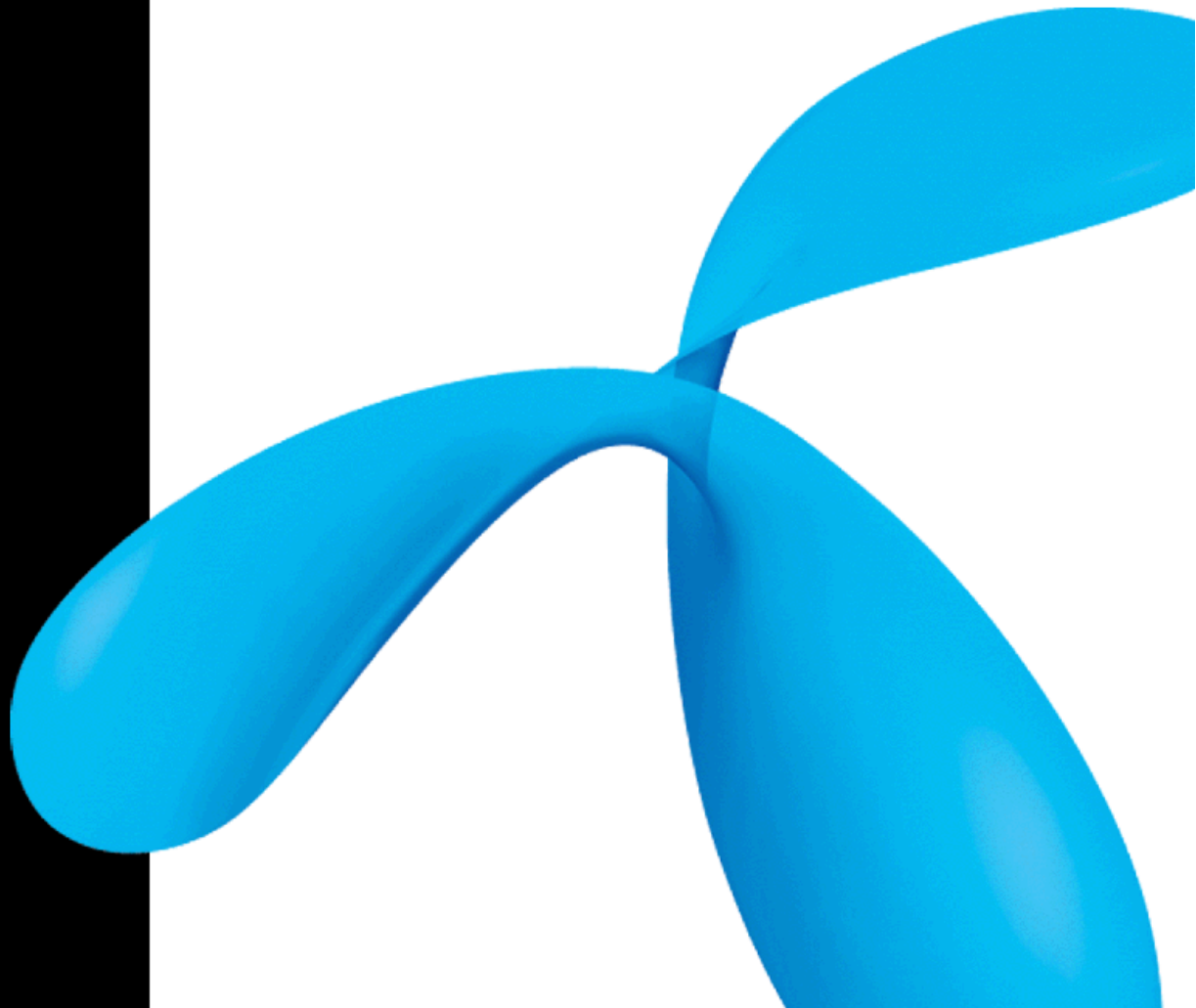


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Inger Gløersen and Phillip Ip

# Business models in Online Communities - a case study





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## **Abstract**

Online communities are social networks consisting of members on the Internet who share common interests on a regular basis. Prior research have focused mainly on service development aspects and social aspects of online communities, but the field of business models in online communities is still an unexplored area. The main purpose of this paper is to achieve a better understanding of the phenomenon of online communities and their business models, and to develop constructs and frameworks for an in-depth study in a master thesis.

A qualitative research method is used, which is suitable when exploring a new phenomenon. Given the little literature on the subject, a theory building strategy based on a case study was set as a frame for the research process. Four online communities were selected for the case study: MySpace, YouTube, Cyworld and Fridae. Different criteria were set for the selection, one being that they represent a diversity of the population. In order to capture information on the business models of each case, observation and archival studies were chosen as research methods. We would like to emphasise that these methods do not give us all information of the companies' business models, and this is a weakness of the results.

There exists a diversity of online communities. However, we have limited the research to focus on online communities where business models can be identified. Further, various theories exist on business model framework, but we have chosen a nine-element business model framework with a high level of detail and appliance to Internet businesses. The elements in this framework are the company's: value proposition, target customer, distribution channel, customer relationship, value configuration, capability, partnership, revenue model and cost structure. Online communities operate with a mediation technology, and are part of a value system. The value system is important to understand in order to reveal different roles of various actors in the external environment of the business model.

The results from the case study revealed that there were many differences and similarities between the four business models. The value proposition can be directed to both regular and commercial customers, and is highly case specific. Common values are interaction with people and easy access to content and information. The target customers were also case specific, but we have seen that the companies cater both the mass and the niche markets, and that each niche can be geographically and

demographically diverse. The distribution channels are coming closer to the customer, and mobile presence is emerging. Customer relationships are enhanced through trust and various strategies of increasing switching costs. The value configuration of an online community is a value network, where the activities are performed simultaneously. The main capabilities of an online community are the valuable database of members, the software, the infrastructure and the brand. Partnerships can give the companies access to capabilities they do not have in-house, ranging from service providers to network providers. The revenue models covered advertising, selling and cuts of transaction of services as the main revenue streams. Monitoring, storage, maintenance and product development constitute the major part of the cost structure of online communities.

We have found that certain differentiation strategies will give a higher pricing flexibility of the services offered to the customers. In addition, a higher degree of member involvement and trust will also affect the pricing flexibility. Further, the membership cycle requires various customer relationships, and we have seen that members are reached both offline and online. In order to retain the customers, high switching costs through emotional attachment to the content and established member relationships is an effective strategy. We see an increasing convergence of Internet services in the online communities, and the positive network externalities obtained from this is a result of the established critical mass in the networks. We have also found that reaching the critical mass will affect the ability to generate revenue from a variety of revenue streams. In order to fully understand the magnitude of network externalities, we argue that the value system perspective for online communities should be applied. In an in-depth study in our master thesis, the frameworks for business models and value systems for online communities, which was an important goal for this research, will serve as a basis. Our research has revealed many interesting areas, but many questions remain unanswered. It is therefore recommended that business models in online communities are studied more extensively in future research.

### **Keywords**

Business Model, Online Communities

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## Preface

This paper is written as the project assignment in the course TIØ 4710 Business administration at the Norwegian University of Science and Technology (NUST), by students at the Institute of Industrial Economy and Technology Management. This is a preparatory study for the subsequent in-depth study in the master thesis.

The subject for this paper was selected through discussion with Telenor R&I, the employer for the project. Telenor ASA is a Norwegian telecommunication company which operates internationally in a constantly changing competitive landscape. New actors from different businesses enter the same value systems, and it becomes harder to draw a line between industries.

Online communities are a rapidly growing phenomenon, which attracts a diversity of industries. It represents a new type of product development where the user stands for most of the content development. With all the personal information the user reveals when using the product, online communities have become a market channel and trendsetter which creates opportunities for actors like Telenor. On this basis, we decided to explore different business models in online communities, and develop an overview over connections and differences in the business models. In order to understand the environment the business models operate in, which will be of great importance in a subsequent master thesis, we also wanted to see online communities in a value system perspective.

We would like to thank our supervisor at NUST, Per Jonny Nesse, for his guidance throughout the process of writing this paper. His connection to both the academic field of business models, and the practical field of telecommunication at Telenor, has been rewarding. Further, we would like to thank Kristin Braa and Wenche Nag at Telenor R&I (Kuala Lumpur) for initiating the co-operation with us, and for their helpful guidance. Finally we would like to thank Hilde Lovett at Telenor R&I (Oslo) for being a great support.

Trondheim, December 20<sup>th</sup>, 2006





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# 1 Introduction

News Corporation acquired the online community MySpace for US\$580 million last year, Google recently valued MySpace's competitor YouTube to US\$1,65 billion, and still the business world awaits any significant profit from the two companies. On the other side of the world, Asian online communities like Cyworld and Fridae have managed to generate revenues from their members, proving the profit possibilities of online communities. The high valuation of the online communities is without doubt a reflection of this potential prosperity. However, it has not always been like this. Many online communities started without a defined business model or any initial goals of profit. Thus, the debate on business models in online communities have not reached the academic arena until recently, and established theories on the subject is yet to come.

The phenomenon Online communities is not a novelty, and has been the subject for various angles of research. Preece (2000) has made a thorough description of online communities usability, focusing much on the social aspects of being part of it. She touches many important factors a company should consider when creating a business model for an online community, but the discussion falls back to the usability of software design. In Kim's (2000) "*Community building on the web*", a detailed description of how to build an online community is systematically covered. However, even though she reveals important aspects in a business model, she lacks aspects such as revenues streams and costs. These areas however, are well covered in the acknowledged book "*Net Gain*" by Hagel and Armstrong (1997), which focuses mainly on the profit aspect of online communities. What is common for all these theories is that they do not discuss a common framework for business models in online communities. The reason for this can be many; the business models for online communities are unclear when it comes to *how* to make profits (O'Murchu et al., 2004), and there are so many online communities that they will have difficulties in generating money (Allen, 3. Feb. 2004). The speculations that online communities are a bubble have so far been proven wrong, and the battle for members has forced the online communities to make important strategic choices. Krieger (2003) emphasises that the key to success for a community-based business model is not only to capture profit, but also to generate value. The trick is to know how this value can be translated into profit.

Literature has so far left a gap that has given incentives to investigate a present phenomenon in a new perspective. The research question for the paper is thus the following:

*Q: How are business models in online communities?*

To answer this question, a case study of the four cases MySpace, YouTube, Cyworld and Fridae has been conducted, with the use of a business model framework developed by Osterwalder (2004).

This paper will start with a description of the methods used in the research process, followed by a theoretical overview of the constructs and frameworks that will be used. Further, a presentation of the results from the case study research of the four selected cases will be given. Then the results will be discussed, focusing on development of new constructs and frameworks that passes for all the cases. Based on this, a general overview of a business model for online communities will be suggested, followed by a conclusion of the research.

## 1.1 Purpose and scope of the paper

This paper is a preparatory study for a master thesis in international business development. The main purpose is to:

*Achieve a better understanding of the phenomenon online community and their business models, and develop constructs and framework for the master thesis*

In addition we want to see outside the business models, and view online communities in a value system perspective.

Due to limited access to for instance business sensitive information, this paper will have some limitations. The areas which are not observable and where there exists little written information to the public will not be fully covered. The scope of this paper is based on public or observable information, thus some parts of the business model will be more emphasised than others. However, this is not solely due to limitation of access to information, but also the fact that some parts of the business models are more relevant regarding the master thesis. It is not the intention of this paper to describe every detail in all of the cases, but

rather focus on the concept of online community as a whole and go into detail when necessary.

We also acknowledge the complexity of online communities and the fact that actors' roles are very often blurred. This leads to many possible perspectives. In the world of online communities, both the consumers and the commercial actors can be viewed upon as the customer. In this case however, we have chosen to focus on regular consumer as the target customers, but we will comment briefly where commercial customers significantly play an important role.

When it comes to the financial aspect in the cases, there has been a challenge to understand the whole picture due to scarce information. The companies usually do not want to comment on their pricing and cost structure. Assumptions have therefore been made, and we have described general ideas about the most important issues within the revenue and cost model.

