collaborative platform. The technology is also used for research discussions, for project management, among others. With over 3.6 million english articles, Wikipedia is the world's biggest and most dynamic (updated frequently) encyclopedia. For example, when A.R. Rahman won the Academy Award in 2009 for composing music for *Slumdog Millionare*, his Wikipedia page was updated within minutes. Such fast updating in traditional encyclopedia, i.e. Britannica, would not be possible.

Site called Xing (www.xing.com) uses a model that brings business professionals together for sharing ideas, offering jobs and other opportunities. Similarly, sites like Youtube, Twitter, Flickr and thousands of others have implemented successful business models to use SM as a business in itself. There is competition to give people a new way to communicate and interact, and carve out a business for themselves in that process. For the SM site owner it is all about getting the traffic and more is always better. Dating sites like Plentyoffish (www.plentyoffish.com) give platform to people interested in dating without charging a penny. Run by a single person until 2009, it is now one of the biggest dating sites, bigger than any other paid site. The concept of people to pay to use the services is slowly disappearing. Now people are finding new revenue models by opening up the site for free to all and then monetizing the site to referral and PPC marketing.

Sites are being developed to address the expectation of a specific community. Traderji(www.traderji.com) is one of the biggest forums of Indian stock traders where users discuss their trading strategies. Similarly, Happyschoolsblog (www.happyschoolsblog.com) is a platform for people interested in studying and working in USA. Through this site blog members users get tips and interact on a specific topic or issue. In the 2009 H1B application (work permit for foreigners to work in USA) processing by USCIS, Happyschoolblog turned out to be one of the popular sites tracking USCIS updates on application processing. With over 800 posts by active members who had applied for H1B work visa, it was a good way to know how the applications were being processed by USCIS and what responses they were giving to the applicants.

While setting up a business, developing and running SM websites are seeing success and sustainability, there is a flip side – several enthusiastic entrepreneurs are starting their sites with all pomp and glamour only to see their interest dwindle when they fail to attract eyeballs. Thousands of SM sites are falling by the wayside as they have nothing new to attract users.

SM is not only about discussions, reviews, etc. Let us take an example of Elance (www.elance.com). It is a site that brings service providers and those wanting these services, together. Let us take an example of someone requiring a website on *yoga* to be developed. The customer puts the requirement on elance and the providers having expertise in website design, then submit a quote. The customer then chooses a suitable service provider based on his budget and time requirements, and offers the job. The money for the project is deposited in the escrow account maintained by elance and delivered on completion of the job to the service provider. Now, once the job is over, the individual who had demanded the service has the right to submit the review. This review is very crucial for the service provider as on it depends his likelihood of getting future jobs (or contracts). Sites bringing the service providers and customers together has been one of the highlights of e-commerce. This kind of media is nothing but SM doing commercial talk. Interactions, connectedness, reviews, user generated data, etc., which are hallmarks of SM are also ingrained in these type of sites. More importantly, unlike online social networking sites, that has millions of users but no foolproof revenue model as of date, these sites have clear revenue model and are making money.

Hence, we argue that sites that bring service providers and customers together must also be brought under the ambit of SM. Furthermore, the future of SM sites would depend on bringing both the traffic and a clear revenue model. Google, ebay (www.ebay.com), clickbank (www.clickbank.com), etc, have had a clear revenue models and have thrived on the online scene. However, Youtube with millions of users logging in daily, does not yet have a clear revenue model and has been giving millions of loss (at least till 2009) to Google. Hence it is not just the traffic, but also the revenue model. SM sites will have to work real hard to create a profitable revenue model like that of ebay and elance.

3.2. Business Networks

This is a burning topic that all the business owners are sitting up and taking notice. We have mentioned about Xing in our discussion earlier.

Let's take an example. If A wants to buy a Pizza Franchise and A knows B. B knows C who is a master franchisor for pizza chain. Then A would be able to get in contact with C through B and the deal may be struck (see fig 1). This is the power of network. Social networking has been crucial in the journey of an enterprise.
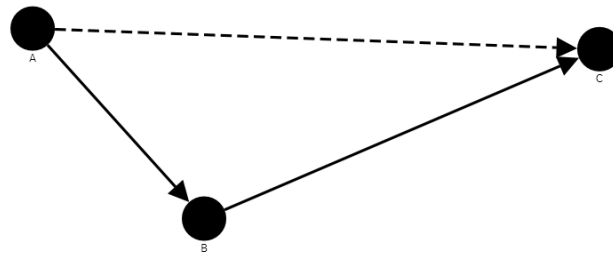

Fig 1: A Representation of Business Networks

An entrepreneur who is better networked stands a much better chance of taking his company forward – right from getting a VC to finance his project to getting new assignments/projects for execution. Networking is required at every stage. There have been lots of researches done to link social networking with the success of an enterprise.

Findings of an international study lead by Arent Greve[8] of The Norwegian School of Economics and Business Administration, confirmed the role of social networking in entrepreneurship. In this structural study it was found that networks help entrepreneurs to set up a firm, develop and sustain it. For those planning to start a firm, the study divided them into four phases, namely, Phase 1: motivated to start the business, Phase 2 : planning the business, Phase 3a: establishing a firm and Phase 3b: taking over a firm. The study found that entrepreneurs have the smallest discussion network size in Phase 1 and the largest in Phase 2. This is probably because during motivation phase (Phase 1), the discussion are generally within the family (parents, kins) and very close friends. In Phase 2 entrepreneurs are busy adding and developing contacts hence their discussions networks are largest in this phase. When the entrepreneur enters Phase 3, he reduces his discussion network to more important and more helpful people. The study also showed that discussion network size significantly differed from country to country. US entrepreneurs had the largest network size and Norwegian the smallest. Study also found significant gender difference. Female entrepreneurs with self-employed parents tend to have more family members (kins) in their discussion network and also that female entrepreneurs have more contacts than males. Entrepreneurs spend most time developing relations in phase 2 and least time in phase 1. Similar results were found while maintaining relationships.

There are many applications that specialize on the abilities of sites like Twitter and Linkedin. For example applications like Twitterfeed and Tweetlater help people using Twitter application to plan-out their tweets. With Twitter one can send short message of approx 140 characters or less to the group that follows him/her. The concept of "SM-blogging" takes to mobile phones where people can just comment through the use of SMS service (or SMS-like service) on their mobile phone. Essentially Twitter liberates a perom from the mobility limitations of desktops or laptops. Furthermore, applications lke bit.ly help to shorten url to be embedded in tweets.

It is necessary here to mention that SM is still confined to computer literates and among computer literates too the reach is not 100%. Hence, when using SM to develop business relationship, it is important to note that not all consumers are out there 'listening' to them. There are many who are at the 'bottom of pyramid' or just computer illiterates who are still disconnected from SM but could be an extremely important contact or a potential customer.

4. Conclusions

SM usage in business development is beginning to be understood by companies. Companies are trying to gauge the popularity of their products and their brand name by looking through forums, blogs, booking marking sites, video sites and other SM sites. The success of sites like Facebook, Twitter and Youtube are

classic examples to demonstrate that big businesses are built on simple ideas. In the case of SM, it is giving the user the power to share, collaborate and interact. If one can find a unique and simple way to make people share, communicate and collaborate, he can also set up a new SM site. Networks matter in business and there is reliance on these networks for developing and maintaining relations. SM has made this quite simple, easy and fast. Today's new entrepreneurs and those with established businesses can tap into the limitless possibilities of online social networking.

5. Acknowledgements

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