## 2 Methods

Methods are research procedures, and this chapter will give an overview of the methods used in our research. Inductive and deductive procedures can be chosen (Ringdal, 2001). The inductive procedure was used to explore new concepts, as there exists little research on the chosen problem area. The results from this procedure have been definitions of central constructs, and development of the research question. The deductive procedure was used when analysing the results of the research, where prior theories have been compared to the findings.

Further, we have chosen a qualitative research method, which is suitable when the research question concerns the understanding of a phenomenon, rather than the causal relations (Tjora, 2006). This is an exploring method, which allows the researcher to start with open definitions of concepts, narrow them down through research, develop meaning to them and finally define them. The method is used in order to give an overall perspective of a complex and detailed picture; hence the data collecting methods are flexible and sensitive to the social context. (Ringdal, 2001)

According to Yin (1989) there are five main research strategies: experiments, surveys, archival analysis, histories and case studies, and they can be used for three purposes: exploratory, descriptive or explanatory. Each strategy has a distinctive characteristic. However, the boundaries between them are not clear and may overlap. When choosing a research strategy one can question the three conditions proposed by Yin (1989): 1) the type of research question, 2) the control the researcher has over the actual events, 3) focus on a present or a historical phenomenon:

- 1) Our research question points to *how* business models for online communities are, thus it addresses the operational links and relations within the field. Case studies, experiments and stories are recommended for this type of research question.
- 2) The relevant behaviour in the research field cannot be manipulated. All strategies except experiment are recommended here.
- 3) In this paper, present events are examined. Case study, experiment, survey and in some cases archival analysis can be applied here.



From the conditions presented, *only case study* covers all requirements; hence we have chosen case studies as our research strategy. Through a case study, we will explore a present phenomenon, namely online communities and the business models used.

## 2.1 Case study theory

A case study is not a method, but a choice of objects to be studied (Stake, 1994). It is the techniques used to collect data from the case which are the methods. Yin (1989) defines a case study as an empirical inquiry that:

- *investigates a contemporary phenomenon within its real-life context; when*
- *the boundaries between phenomenon and context are not clearly evident; and in which*
- *multiple sources of evidence are used"*

(Yin, 1989)

A case study can involve one or several cases and different levels of analysis. It has the advantage that it can combine different types of data collecting methods, such as archives, interviews, surveys and observation (Eisenhardt, 1989; Yin, 1989). Case studies can be seen as a small step toward a generalisation, but there are some limitations and dangers in generalising all research (Stake, 1994). The same author emphasises that one should design the study in order to optimise the *understanding* for each case and not the further generalisation. A case study can be both the process of learning and the product of what you have learned (Stake, 1994). One disadvantage of the strategy is that it can be informally manipulated. The researcher can have biased opinions and influence the direction and results of the study. If few cases are studied, it is difficult to generalise scientifically. However, it is possible to generalise theoretical propositions, though not on larger populations (Yin, 1989). Another disadvantage may appear if one focuses on theory building or generalisation to such an extent that it obstructs the understanding of the specific case (Stake, 1994). It is important to understand how long and how deeply the case should be studied, and this is up to the individual researcher to choose.

When conducting research, a process developed by Eisenhardt (1989) can be applied. This is a process with the goal of building theory from case study

research. It is an iterative process, which makes it possible to build new theory. The method should be used when:

- There is little literature available on the field or one wants to look at the field in a different perspective: we have only found scarce literature on business models in online communities. Most of the literature only describes part of a business model.
- There are no theories on the area (since the method creates new theories): there are theories on business models frameworks, but not specifically for online communities.
- A phenomenon is in its early stages: new business models are emerging in online communities, and the competitive landscape is changing.

Based on this argumentation we decided to choose Eisenhardt's research process.

## 2.2 The research process

Eisenhardt's (1989) research process has eight steps. In the following we review the methods we have used in each of these steps:

### **1) Getting started - definition of research question and definition of constructs**

We defined the industry we wanted to focus on, online communities, in collaboration with Telenor R&I in August 2006. An initial research question was developed, and approved by the supervisor at NUST and contact persons at Telenor shortly after. Eisenhardt (1989) stresses the importance of making a broad definition of the initial research question, as this makes it easier to develop new theories based on the cases.

Further, we developed definitions on the constructs we were going to use, based on secondary literature such as articles and books available on the subject. This included definitions of constructs within the field of online communities, and value network and value systems. We also made a literature study on different frameworks available on the business model concept. The choice of Osterwalder's (2004) business model framework was based on a general evaluation where the level of the detailed information it provided on the concept and the relevance for ICT businesses like online communities were deciding factors.

## 2) Selecting cases - specification of population

We have chosen a collective case study as it gives a better understanding and enables theorising. It is often used to understand a phenomenon, population, or general condition (Stake, 1994). Eisenhardt (1989) recommends between four and 10 cases. The choice of population is important, as it defines the boundaries for generalisation of the findings. When the purpose of the research is to build a theory, it is important *not* to choose the cases randomly. They are chosen for theoretical, not statistical reasons (Eisenhardt, 1989). In order to understand the critical phenomena that you intend to study, it is important to choose the right cases, as the cases are opportunities to study the phenomena. Hence, the cases should be chosen to represent some population of cases. Often many cases have a typicality which can help to explain a phenomena, however it is important to select the cases which offer "*the opportunity to learn*" (Stake, 1994). It can be easier to learn from an atypical case than a typical case. With these recommendations in mind, we developed the following criteria for the case selection:

1. Population: social networking services (SNS).
2. Not an SNS directed *only* to the business or school audience.
3. A significant number of members. Minimum 100 000.
4. Something unique about the business model for each case, to create a diverse selection of business models
5. Secondary data available on the case
6. High interaction between individuals within the community
7. Shared interests among the members
8. Relevancy to the master thesis
9. Approved by the employer; Telenor R&I Malaysia

Using these criteria, we screened a list of 150 different online communities. Most of the cases were dismissed due to criterion number 3: number of members. Many were also dismissed based on criteria number 2 and 5. Finally, we had a list of 15 cases which were examined more closely and then presented to our employer. Through discussion, we decided on four cases which all satisfied the nine criteria. The number of cases are in accordance with Eisenhardt (1989), and also dictated by our time limitation of the paper. The cases chosen were:

- MySpace.com

- YouTube.com
- Cyworld.com
- Fridae.com

### **3) Crafting instruments and protocols - different data collecting methods**

The more methods, the more valid will the constructs and hypotheses be (Eisenhardt, 1989). We have chosen a qualitative study, and used different data collecting methods such as archival analysis, and passive and active observations. The reason we have used several methods, is to validate our results, and reduce the possibility of misinterpretation.

It is important to be aware of the different starting points each researcher may have. These personal qualities are defined as the researcher's *theoretical sensitivity* and concern what the researcher knows/has experienced prior to the research, and during the research. (Strauss and Carbin, 1990). It helps the researcher to obtain insight and understanding, as well as to develop new theories faster and better. In order to keep a balance between creativity and science, and be able to develop a valid and reliable theory, it is important to be sceptical to the data and follow the research routines (Strauss and Carbin, 1990). Eisenhardt (1994) also emphasises the importance of being more than one researcher, as the researchers may have different theoretical sensitivity and they may complement each other on creativity, insight and other qualities. We find that being two researchers on this research project contributes to validating the results, given that we have varying experiences in the field and hence different theoretical sensitivities.

#### **Observation of the cases**

*Observation* is what a person notices. Observation becomes data when it is placed in system with other prior observations. In order to change observations into data one has to choose and categorise what one notices (Wadel, 1991). We have observed the four cases in both a passive and active way; as will be described under point 4 in this chapter. It can be difficult to observe the rules of the game without knowing them in advance. It is therefore important to try to find certain patterns, not only the rules of the game (Wadel, 1991).

Observation can in many ways be a preferred method to interview, as it is not the interview person who constructs the data. Instead, the observer finds the data. The method reveals everyday life, however; it does not reveal what goes on inside the observed people's minds. Hence, the observers can only come up with potential solutions. (Dingwall, 1997). We have chosen observation as one of the data collecting methods in this paper because interviews with the companies and a significant number of online community members were not feasible. The time frame and scope of this paper make observation suitable. However, we have chosen to complement observations with archival studies as another data collecting method, in order to validate the data.

### **Archival studies**

Archival studies are what is often called studies of secondary data. Secondary data can be divided into three classifications: process data (books, newspapers, letters, reports etc.), bookkeeping data (accounts, registers etc.) and research data (interviews, surveys, databases etc.) (Ringdal, 2001). In order to validate our observations of the cases, we have used:

- Process data: books and articles found through BIBSYS<sup>1</sup> and online newspapers
- Bookkeeping data: press releases from the cases
- Research data: surveys made by companies monitoring the Internet traffic, research articles

Internet sources have been used to a large extent owing to the newness of the phenomena and the continuous evolution of the social networking sites. However, only valid sources such as acknowledged online newspapers<sup>2</sup>, known Internet traffic monitoring companies<sup>3</sup>, and the companies' own press releases and Internet sites have been used. When searching on the Internet, the mentioned companies' databases have been used. Search words have been chosen based on the areas which needed to be covered in the business model framework and the constructs defined prior to the search.

### **4) Entering the field - overlap of data collecting and analysis**

Some researchers claim that collecting data should be done in parallel with the analysis, in order to dismiss irrelevant data continuously and be able to change

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<sup>1</sup> Search engine of literature available for students at the Norwegian University of Science and Technology: [www.bibsys.no](http://www.bibsys.no)

<sup>2</sup> Such as *The New York Times*, *The Guardian*, *CNN*, *Financial Times* etc.

<sup>3</sup> Such as [alexa.com](http://alexa.com), [comscore.com](http://comscore.com) and [Nielsen.com](http://Nielsen.com)

the data collecting methods and add new questions while being in the field (Eisenhardt, 1989). We have chosen to do a certain degree of overlapping between data collecting and analysis, since we were two researchers and had to synchronise the focus on the cases. The findings had to be categorised and linked to constructs to make it possible to compare the different data. All the categories had to be: *rational* (so they gather what happens), *elementary* (so they cover phenomena which stays unanalysed), and *diverse* (so they can be used in different situations and cultures) (Wadel, 1991). We studied two cases each, and entered both a passive and an active observation role. In the active role we became members of the social networking sites<sup>4</sup>, and studied the possibilities available. We made a personal profile, and interacted with other members. In addition, we had a passive role, where we studied what other members of the communities were doing. In this way we could see the multiple possibilities of the sites, and at the same time see what the users made of these possibilities. All the information given on the cases which does not come from a source comes from these observations.

### **5) Analysing data - within-case analysis, and cross-case patterns**

We made a within-case analysis of each case in order to get an overview of the big volume of data. Eisenhardt (1989) emphasises the importance of this, as it reveals the specific patterns of each case before the researchers search for patterns that can be generalised. We made supporting notes for each case, and structured the data according to the chosen business model framework, which was a nine category framework. It is impossible to tell the whole story of each case, so the researcher has to choose what to focus on (Stake, 1994). We focused on the areas in the business models where information was available, thus some areas are poorly covered. After gathering the data, we conducted a search for cross-case patterns. This is a method where the researchers look at the cases from different angles, and compare different grouping of the cases (Eisenhardt, 1989). We compared two and two cases, and looked for similarities and differences, and finally compared all four cases. This tactic increases the validity of the theory built on the findings and was a successful way of seeing the business models in a new perspective, after focusing on the nine categories in the within-case analysis. It also increases the chances of achieving a level of newness with the findings (Eisenhardt, 1989).

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<sup>4</sup> Except the Korean version of Cyworld, as this requires a Korean social security number. However we joined the U.S. version of Cyworld.

### **6) Shaping hypothesis - iterative process where the evidence is measured with the constructs**

Eisenhardt's (1989) next step is to build new constructs and frameworks based on the case findings. She calls it "shaping hypothesis", but this is not hypothesis testing as we know it from quantitative research. The goal is to make frameworks that can be applied to the cases, though it is important to emphasise that the frameworks cannot necessarily be generalised over a larger population. In order to build the constructs and frameworks, we followed Eisenhardt's (1989) proposal that hypothesis should be shaped through an *iterative* process of comparing them with the data and making new changes for every stage. In that way we could constantly verify that the hypothesis were valid and eventually turn them into new constructs and frameworks. The hypothesis will not appear explicitly in the paper, although the constructs and frameworks developed from them will. Each case was compared to the constructs, not an accumulation of the results from the cases, to make sure that each case would fit within the new constructs and frameworks. Finally, we discussed online communities in a value system perspective, based on the results from the case analysis and Andersen and Fjeldstad's (2003) framework. We had active e-mail correspondence and telephone dialogue with Fjeldstad when we used the framework, in order to confirm that the use of the framework was in line with the theory.

### **7) Enfolding literature - comparison with similar and conflicting literature**

When building new theory, it is important to compare the newly developed theories and constructs with existing literature (Eisenhardt, 1989). Preferably both opposing and confirming literature should be compared to the findings, in order to validate the theory and make it credible. We compared our new constructs and frameworks with literature on online communities, Internet and business models. Most of this literature was written before some of the four cases were founded, which we have taken into consideration.

### **8) Reaching closure**

At some point the researchers have to stop the iteration between literature and data. Eisenhardt (1989) recommends stopping when saturation is achieved, and the changes made are little compared to the effort put into it. We reached a

closure when there were little results gained compared to the effort we put into it, and as time became limited. For those areas we could not cover due to lack of information, we made recommendations for further studies.

## 2.3 Critique of methods

Observation is a biased method, where the researcher's theoretical sensitivity influences what is observed. In order to validate the findings from observation, we have worked in tandem and also referred to archival studies. We see that we in addition could have used interviews with the companies, the users, and experts on the field in order to confirm and validate our observations. However, lack of time and little availability of interview objects restricted us from carrying these out. In our follow-up master thesis, interviews will be used to investigate a specific case in a more thorough manner.

We chose Cyworld as one of the four companies in the case study. The social networking site comes in many different languages, but originally it started in Korea. The Korean site is therefore most developed, however, none of the researchers master the Korean language. In order to get information about Cyworld, we therefore had to use archival studies of the Korean site and observation of the U.S. version of the site. This is censurable, however, we chose the company as it has a unique business model, high revenues, and is a sustainable company with a large member mass. Our employer, Telenor, is also curious about the company.

Despite the limitation of information we had on the four cases, a very detailed business model framework was selected since it made it easier to compare the four business models in the cross-case analysis. We see that it would have been preferable to work with cases where information was available on all the elements of the business model. However, those areas we were able to cover gave valuable insights and a good foundation for further studies. The choice of cases was based on many compromises, where elements like time restriction, approvals from Telenor, and case size criteria narrowed down the case options.

We see that other business model frameworks, like for instance Chesbrough and Rosenbloom (2000), could have given us a satisfactory level of detail, however, Osterwalder (2004) was preferred as it gives the desired level of detail for the in-depth analysis in our master thesis.



## 3 Theory

In this section, the constructs and frameworks used in the paper will be presented. It starts by discussing literature on online communities, followed by a discussion of different business model frameworks, and finally a presentation of the value system perspective. The purpose of this section is to guide the reader through the terminology used in this paper, together with setting boundaries for the scope of the research.

### 3.1 What is an online community?

Many researches regarding online communities have been done the past decade. Smith and Kollock (1999) claims that the concept first grabbed public attention in 1993, which was almost at the same time as the Internet became available to the "common man". But what is really an online community, and what types of communities will be discussed in this paper?

#### 3.1.1 Definition

There exists no overall accepted definition of online communities and the term is understood differently, depending on the frame of reference (Preece, 2000). Online community is sometimes also known as virtual community and the terms are used interchangeably. In order to understand the concept, various definitions will be presented and discussed briefly. First, let us give a proper definition on what a community is:

*"A community refers to a social network with a high degree of interaction and with a common purpose, meaning the nodes in the network have something specific in common. This can be a task, an interest or a purpose."* (Nag, 2006)

This definition comprises two important elements – interaction and common purpose, which has traditionally been conducted face-to-face. However, the emerging of new communication technologies enables these interactions to be carried out independently of geography and time. Because of the extensive use of the Internet for this purpose, many will refer to these as online communities. Preece (2000) uses the term online communities as *"social activity that involves groups of people interacting online. Such communities may be long or short term, large or small, national or international, and completely or only partial virtual."* We find this definition too vague and imprecise, seeing that this

encounters almost all interaction over the Internet. Schubert (1999) defines the concept in a more specific manner:

*"Virtual communities describes the union between individuals or organizations who share common values and interests using electronic media to communicate within a shared semantic space on a regular basis."* (Schubert, 1999)

This definition is in accordance with the general definition of a community from Nag (2006) because it emphasises the same aspects. The shared common values and interests are merely moved to an electronic platform. We find this definition suitable for our purpose and have chosen to use it in this paper. Further, we will turn our attention to online communities where people are connected through user profiles, since that will be the main focus in the master thesis. These online communities are also known as social networking services:

*"A social networking site (SNS) connects and presents people based on information gathered about them, as stored in their user profiles. (...) The most distinguishing factor between the various sites is the range of profile information that they store and can perform operations on".*  
(O'Murchu et al., 2004)

In this paper the term "online communities" will be used when referring to the communities as a whole, including the service, members and content etc. The term social networking service will be used when referring to the service specifically or the company that provides it.

### 3.1.2 Elements in online communities

The Internet is used as a common base for thousands of groups of people who wants to meet and share their knowledge, discuss interests, play games, do business etc. (Smith & Kollock, 1999). According to Preece (2000) there are four important elements that distinguish an online community from the rest of the sites and information you can find online. The first element is *people*, who interact with each other to satisfy social needs. The second is a shared *purpose*. This can be a common interest or need that gives the community a reason for existing. Thirdly she outlines *policies*, as in common rules and rituals on how people are suppose to interact. The final element is *computer systems*, which is the software needed to mediate the interaction.

Many researchers have been curious as to why people join the online communities. Hagel and Armstrong (1997) points out four reasons, the first *interest*. The Internet provides for even the smallest niche interests, and it enables people to share it with others on the other side of the world. The second reason is *relationship*, meaning that people have the needs to share their experiences with others, especially with people who have had similar experiences. The interaction online creates a relationship over time. The third reason is *fantasy*; the need to explore an imaginary world and to be entertained. Many people use online communities to be someone they cannot be in the real world, and to get a break from the daily routines. The final reason to join an online community is *transaction*. These transactions are trading of information between participants, and after Hagel and Armstrong (1997) wrote this, the level of transactions over the Internet has exploded.

### 3.1.3 Classifying online communities

Klang and Olsson (1999) suggest a two-by-two matrix that can be used as a starting point of describing existing online communities, as well as the development of communities over time (see Table 3-1) There are few online communities that exclusively fulfil the criteria in one of the boxes in the matrix, since most of them are hybrid solutions. However, most communities start in one box and moves over to others over time. On one axis, the model is divided into the categories Non-profit and Profit. By Non-profit, the authors mean communities that were started on a non-profit motive/purpose, but it does not mean that the organiser and the members cannot generate profit from the community. The other classification is Company and Non-company. By Company, the authors mean an established legal organisation.

		Intention	
		<i>Non-profit</i>	<i>Profit</i>
Organisation	<i>Company</i>	Forum	Shop
	<i>Non-company</i>	Club	Bazaar

Table 3-1: The static model of virtual communities (Klang and Olsson, 1999)

A typical *forum* is a company's intranet, where all the exchange of information is more on a social basis than on a commercial basis. It is normal that the forums are limited to members who have an access code. The *shop* are commercial online communities, which can be either companies that sell their

product online (both only web-based companies and companies that sell in stores too) or companies that collect information of members and sell them.

The *club* is an online community where information and other data are shared with others in the community without any commercial strings attached. This is typically people who share a common interest or experience. The *bazaar* is a market where everyone can be the buyer or seller. It is not controlled by an organisation, so all members can gain profit. Finally, Klang and Olsson emphasises that online communities are dynamic phenomena, and that the focus of the community can shift.

This paper is a preparatory study for a master thesis in international business development, and the focus will be on online communities where business models can be identified. Forum from the classification presented in Table 3-1, will be excluded from this paper of two reasons: 1) Forums exist and run on intranet which usually requires access codes and 2) the lack of profit aspects in Forums. Thus the focus will be online communities that contain elements of *Club, Bazaar and/or Shop*

### 3.2 What is a business model?

The term business model is understood differently and has therefore also been widely discussed in the literature (Malone et al, 2006). Despite all the discussion, the confusion surrounding the term has not abated. When people talk about business models they tend to refer to components of a business model, such as revenue models or pricing models (Linder and Cantrell, 2000). While others use the terms strategy and business model interchangeably (Schubert and Hampe, 2006). In this section we define the term business and try to capture the essence of what a business model consists of. In the literature, we observe three categories of description of business model (Osterwalder, 2004):

- 1) As an abstract overarching concept
- 2) As taxonomies which emphasise the common characteristics of different models
- 3) As aspects of a particular real world business model.

These three categories are not mutually exclusive. We want however, a generic and conceptual description which can be applied to several cases, thus we have

mainly turned our focus on literature regarding business model as an overarching concept.

### 3.2.1 Definition

A definition given by Chesbrough and Rosenbloom (2002) focuses on the business model's function – which they argued connects the technical potential with the realisation of economic value. They suggest a definition which comprises six sub-functions (see Table 3-2). The work of Chesbrough and Rosenbloom is acknowledged and has been extensively referred to in many articles. Linder and Cantrell (2000) had a slightly different approach in discussing how the term was understood among business executives, which resulted in a model comprising seven elements. Hamel (2000) suggests that the business model concept comprises four larger components. Each component has subcomponents, which covers the areas presented in Table 3-2. He claims that *"all companies have business concept blind spots that prevent them from seeing opportunities for innovation"*, and by questioning each component these blind spots can be removed. When outlining a business model, Linder and Cantrell (2000) put forward similar questions. These questions are for example: Who are the customers? How to we deliver the product? etc.

<b>Osterwalder et al. (2004)</b>	<b>Linder and Cantrell (2000)</b>	<b>Hamel (2000)</b>	<b>Chesbrough and Rosenbloom (2002)</b>
<b>Value proposition</b>	Value proposition	Product/market Scope	Value proposition
<b>Target customer</b>		Market scope	Market segment
<b>Distribution channel</b>	Channel model	Fulfilment and support, Info and insight	
<b>Customer relationship</b>	Commerce relationship	Relationship dynamics	
<b>Value configuration</b>	Commerce process Model	Core processes	Structure of the value chain
<b>Capability</b>		Core competencies	
<b>Partnership</b>		Suppliers, partners	Position in the value chain
<b>Revenue model</b>	Pricing model, Revenue model	Pricing structure	
<b>Cost structure</b>			Cost structure

Table 3-2: Comparison of business model frameworks (Osterwalder, 2004)

A more recent attempt to define and describe the term business model has been made by Osterwalder (2004). By comparing different business model frameworks and studying the components in each of the respective frameworks he suggests the following definition:

*"A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams."(Osterwalder, 2004)*

### 3.2.2 Discussion of business model literature

Osterwalder (2004) identifies the most common building blocks among existing business models in the literature and proposes a conceptual framework for business models, which he refers to as a business model ontology. The ontology comprises nine components. These nine components arise from comparison and extensive review of earlier written literature on business model frameworks. Table 3-2 shows three of the frameworks he examined and compared to his own ontology. There are clearly similarities between all the models, but there are some differences that should be mentioned. The first evident difference is that Osterwalder's ontology is divided into more components than the other frameworks. It is nevertheless important to mention that the components that the other models apparently are lacking, are often included within other components. For instance, Chesbrough and Rosenbloom's (2002) work has fewer components than Osterwalder's, but these components cover in some cases a wider area. As an example, what Chesbrough and Rosenbloom call cost structure includes also the issues addressed under revenue model in Osterwalder's ontology. A second difference between Osterwalder's ontology and the other frameworks is that Osterwalder does not include the external environment of the company in the ontology (thus, this is not an element in his framework in Table 3-2). Hamel (2000) however, focuses on the core strategy of the company compared to its competitors, and Chesbrough and Rosenbloom has a specific component concerning competitive strategy. Osterwalder has excluded elements related to the competitive landscape, since he considers that a company's business model should cover only internal aspects of the company. However, he emphasises that it is important to situate the business model in

the competitive landscape subsequently. Finally, Linder and Cantrell (2000) includes the implementation of the business model in the framework, which Osterwalder argues is outside of the framework itself.

The authors also have different views of how they define each concept within the business models. For instance when Osterwalder (2004) explains value proposition, he divides it into five sub elements: *Description, reasoning, value life cycle, value level* and *price level*. The description and reasoning elements are quite similar to Chesbrough and Rosenbloom's (2000) definition of value proposition which asks the questions "*what is the customer's problem and how can we solve it?*". Hamel (2000) has a diffuse coverage of the value proposition for the customer. He says that "*a company's definition of product/market scope can be a source of business concept innovation when it is quite different from that of traditional competitors*" (Hamel, 2000). In compliance with Hamel, Osterwalder also focuses on how the product differs from the competitors'. However, his framework covers it in a more detailed manner where *price level* is compared to competitors, and *value level* is the utility of the product compared to the value offered by the competitors. Linder and Cantrell (2000) ask: "*what do we offer them?*" and categorises this into: products, services and experiences. This question is the same as Osterwalder's, but as mentioned earlier, Osterwalder does not stop at the description of the offer but describes in detail all elements that create value for the customer.

There may be other conflicting definitions of the different concepts in the business models, and as already mentioned some areas may cover others. However, we have chosen Osterwalder's (2004) nine building blocks as our framework, and the following supports this choice.

### 3.2.3 Why we choose Osterwalder's nine building blocks

Osterwalder's (2004) thorough comparison of different frameworks gives great credibility to his framework. The fact that his conceptual model is relatively new and developed with focus on ICT, makes it suitable for embracing the new business logic which evolves on the Internet. Hence, it is highly relevant to Internet services such as online communities. Osterwalder comes from an IT-background himself and the model has recently been applied to E-business logic (Pigneur, 2006). The framework is more concrete and applicable than other business model frameworks as it divides the business model into smaller and

more explicit components. This makes it easier to recognise similarities and differences between companies and gives a more holistic view. To sum up we have chosen the framework for the following reasons:

- High validity
- ICT relevancy
- High level of detail
- High comparability

### 3.2.4 Presentation of Osterwalder's business model ontology

In the same way as Chesbrough and Rosenbloom (2002), Linder and Cantrell (2000) and Hamel (2000) added questions to each component in their respective model, Pigneur (2006) has also put forward questions to each of Osterwalder's (2004) components. In the following the nine building blocks of Osterwalder accompanied by Pigneur's questions will be presented.

#### **1. Value proposition**

- What do we offer to our customers?
- Gives an overall view of a company's bundle of products and services

#### **2. Target customer**

- Who are our customers?
- Describes the segments of customers a company wants to offer a value to

#### **3. Distribution channel**

- How do we reach them?
- Describes the various means of the company to get in touch with its customers

#### **4. Relationship**

- How do we get and keep them?
- Explains the kind of links a company establishes between itself and its different customer segments

#### **5. Value configuration**

- How do we operate and deliver?
- Describes the arrangement of activities and resources

#### **6. Capability**

- What are our key competencies?
- Outlines the competencies necessary to execute the company's business model



**7. Partner network**

- How do we collaborate?
- Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialise value

**8. Revenue model**

- What are our revenues? Our pricing?
- Describes the way a company makes money through a variety of revenue flows

**9. Cost structure**

- What are our costs?
- Sums up the monetary consequences of the means employed in the business model

*(Osterwalder, 2004; Pigneur, 2006)*

Some of the elements in the business model ontology are more related to each other than others. Osterwalder (2004) has extracted the nine elements from the following four areas:

- **Product:** this refers to the value propositions that are offered to the market, and the business the company operates in.
- **Customer interface:** describes how the company delivers its value proposition to the customers and to whom. The customer interface is divided into three areas which cover all customer related aspects; target customer, channel and relationship.
- **Infrastructure management:** seeks to cover *how* the company creates value. First, it describes the value configuration which is the activities that create and deliver the value. Second, it covers the in-house capabilities which are the companies' resources. And finally it deals with the network of partnerships which helps realising the value.
- **Financial aspects:** describes the company's revenue model and the cost structure.

Figure 3-1 shows the nine elements grouped into the four business areas.

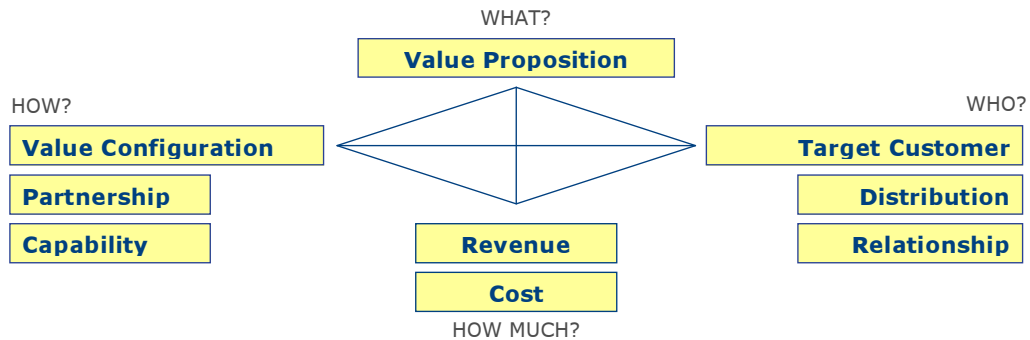


Figure 3-1: Business model, based on Osterwalder (2004) and Pigneur (2006)

How Osterwalder (2004) defines the nine building blocks will be described in more detail when we present the results in the business model framework in chapter 5. However, the value configuration of a firm is case specific and complex, so in order to fully understand this part of the business model, a theoretical review is in its place.

### 3.2.5 Value configuration

According to Stabell and Fjeldstad (1998) firms can create value in three different ways. The first was developed by Porter (1985) and is widely known as The Value Chain. This is an analysis tool that describes a firm's value creation and relations with other firms. Typical firms in this category are firms with long-linked technology, where the activities are separated in time. One firm is the supplier to a buyer, but in the next stage this buyer is the supplier to the next buyer in the chain. The second way is through a Value Shop, which is based on intensive technology (Thompson, 1967). The firms in this category usually solve a customer or client problem, e.g. firms in medicine, engineering, consultancy, law etc. In the value shop, the activities are not sequentially fixed like in the value chain, as each customer problem is treated uniquely. The third and final way is through a Value Network. This view, developed by Stabell and Fjeldstad (1998), is a framework that reviews the value creation based on mediation technology. Mediation technology applies to network economies where the increase of users increases the value of the product/service. Actors in the telecommunication, Internet, finance and logistics industry are typical mediators because they tie together interdependent users. The Value Network looks at three parallel activities: network promotion and contract management,

service provisioning, and infrastructure development. An online community uses mediating technologies like for instance Internet and banking services, and it also creates more value to the users as the community grows bigger. Hence, in this paper we will use the Value Network framework when describing the value configuration of online communities.

### 3.3 Value System

To help understanding the complex environment that online communities exist in, and to get an overview of the actors involved and their roles, this paper will use a value system perspective as a supplement to the companies' business models. Each of the mediator's activities can be modelled in a *value network*, and each industry they are connected with is divided into a vertically layered and horizontally connected *value system*. The value system describes the allocation of work between the actors, and defines the exchange of value between the parts which are relevant for the value of the end product. The value of the end product is more valuable for the customer than the sum of all its parts. The actors who deliver the same product in a value system compete, while the actors who deliver complementary products/activities cooperate in order to maximise the joint value of the delivery to the customer. (Andersen and Fjeldstad, 2003)

Figure 3-2 is an example of a value system where the activities are layered and interconnected. The actors in each layer transfer specific objects/data and create value horizontally by coordinating their businesses. This is called connectivity. The vertical layers are complimentary, where the demand in one layer increases the demand in the other. This is called conductivity. A layer is dependent on the layers beneath to be able to deliver value to the customers. In this example, the customers want to transfer information to each other, coordinate activities and carry out transactions with their mobile phones. This requires mediators that coordinate and transfer the wanted information and handle the money transactions. Both customers must have a mobile phone from an equipment vendor. The customer on the left in the figure has a connection to all the actors on the vertical column on the left side, and the customer on the right has a connection to all of the actors on the column on the right side. When a customer sends information to another customer the transaction between them starts horizontally. If one of them buys content from a content provider, transactions are made through a payment provider and a

content merchant. The infrastructure needed to perform all the transactions are the two lowest layers; virtual operator and network operator. The SMS/WAP host enables the final transaction of content to the customer. (Andersen and Fjeldstad, 2003)

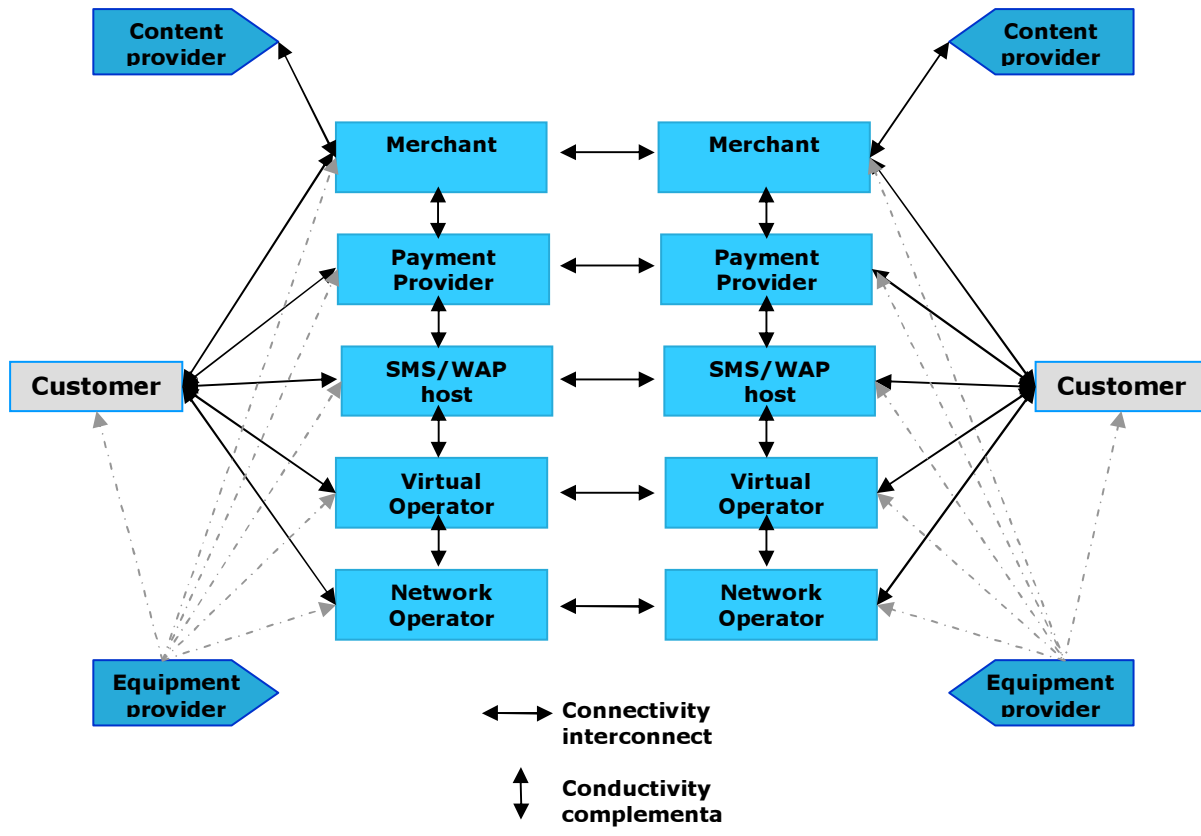


Figure 3-2: The value system of mobile content (Andersen and Fjeldstad, 2003)

## 4 Short facts about the cases



MySpace was founded in 2003 by Chris DeWolfe (CEO) and Tom Anderson (president), and has grown to become one of the biggest social networking service in the world. The company was acquired in July 2005 for US\$580 million by Rupert Murdoch's News Corporation (the parent company of Fox Broadcasting and other media enterprises). It is headquartered in Santa Monica, California, while its parent company is headquartered in New York City, where it also has a back-up server. MySpace has 131 million profiles (MySpace, 22.Nov.2006).



YouTube is a consumer media company for people to watch and share videos worldwide. The company was founded in February 2005 by Chad Hurley, Steve Chen, and Jawed Karim in San Bruno, California, USA. At present, YouTube is one of the fastest-growing websites on the Internet - ranked 15th most popular website in Norway, 7th most popular in US and 9th most popular globally. (Alexa.com, 24.Oct.2006) In June 2006 2.5 billion videos were watched at YouTube (USA today, 16.July 2006). YouTube was recently acquired by Google for US\$1.65 billion (NY Daily News, 10.Oct. 2006)



Fridae was founded in 2001 by co-founder Dr. Stuart Koe (CEO), a pharmacist born and raised in Singapore who completed some of his medical studies in the US (fridae.com, 13.Oct.2006). In the U.S. he saw the openness of the homosexual community and wanted to bring this back to Asia. Hence, he started Fridae, a community made to empower gay Asia. Fridae Limited is incorporated in Hong Kong based company, with a subsidiary in Singapore. The company is owned by SAR, its holding company. Fridae has 167 000 profiles (Fridae, 20.Oct.2006), and attracts 380,000 unique browsers and 50 million page impressions every month (Fridae.com, 13.Oct.2006).



Cyworld is a South Korean social networking service founded in 1999 by four graduates of the Korea Advanced Institute of Science and Technology. SK Communications bought Cyworld for US\$8.5 million in 2003. There are 20 million users in South Korea, a whopping 40 percent of the country's total population. 96 percent of the population between 20 to 29 year olds use the site regularly. With 100 000 daily video uploads, Cyworld actually has more traffic than the highly touted YouTube (U.S. News, 11.Sept. 2006). This year, Cyworld expects to generate over \$140 million in sales (IBT, 31. July 2006). Today, Cyworld operates its site in the United States, China, Vietnam, Japan, Taiwan, Germany as well as South Korea.

## 5 Results from case study

In this section the results from the case study of MySpace, YouTube, Cyworld and Fridae will be presented. Osterwalder's (2004) business model ontology is used to describe the business models, the same attributes that he recommends in his dissertation is used. We have chosen to make an ongoing comparison of the four cases, and finally sum-up the findings from each case in a table in the end of this chapter.

### 5.1 Value proposition

Osterwalder (2004) uses the term value proposition when he refers to the overall view of the firm's bundles of product and services that together represent a value for a specific customer segment. The value proposition comprises elementary offerings which have five attributes: *description*, *reasoning*, *value level*, *price level* and *value life cycle*. In the following section we will present the value proposition of the selected four online communities by using the framework of Osterwalder.

#### **Description**

Description aims to give an understanding of the product provided by a company. When it comes to online community, description refers to the features embedded in the service. In other words, it attempts to answer the question: *what* creates value for the customer from the online community service?

#### **Features**

The study of the four cases reveals interesting interaction patterns among the members in the online communities. In order to conduct these interactions, sophisticated tools or features are provided. The online community services enable communication between the members through several features like e-mail system, instant messaging (IM), forums etc. In general we can distinguish this, what we have called communication centric features, from the content or information centric features (see Table 5-1). The latter focuses on the acquisition of information or other contents, also including tangible goods or intangible electronic content. An example of content is personal profiles, which other members can visit or link up to, and in some cases be browsed by non-

members as well. However, in order to fully enjoy all the features a membership is required.

<b>Online community</b>	
<b><u>Communication</u></b>	<b><u>Content and information</u></b>
E-mail system IM/Chat Forums/Clubs* Linking up/networking Mobile Classifieds*	Personal profile Blog News and guides Photo sharing Music sharing Video sharing E-commerce

**Table 5-1: Proposed division of online community features**

Explanation to the table:

\*Just like any other categorisation, there exist grey areas, meaning that some of the features may lie on the intersection between the two categories. Forums/clubs for instance, are places where people with common interests can get together and share information about a certain topic. In this case, both the infrastructure and the result of the discussions are an important part of the whole concept. However, we have placed forums/clubs under communication centric because the main idea is to facilitate the communication between the members. In the same way the main idea of classifieds is to facilitate selling and buying, although the content is highly relevant as well.

**E-mail system:** internal system which allows members to send e-mails to each other

**IM/chat:** service which enable real time communication among the online members

**Forums/clubs:** spaces where members with common interests can get together for discussion and information sharing

**Linking up/networking:** service which allows members to link themselves with others in order to access each other's content easier and/or building of network

**Mobile:** presence on the mobile phones

**Classifieds:** a place for members to announce classifieds where transactions are made easier

**Personal profile:** a site where members can do a presentation of themselves



**Blog:** a site where entries are made in journal style, some use the blog as a diary, others use it as a place to present information about a certain topic

**News and guides:** general news, reminder on happenings and travel guides which can interest the members

**Photo sharing:** possibility to browse through pictures which other members have uploaded

**Music sharing:** possibility to stream<sup>5</sup> music which other members have uploaded

**Video sharing:** possibility to stream video which other members have uploaded

**E-commerce:** online shops where members can purchase tangible and electronic goods

#### Overview of key features in the four cases

The matrices below show a comparison of the four cases in conjunction with the key features. The crosses show us which of the cases that comprises what features.

	Communication centric					
	E- mail system	IM/chat	Forums/clubs	Linking up/ Networking	Mobile	Classifieds
<b>MySpace</b>	X	X	X	X	X <sup>6</sup>	X
<b>YouTube</b>	X		X	X	(X) <sup>7</sup>	
<b>Fridae</b>	X	X	X	X		
<b>Cyworld</b>	X	X	X	X	X	X

Table 5-2: Communication centric features for the four cases

	Content and information centric						
	Personal Profile	Blog	News and guides	Photo sharing	Music sharing	Video sharing	E-commerce
<b>MySpace</b>	X	X		X	X	X	X
<b>YouTube</b>						X	
<b>Fridae</b>	X	X	X	X			X
<b>Cyworld</b>	X	X		X	X	X	X

Table 5-3: Content and information centric features for the four cases

<sup>5</sup> Real time transmission of content. The user can hear and/or view content while it is being delivered.

<sup>6</sup> Only to Helio mobile phones (www.helio.com), expected to be applicable to all kinds of mobile phones during next year

<sup>7</sup> Expected during next year

MySpace and Cyworld provide almost every feature listed and are relatively wide in its service compared to YouTube, which is the narrowest of the four cases. It is narrow in the sense of the range of embedded features, not to be mistaken for narrowness regarding customer segment.

### **Communication centric**

Three of the features are represented in all four cases: *linking up/networking*, *forums/clubs* and *e-mail system*. This is not surprising considering the criteria for selection of the cases. As mentioned in the method chapter, cases where there is a high degree of interaction between members have been selection. When members link themselves with others, an online relationship is created. This is done by sending them a request. If accepted, you will be included in your new friend's network and vice versa. In addition, you will be able to see who your friends are linked up to. It is then easy to make new friends online and the networking effect becomes evident.

*The forums/clubs* for all the four cases are quite similar architecturally, but the content and topics can be somewhat different. For instance, the discussions on YouTube have a tendency to be related to videos. In the same way, Fridae members will likely discuss issues surrounding homosexuality. What we see here is that the discussions on these forums/clubs are conducted fully on the member's terms. Since MySpace and Cyworld cater to a broader range of people, the discussions and the topics are also accordingly diverse. Having in mind that Cyworld has less global reach than MySpace, the discussions on Cyworld are expected to be more area or country specific. Further, interactions on the forums/clubs do not necessarily have to be in real time, meaning that members can make a posting and get reply later that day, week or month. This is just like the *e-mail systems*. The difference is that the e-mail system is usually used on one-to-one communication, while forums/clubs is intended for many-to-many communication. For real-time communication MySpace, Cyworld and Fridae have an embedded *instant messaging service* (IM) or chat in the communication infrastructure. This kind of communication requires that the involved members are online.

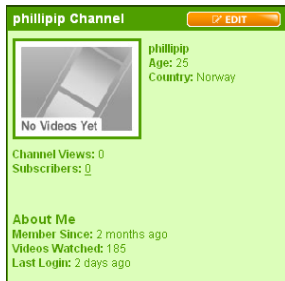
The online community is gradually moving to the *mobile world*. Currently, only Cyworld are fully present on the mobile phone, but YouTube has recently announced plans to launch video services for wireless devices within the next

year. YouTube users are presently able to upload video clips from their cell phones to the website, but the new service would allow people to share the video clips directly via mobile phones. (YouTube, 10.May.2006). MySpace has entered the mobile world as well, but currently this only includes an application for Helio mobile phones in cooperation with Helio (Helio, 2006). However, they are developing a mobile service for all mobile phones, expected to be launched during 2007. (Marketingvox, 28.Sept.2006). Cyworld is considered successful when it comes to mobile presence. The U.S. version of Cyworld, however, has currently no mobile presence (U.S. Cyworld, 2006).

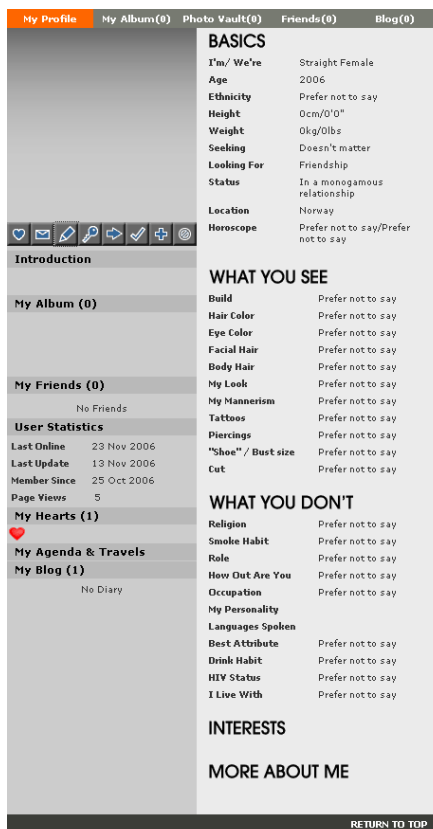
*Classifieds* are a part of MySpace and the Korean version of Cyworld. Apparently, the classifieds on MySpace seem to embrace anything from vacant jobs to dating service. Members who find a classified interesting may make direct contact with the person concerned.

### Content and information centric

One of the most important contents on online communities is the *personal profiles* of the members. It is a page where members can present themselves



and consists of personal information and very often with pictures attached. YouTube does not have personal profiles in the same sense as the other cases, since the members reveal little personal information (only age and country), see Figure 5-1. There exists nevertheless a personal account, where members can administrate their membership, online relationships and the uploaded video clips. Administrating the video clips can be anything from creating groups and play lists to setting viewing rights for the videos. Members can elect to broadcast their videos publicly or share them privately with friends and family.



While the account on YouTube contains little personal information, the personal profile on MySpace, Fridae and Cyworld is highly related to the member's personality. As mentioned earlier, the personal profile is where members can present themselves, their interests, their dislikes and so forth. Some of the most common attributes in personal profiles are: age, sex, location, status, religion, interests and what the member is looking for online. Fridae has in addition attributes like weights and heights, sexual orientation (hetero-, bi-, homosexual) and health status (HIV positive or negative)(See Figure 5-1).

**Figure 5-1: Personal information on YouTube (top) and Fridae (bottom), (www.youtube.com, www.fridae.com)**

Cyworld differ from Fridae and MySpace because of the extensive use of *avatars* in the personal profiles. "Minime" is a feature in Cyworld where members can express themselves by creating an avatar reflecting their mood and situation in life. Members can change its hair, clothing, facial expression,

mood, position and background as often as they like. Figure 5-2 shows two examples of avatars created in Cyworld and a selection of the facial expressions and hair styles members can choose from.

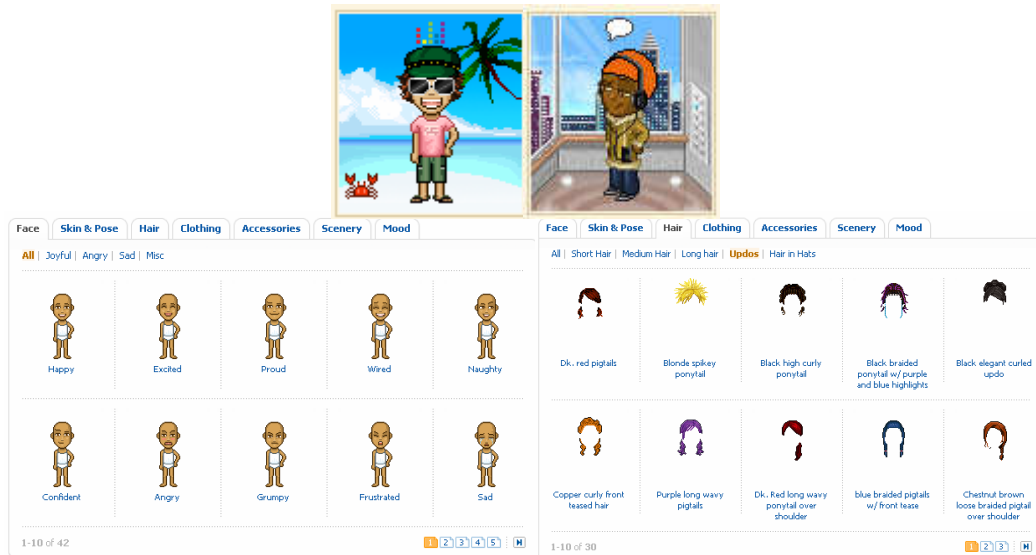


Figure 5-2: Creating avatar and choices of facial expression and hair style ([www.us.cyworld.com](http://www.us.cyworld.com))

Miniroom is another way for Cyworld members to express themselves. It is basically an empty virtual room that members can decorate and furnish. In order to do that, digital wallpaper, furniture etc. must be purchased in the shop. It is also common to give away these digital items to online friends as gifts. Figure 5-3 shows an example of Miniroom, before and after decorating.



Figure 5-3: Examples of Miniroom, before and after decorating ([www.us.cyworld.com](http://www.us.cyworld.com))

As an extension of the personal profile, members *share self-uploaded* or *self-created content*. It can be music (MySpace and Cyworld), videos (YouTube,

Cyworld, and MySpace), and photos and blogs (all cases expect YouTube). Cyworld users upload 100 000 new videos a day (U.S. News 11.Sept. 2006), compared to 65 000 and 53 000 new video uploads on respectively YouTube (YouTube Fact Sheet, 2006) and MySpace (MySpace Vids, 2006). Three of the cases (MySpace, Cyworld and Fridae) have *photo sharing*, and two of these again have also *music sharing* (MySpace and Cyworld). Some of the content can be made private only for friends or upon request. Let us give an example: photo vault is the photo album on Fridae which is private. In order to peek into this album a key must be sent to you by the owner. In this way, members can keep control of their private content.

Most of the content in YouTube, Cyworld and MySpace can more or less be commented upon. For instance, while browsing through your friends' photo album, video clips or blog you can drop comments. In the case of Fridae, only the news can be commented upon. Fridae is the only case which provides selection of news and event reminders for the members. These news and events usually addresses issues which especially interest the gay community. In the same way, Fridae provides travel guides customised for the gay traveller. There exist in addition rating and counting systems for the videos clips on YouTube and the music and video clips on MySpace. It allows members to recommend the content to each other and also see how many times the content is played.

E-commerce is becoming significant in some online communities. Presently, YouTube is the only case without some sort of e-commerce. MySpace, for instance, sells TV-programs, but the service is for US residents only (E-commerce News, 16.May 2006). Fridae has an online shop, where clothing, music CD, books, cosmetics etc. may be purchased. Cyworld has sold over 160 million songs and is the second-biggest music store in the world after iTunes (U.S News, 11.Sept 2006). Cyworld also sell digital items which are used to decorate the Minirooms. There is today around 400 000 items to buy. (CNN Money, 2.Oct. 2006)

### 5.1.1 Reasoning

This attribute captures the reasoning on why an offering is valuable to the customer. Osterwalder (2004) describes three types of reasoning: value when *using* (the actual use) of the product, value by *reducing risk* (for instance

financial risk) and value by *reducing effort* (making things easier) for the customers. The intention of this section is regarding the online communities as a whole, and based on that indicate what is it that makes people want to join MySpace, YouTube, Fridae and Cyworld.

### **General values of being a part of online community**

The shared value for all the four cases is the actual use of the service to become a part of a greater network. It makes it possible to meet other people and find friends with common interests. The fact that the community is based on the Internet platform enables communication independently of geographic boundaries. Forums/clubs and blogs contains valuable information arranged according to topics which are easily accessible. The same holds for other kinds of content sharing. The online community becomes a place where people can search for content or people and in this way reducing the effort of acquiring information. Both the information and the interaction with others are highly valuable to members. In general, the communication centric features give value related to use, while content and information centric features give value related to reduction of effort by lowering acquisition costs. In the following the typical reasoning for each case will be presented.

### **MySpace**

MySpace allows members to create fictive profiles or so-called "Fakesters". It is a term referring to profiles which very often act like an online fan club for bands, movies, celebrities, television, books etc. Fakesters also include profiles where people pretend to be a certain character or person. It may even involve identity theft. When rivals of MySpace deleted these profiles, many of these moved to MySpace. Consuming popular culture and easy access to content is an important value to MySpace's members, in addition to expressing yourself and interacting with friends (Hansell, 23.Apr. 2006). Networking and access to the huge network in MySpace is valuable to the members. In MySpace you can keep track of your friends and who they are connected to. This gives value in the sense that members can expand their own network and more easily look for interesting content, whether this is music, video clips or other types of information.

## **YouTube**

YouTube's slogan is "broadcast yourself". Intuitively, YouTube's value proposition is the access to a massive and global audience. This is the value for people/users that actually upload videos. However, looking at it from the other angle, one of the strongest elements of YouTube's value proposition is the easy and convenient access to all these uploaded videos. The videos are organised in categories and tagged to make it easier for browsing and searching. The videos can be rated, commented upon, and easily be embedded in blogs and homepages. YouTube adds an extra value by letting members manage and customise the uploads regarding sharing rights. This enables sharing of more private content and caters to existing communities in the real life, such as family, school friends etc.

## **Fridae**

There are places in Asia where homosexuality is still prohibited by law and homosexuals are not allowed to form societies or hold public forums (Lim, 2004). Fridae dodges this problem by moving the gay community to the Internet and has created a space where like-minded can meet and just be themselves. This gives great value to the gay community in Asia, which has been suppressed and stigmatised in the offline world. The possibility to search for other members is especially valuable to Fridae members. It is because the search is done within a highly valuable member database where it is more likely to find like-minded persons. The fact that Fridae has customised information to their members (news, event reminder and city guides) adds also extra value.

## **Cyworld**

Bearing in mind that 96 % of the population between 20-29 years old in South Korea use Cyworld regularly, joining this community gives great value and feeling of belonging. Cyworld do not replace the offline world, but rather facilitate it, thus it is regarded as a way to be updated and to keep relationships. The content in Cyworld differs from other online community in two ways:

1) Real-name-policy<sup>8</sup> brings responsibility, courtesy and a lot of benefits for users themselves in terms of trust in the information they can find. In this way,

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<sup>8</sup> You need to use your real name associated with your official ID number to register to Cyworld Korea



Cyworld reduces also the risk of false information, which is referred to as value of reducing risk by Osterwalder (2004).

2) Extensive use of avatar stimulates members to spend time and money creating their personal profiles. In this way members become emotionally attached to their profiles, which are referred to as Minihompy (Minihome in the U.S version). This name indicates that their profiles tend to be more personal, and very often they seem to be. The latter is confirmed by Benjamin Joffe, CEO of +8\* and Cyworld expert, in an interview:

*"Another very important aspect that sets Cyworld apart from 'western style blogs' is that minihompy are about social and emotional presentation of the self, while Western blogs tend to be rather intellectual. It is very different to have an 'online self' and a 'public journal'. (Moore, 3.Nov.2006)*

### 5.1.2 Value level

Osterwalder (2004) introduced a scale to measure the customer utility by measuring the company's value level compared to its competitors. The scale goes from Me-too (similar to the competitors) to Innovation (different from the competitors), see Figure 5-4. In this paper this scale is used in a more general manner than what it is originally intended for, meaning that it is used to describe each case as a whole rather than regarding each feature. It is important to be aware that assumptions have been made, and that attempts to place a bundle of features as a whole on this scale necessarily leads to some inaccuracy. However, it is useful to do so in order to understand the typical value level for each case. The placement in Figure 5-4 is therefore based on certain features that distinguish each case.

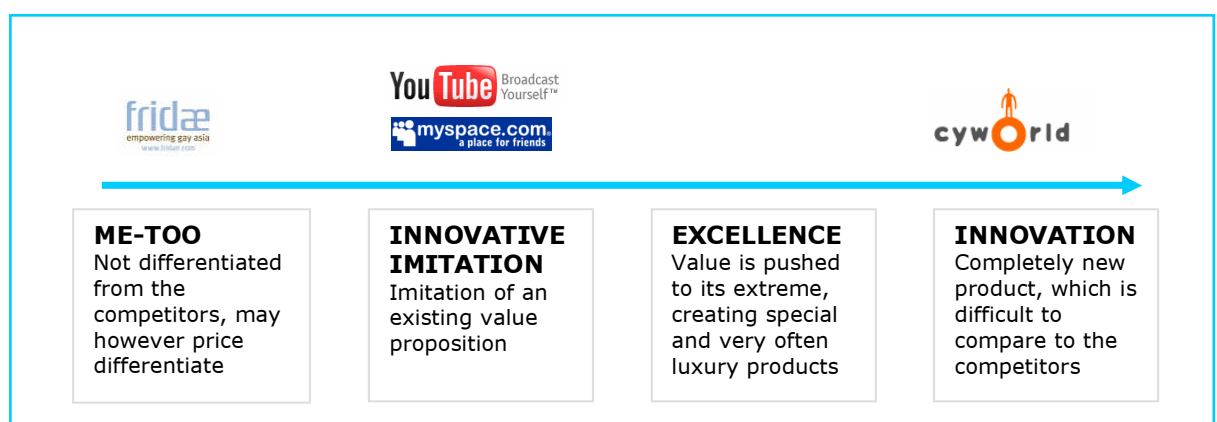


Figure 5-4: Scale for value level and the four cases (based on Osterwalder, 2004)

### **The four cases' value level**

MySpace imitated many different social networking sites and bundled them together when starting their service. For instance, the founder of MySpace saw first the success of Friendster<sup>9</sup> and similar social networking sites, but thought that they were thinking too small. At Friendster they deleted "fakesters", which gave MySpace a business opportunity (Sellers, 2006). The content of MySpace is a combination of all kinds of different social networking sites, but they embraced "fakesters" and started off as a place where unknown bands could promote themselves and invite users to become their "friends". This was an innovative way of reaching the customers, and thus it is reasonable to place MySpace under Innovative imitation.

Video sharing actors existed prior to YouTube. What YouTube has done is refining the concept and offering a user-friendly platform, which has a massive global reach. Some people may even argue that YouTube has changed the rules of video sharing and enabled new players to participate. Everybody can now share their home-made videos and become famous. They imitated other actors but added innovative elements in their service, which indicates an Innovative imitation value level.

In the case of Fridae, the same networking model as many other sites is being used. It does not offer any other values than any other online community. However, it differentiates itself by targeting and catering to homosexuals in Asia through customised content and advertisements. This kind of differentiation is comparable to price differentiation, which Osterwalder (2004) claims *can* be a part of Me-too.

Cyworld is placed towards the right of the scale because it has gradually developed a service which differs from the other social networking service. The avatar in commercial purpose and the real-name-policy is unique for Cyworld. In addition, Cyworld provides also a to-go version of the service on the mobile phone and has currently a strong presence in the mobile world. All this makes Cyworld special and incomparable. Thus, it is reasonable to believe that Cyworld belongs to the innovation part of the scale.

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<sup>9</sup> *Friendster is a social networking service founded in 2002 (www.friendster.com)*

### 5.1.3 Price level

This attribute throws light on the value propositions price level. Osterwalder (2004) introduced a scale which goes from *free over economy and market to high-end*.



Figure 5-5: Scale of price level and the four cases (based on Osterwalder, 2004)

MySpace and YouTube offer their value proposition free of charge. The membership is free and browsing through the content does not require financial compensation. In the cases of Fridae and Cyworld, signing up for membership is free of charge, but being a member is related to implicit costs. These costs are for instance fee for upgrade of membership on Fridae (Perks). Without Perks the memberships are strongly limited (see Appendix). The cost of Perks varies depending on the length of the subscription period: 1 week US\$ 7, 1 month US\$ 14, 6 months US\$ 25 and 12 months US\$ 40. This is regarded as expensive compared to other social networking services which offer similar services free of charge. An important aspect is also the fact that Fridae operates in Asian countries, and in some of these countries, US\$ 7 a week is regarded as a high price. The implicit cost of being member holds also for Cyworld, which requires purchase of digital items in order to decorate the Minihompies. These digital items are sold on a relatively low price individually, but the need of several items and the fact that these items can only be used in a certain amount of time, will be costly in the long run. Examples of prices from the U.S. version: US\$ 1 for a digital dog and up to US\$ 1.5 for wallpapers and backgrounds. The conclusion is that also Cyworld lies towards the right hand side of the price level scale, see Figure 5-5.

#### 5.1.4 Value Cycle

It is important to study the value proposition over its entire life cycle. Osterwalder (2004) introduced the attributes called life cycle in order to capture at which of the five stages the value appears. The five stages are: *value creation*, *value purchase*, *value use*, *value renewal* and lastly, *value transfer*.

What is special about online communities is that most of the contents are created by the members themselves, for instance the blogs, the personal profiles, the content sharing etc. This indicates a high degree of *value creation*. The e-commerce part of the online communities enables and simplifies the purchasing process and belongs therefore to *value purchase*. Cyworld allowing and streamlining the purchase of music through their service is an example of value during the purchase phase. However, it is likely that most of the value for online communities takes place under *value use*. That means that members perceive the greatest value through the use of the social networking services and by interaction with other members. The value life cycle is most suitable to describe consumptions which take place over a period of time. For online communities, the consumption is continuous and it is therefore difficult to say anything about progression in these stages. For instance, *value renewal* for online communities will take place whenever new content is uploaded. *Value transfer* refers to possible value after consumption. As mentioned earlier, online community is consumed continuously and will not have elements from the value transfer stage.

#### 5.1.5 Value proposition for commercial actors

One can question the term *customer* when it comes to social networking sites, because in most cases it is not the regular user who is paying for the service. On one side you have the regular users of the site, both those who only browses the site and the members who have a password and a personal page. On the other side you have the companies that buy advertising space, provides commercial content, buys information about the users etc. These commercial actors constitute a part of another customer segment with a slightly different value proposition.

The most obvious value is the fact that online communities reach out to a great number of consumers. That makes online communities a good marketing channel. There are however two different marketing approaches: 1) passive

marketing: traditional advertising through banners and pop-ups, 2) active marketing: being an active player in the community. MySpace and YouTube allow both of the approaches, while Cyworld and Fridae are only open to respectively active and passive marketing.

When it comes to passive marketing, the information about members and their activity on the sites are tracked by cookies and used to target and customise the advertising banners. This means that by conducting search on the phrase "Hong Kong", the advertising will be accordingly related to Hong Kong. MySpace, YouTube and Fridae have this kind of target advertising, but it is conducted by a partner, Google.

Active marketing is letting consumers comment and rate upon marketing materials, and even link their personal profile with the profile of a brand, which makes it a very interactive marketing method. Brand names like Nike and Adidas have created their own pages in MySpace ([www.myspace.com/nikesoccer](http://www.myspace.com/nikesoccer), [www.myspace.com/adidassoccer](http://www.myspace.com/adidassoccer)), and Motorola has a MiniHompY homepage in the Korean Cyworld (Joffe and Yeom, 2006). *"The advertising community embraces the idea of feedback. Like anyone else within the system, they have the ability to moderate comments so they don't get out of control,"* stated one of YouTube's founders in an interview (The Mercury News, 22. Aug. 2006). An example given in the same article is one of Sony's commercials which was seen by over 3 million people on YouTube. This illustrates the power of YouTube as a marketing channel. The article writes further:

*"How much money do you think advertisers would pay to get 3 million people to see and comment on your advertising? Where else can advertisers get that immediate feedback? This starts to leverage the full potential of what is very new on the Web, which is a video community site" (The Mercury News, 22. Aug. 2006).*

## 5.2 Target customer

A target customer is a segmentation of customers that allows the company to target the customer with the right resources and services. In order to define a target customer, one regards different characteristics such as geographic and socio-demographic measures. (Osterwalder, 2004).

It is evident that the business world is a target customer for the social networking sites, which provides income for the companies in various ways. But in order to attract the advertisers and commercial content providers, they have to offer a valuable network of members and information about them. In the following, geographic and socio-demographic information about the users of the four cases will be presented.

### 5.2.1 Geographic characteristics

The geographic characteristics of the four cases are quite diverse between the two American-founded companies (MySpace and YouTube) and the two Asian-founded companies (Cyworld and Fridae). Table 5-4 shows the geographic characteristics of the four cases. For all the cases it seems as if the first users came from the founders' origin and then dispersed to the rest of the world. However, where the American companies' target customer could be anywhere in the world, the Asian companies target their home customers more directly.

	America	Europe	Asia	Africa	Oceania
<b>MySpace</b>	U.S. site (identical to the global site)	French, German, Irish and British sites	Japanese site	Global site	Australian site
<b>YouTube</b>	No specific site for any language, global site				
<b>Cyworld</b>	Opened in the U.S. in August 2006	Opened in Germany in June 2006	Korea, Japan, China, Taiwan, Vietnam, Singapore		
<b>Fridae</b>	Global site, but content mostly directed to the Asian region		Users from all over Asia. Network started developing from Singapore	Global site, but content mostly directed to the Asian region	

Table 5-4: Geographic characteristics for the four cases

Cyworld customises a site for each country: "(...)grafting cultural peculiarities of each country, to transform itself as completely localized while preserving its basic values" (The Korea Times, 2005). Fridae, on the other hand, is open for all nationalities and has their site in three different languages (English, traditional Chinese, and simplified Chinese), but the content is mostly directed to the Asian region. MySpace and YouTube have a global site with global reach.

In addition, MySpace offer sites in specific languages, and with some localised content.

### 5.2.2 Socio-demographic characteristics

The socio-demographic characteristics describe *who* the customer is, and may for that reason be the most important factor a company needs to know in order to appropriate their product to their target customers.

YouTube's regular members represent a broad range of interests and the content is made by the users for the users. If you do not find anything you like, you can upload it personally, and hence anyone in the world interested in watching short video clips is a target customer. The business market has discovered YouTube as a tool for streaming commercial content, such as commercials, music videos, TV-shows etc. (YouTube, 9.Oct. 2006). In general you could say that YouTube's target customers are everyone who wants to stream or watch videos on the Internet.

Fridae has the socio-demographic characteristics directly in their slogan: "Fridae – Empowering Gay Asia, Asia's Gay and lesbian Network Home." This obviously attracts a certain group of people; a niche some even may call it. They seek to be the gay Asia's leading media and event group, so the content is directed thereafter. There is not a clause which prohibits other ethnic groups to join the service, nor heterosexual people. However, their target customers remain Asian gay and lesbians. The commercial segment is also quite large, as e-commerce and advertising is very widespread on the site. This segment is targeting the gay society specifically (as "the pink dollar" is considered valuable owing to the target group's tendency to trendsetting, high spending and no-children lifestyle (Li, 2003)).

MySpace started out as a place where the members could upload music and cultivate fame. Unknown musicians are still their target customers, and over 3 million bands have their own profile (The Guardian, 5.Sep.2006). But in addition to the bands there are millions of music fans. The members on MySpace can be "friends" with their bands, and communicate with them, and are also target customers for MySpace. Today, MySpace's value proposition has grown so large that the target customer is everyone who wants to make friends, singles for potential partners, business people for networking, film-

makers, comedians, and anyone who seeks others with the same interests (MySpace, 2006). In other words: MySpace is for everyone, which is reflected in the large number of members. This also counts for the business segment, since all industries will find potential in the millions of users. MySpace has specifically targeted the business sector, by offering the possibility of making "fakesters", profiles that are often deleted on competitors' sites.

From the outset, Cyworld's target customers were girls in their early 20's, on the basis that, if you become popular among girls you will eventually attract the guys as well. It may also have been directed to segments interested in new technological features and new ways to communicate. Today, the service is targeting the mass market, with no specific socio-demographic characteristics. The commercial segment is interesting, since traditional advertisements are not allowed on the site. Instead, companies buy Minihompies on the site in order to promote themselves.

### 5.2.3 Age distribution

MySpace has a value proposition that targets the mass market. Apart from the fact that you have to be 14 to create a profile (an age-limit which in reality is impossible for MySpace to monitor), all ages are represented on the community. Jack Flanagan, executive vice president of comScore Media Metrix says that *"MySpace.com has the broadest appeal across age ranges"* (comScore, 2006) However, as social networking sites have grown and become mainstream, the composition of demography of the users has changed substantially. Flanagan explains: *"Last year [2005] half of the site's visitors were at least 25 years old, while today more than two-thirds of MySpace visitors are age 25 or older"*. Analysis comScore has done on the largest social networking sites show that MySpace visitors have grown older the past year, and that they have lost many of the younger visitors (as shown in Figure 5-6).



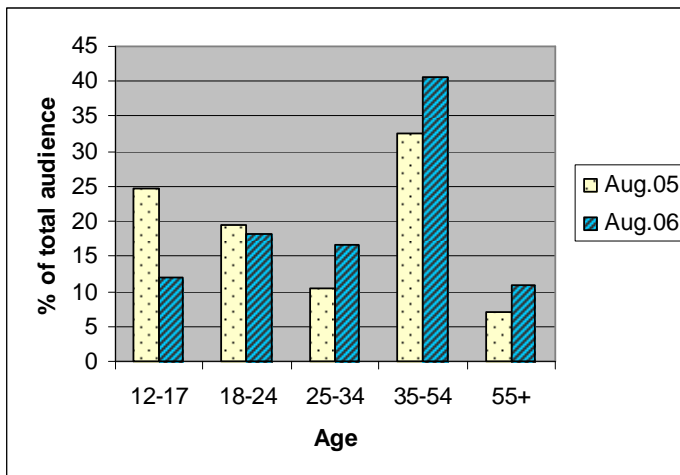


Figure 5-6: Percent (%) composition of unique visitors on MySpace.com in the U.S. (comScore, 2006)

In conformity with MySpace, Cyworld's target customer is also the mass market. As shown in Figure 5-7, 16 % of the members are in their 40s, and more surprisingly 6% are over 50 years. Combine this with the high percentage of old members on MySpace, and the myth that social networking sites are only for younger people is eroding.

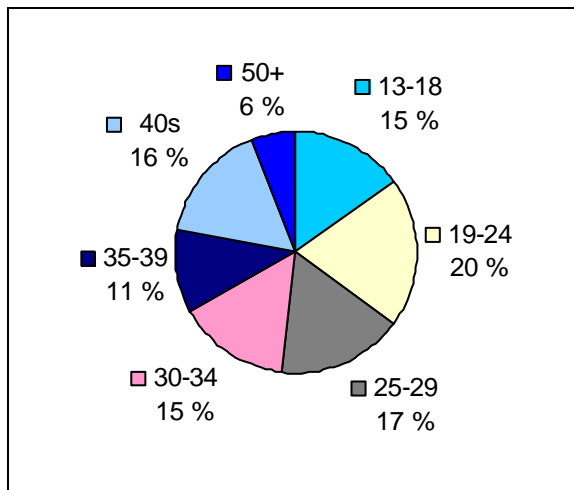


Figure 5-7: Age distribution of visitors on Cyworld in Korea (Joffe and Yeom, 2006)

In Korea, Cyworld has pervaded the population. 40% of the total population are users, and the staggering sum of 96 % of people between 20 and 29 use the service regularly (U.S. News, 6.Nov.2006)

YouTube's target customers mirror the overall use of the Internet, with 55% of its viewers aged between 18 and 49 (Forbes, 28.Sep.2006). Some of the content has an 18 year age limit, requiring that you are logged on as an 18 year old member. Fridae also covers all ages, but no numbers were found on the age distribution. An 18 year old age restriction applies for all the members and all false profiles are deleted (Fridae, 2.Nov.2001). The age limit for both Cyworld and YouTube is 13 years.

### 5.3 Channel

The distribution channel is the third element in the business model, and covers the link between the companies' value proposition and the target customer. It can be deconstructed into direct and indirect channels. By direct channels, Osterwalder (2004) means a sales force or a website, and by indirect channels the author means through intermediaries such as retail stores or brokers. The link between the customer and the value proposition can add value to the product in many ways. ICT has made the distribution channel simpler, making it more into a "communication channel". This holds for online communities, where ICT actually is the main channel to the target customers. It also reduces the effort the customer has to put into the process of connecting to the value proposition, making it more convenient with available information and guidance. (Osterwalder, 2004)

Further, Osterwalder (2004) emphasises that the target customer links with the value proposition in different ways during the customer buying cycle which he divides into four stages: awareness, evaluation, purchase and after sales. In the following the channels for each stage will be evaluated for the four cases.

#### 5.3.1 Awareness

The awareness stage starts often with the indirect channels for the four cases. Media plays an important role in the awareness process. Not only have both YouTube and MySpace a high hit volume on Google with over 150 million hits, but TV-stations, newspapers and radio continuously mention the sites. Respected newspapers do interviews with the founders, and the acquisitions of both MySpace and YouTube made the front page. The Guardian wrote in November this year that YouTube actually pushed Lebanon out of the news:

*"After a prescient first mention in the Times on November 19 2005, YouTube scored a measly 13 stories in the first quarter of this year. In the second quarter, it ran up 154. In the first week of November, it clocked up 79. At this rate, by January your entire newspaper will consist of tales of rapping accountants, spectacle snatchers and Norwegian teenagers scoffing curry powder from a spice rack." (The Guardian, 14.Nov.2006)*

The numbers referred to in The Guardian are only from 18 UK news papers. In addition to the big media coverage of YouTube, websites which stream videos from YouTube are becoming more and more popular. In practice this means that you could see a video streamed from YouTube on practically any website in the world, since all you need is to copy the video's URL-tag and place it on your personal blog, website, corporate site, online news paper etc.

Fridae has three annual parties where they bring the community offline. The biggest is the annual Nation party which first took place on Singapore's national day (hence the name) in 2001 with 2500 people from all over Asia. Around 8000 party goers showed up on Nation in 2004, which also turned out to be a money bag for Singaporean tourism. It is the regions largest event organised by homosexuals (Lim, 2004). However, as the Singaporean government do not like public homosexual events, Nation.05 had to be moved to the Thai island Phuket (Queerfuture, 13.June.2005). This drawback did not stop the gay community from going to the parties, and the media cover was big on both the party and the Singaporean government's decision. The awareness these offline parties have created can be said to be substantial in the Asian gay and lesbian community.

The awareness process of Cyworld in Korea is based on word of mouth, and since a focus is to bring offline communities online, this process is mainly carried out by the members. When Cyworld now enters other countries, they use local partners in the awareness process. For instance in Germany, the partnership with Deutsche Telecom gives brand awareness.

### 5.3.2 Evaluation

When the customer is aware of the value proposition, he or she evaluates it. In the case of online communities, the customer would probably access the web

page of the community and evaluate the opportunities and learn more about the product.

All four cases have a starting page that the potential user can enter and evaluate the service. They also have an "about us" page, where users can get information about the service. They also have some content open for the non-members. However, in order to really know what the service is about, a membership is usually required.

### 5.3.3 Purchase

The purchase process is the transaction between the customer and the company, where the customer receives the product/service and the company receives the compensation. For our online community cases this transaction does not involve any payment since memberships are free of charge, but is rather the transaction of the customer's details traded for access to the community and their personal space.

Fridae, MySpace, YouTube and the U.S. version of Cyworld all ask only for you e-mail address, age and a confirmation that you will follow the terms of the site. Becoming a Cyworld member in Korea requires additionally a social security number (CNN Money, 2006). As already mentioned, Cyworld has called this the real-name-policy, referring to the fact that members are online with their real names (Joffe and Yeom, 2006). For YouTube, MySpace and Fridae there is no such policy, resulting in fictive memberships (Fakesters) on these sites.

### 5.3.4 After Sales

When members access the network, all the social networking services can communicate with them in a direct way through e-mail. The members receive an e-mail every time someone requests to be their friend, or if someone leaves a comment. MySpace may also e-mail updates and newsletters to the members. Users may choose not to receive e-mail of this type by changing their settings (MySpace, 26.Aug.2005). This is the same on Fridae, but you can only stop the e-mail notifications if you buy their premium membership (Perks). On Cyworld in Korea you can also get notified of any movements on your page via mobile. MySpace also have this service, free of charge: you can subscribe to a notification every time there is a friend request, blog comment, profile

comment, image comment or a new message event invite. In fact the users of Cyworld mobile have exploded since the launch in March 2004. In June 2006 Mobile Cyworld had 1.5 million users (Joffe and Yeom, 2006).

All the cases offer a customer service via e-mail. Support pages with frequently asked questions etc. are also available. The Internet site itself is a channel for after sale, where all the offerings and content are frequently updated, keeping the member satisfied and loyal. An increasing development of new distribution technology has emerged the past few years. Streaming technology, for instance, enables streaming of videos and music, without download of any software. Both YouTube and MySpace use this distribution technology as a way to reach out to both members and non-members with the user-generated content.

## 5.4 Relationship

Customer relationship is the fourth element in the business model. It concerns the relationship the company builds with the customer, and the interaction between the two parts which strengthens the relationship. The company can achieve value from the customer through three kinds of relationships: acquisition of new customers, retention of established customers, and add-on selling of new products to extend the duration of relationship with customers. (Osterwalder, 2004)

### 5.4.1 Acquisition

The awareness and evaluation process presented in previously (chapter 5.3) describes how the cases get the attention of the customer. The different channels are used in order to acquire new customers, which is often defined as more difficult than to keep established ones (Osterwalder, 2004). When signing up for membership, the relationship between the customer and the company is established.

Word of mouth has been one of the most important ways of acquiring new customers to the online communities, and is quite sufficient as the value proposition is built upon networking. In Korea, Cyworld is so ubiquitous that most likely everyone has heard of it. As soon as one customer becomes a member, it is in his or her interest to have more friends in the network, hence they recruit from their social circle. MySpace and YouTube have made this as a part of their user interface, where you can easily invite friends to join the

community through an e-mail service. A strong brand is also important, and enhances the word of mouth process. MySpace and YouTube have managed to create global, well-known brands, where the two other cases, Fridae and Cyworld, have strong regional brands.

The social networking services have various ways of persuading people to join the network. Non-members have limited access to the content on the social networking sites, and the starting pages of the sites try to invoke people's curiosity. YouTube and MySpace have all the content which has an open age-limit open to non-members. However, if you wish to comment on the content, you have to be a member. Some content can also be restricted by the publisher and be only for invited. On Fridae, only few things can be done without being a member (see Appendix) but they give you the opportunity to search for other members. On Cyworld, hardly anything can be done without being a member (observed from the U.S. Version), so the reputation and network effect plays an important role for the company to acquire new members.

#### 5.4.2 Retention

With many social networking sites to choose from, how do the companies manage to keep their members? The cases have various strategies for member retention.

##### **Switching costs**

For Cyworld, MySpace and Fridae, the members eventually build up a network of friends which may keep them from changing community. The switching costs become high, because they have spent hours on creating the network, their personal profile and content. On Cyworld for instance, given the high number of memberships, people have most of their offline friends in the online community. Some of the content may also have an emotional and private attachment, which will be lost if the membership is terminated. The members on Cyworld have also invested money in buying the avatars to create their personal space. YouTube is a relatively young company, and it is difficult to say if they have succeeded in keeping their members. One could say that YouTube's switching costs are lower than the other cases when it comes to personal profile and network, since it is not something their members spend much time creating. Being a niche community compared to the other communities, Fridae has a

good potential for developing and retaining loyal members who are likely to stay, since this is the biggest gay online community in Asia.

### **Privacy issues**

Another aspect important to member retention are privacy issues; that the members know that all personal information like e-mail address and date of birth are not distributed. Fridae guarantees the safety of your information, and states in the terms of use: *"All registration information is stored in secure locations on password protected servers."*(Fridae, 2.Nov.2001) MySpace has the same guarantee, and claim that they will not sell any e-mail addresses or use them to send unwanted information. However, in the privacy policy they state: *"Please note that we cannot guarantee the security of member account information. Unauthorized entry or use, hardware or software failure, and other factors may compromise the security of member information at any time"* (MySpace, 26.Aug.2006).

YouTube and Cyworld also have a privacy statement where they guarantee the same privacy issues. However, all cases state that they may use information about the users in order to direct advertising towards the users' interests. By tracking members' moves and use cookies<sup>10</sup> to store their preferences, they can make sure that they do not offer the same advertisements to the member. They can also customise newsletters and content. The "terms of use" and "privacy statements" are contracts the member signs with the company in order to create a relationship with clear guidelines.

### **Reputation**

Reputation can affect the members' retention. For instance, many claimed that the 12 hour breakdown of MySpace servers in July 2006 had a negative effect on MySpace reputation (McCarthy, 24.July.2006), even though Tom Anderson claimed it was caused by the heat in California where the servers are. They have also struggled with furious parents who are worried about their children's safety, and members who are tired of overcapacity on different services. Despite these problems, the brand "MySpace" is continuously attracting new members, and is pervading some regions. In the U.S. people are becoming

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<sup>10</sup> "Web cookies are tokens that can let a web server know that you are the same person who accessed the server the last time you accessed it, so that extended interaction with the Web server is possible (...) Web cookies are one technology that enables members of a Web-based online community to have a persistent identity within the community"(Werry and Mowbray, 2001)

loyal to MySpace to a degree where they have stopped asking new acquaintances for their e-mail address, but rather: "what is your MySpace?" so they can see who you "really" are.

### **Storage**

Storage capacity is an element all the four cases need to offer, in order to have customer retention. YouTube, Cyworld, and MySpace has unlimited storage capacity, however YouTube has a limit on 100MB and 10 minutes in length per video you can upload (YouTube, 26.Nov.2006). The premium membership Perks on Fridae offers increased storage for a fee (view Appendix). If members do not renew the subscription they will lose all content which exceeds the regular storage limit.

### **5.4.3 Add-on-selling**

Add-on-selling is additional products/services sold to existing customers, extending and strengthening the customer relationship. For social networking services this is everything which is offered in addition to the networking service itself. This is for instance e-commerce, which Cyworld, MySpace and Fridae offer. An example of how this strengthens the customer relationship is the pay-per-view TV-shows which MySpace offers. DeWolfe emphasised in an interview that selling TV-shows which gives the members the possibility to see the show whenever they want requires that you *"win the hearts, one by one, of thousands of members who will display the show to all of their friends"* (Hansell, 23.Apr. 2006). Hence, the existing network is used to spread information about new add-on products. In a different interview DeWolfe could reveal that they have 20 new products in the developing pipeline; VoIP<sup>11</sup>, MySpace News, MySpace Sports, MySpace Fashion and 11 new international sites are on their way (Sellers, 2006). Cyworld has a music service, and is the second largest online music store after iTunes (U.S. News, 11.Sept 2006).

## **5.5 Value configuration**

The value configuration deals with all the activities needed in order to create value for the customer. The activity is performed by an actor, and this actor can be either the company itself or a partner. (Osterwalder, 2004)

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<sup>11</sup> Voice over Internet Protocol, voice conversations over the Internet or through any other IP-based network



Online communities are built on a mediation technology and as argued in chapter 3.2.5, the value configuration type for such companies is called a value network. The value network has three parallel activities: network promotion, service provisioning and network infrastructure (Fjeldstad and Stabell, 1998). In addition the company has certain support operations: *the firm infrastructure, human resource management, product and process development, and procurement*. This paper will not describe in detail the value configurations for each case. However, it will give an overview of a general value network for an online community company (see Figure 5-8), and exemplify some of the activities with the cases.

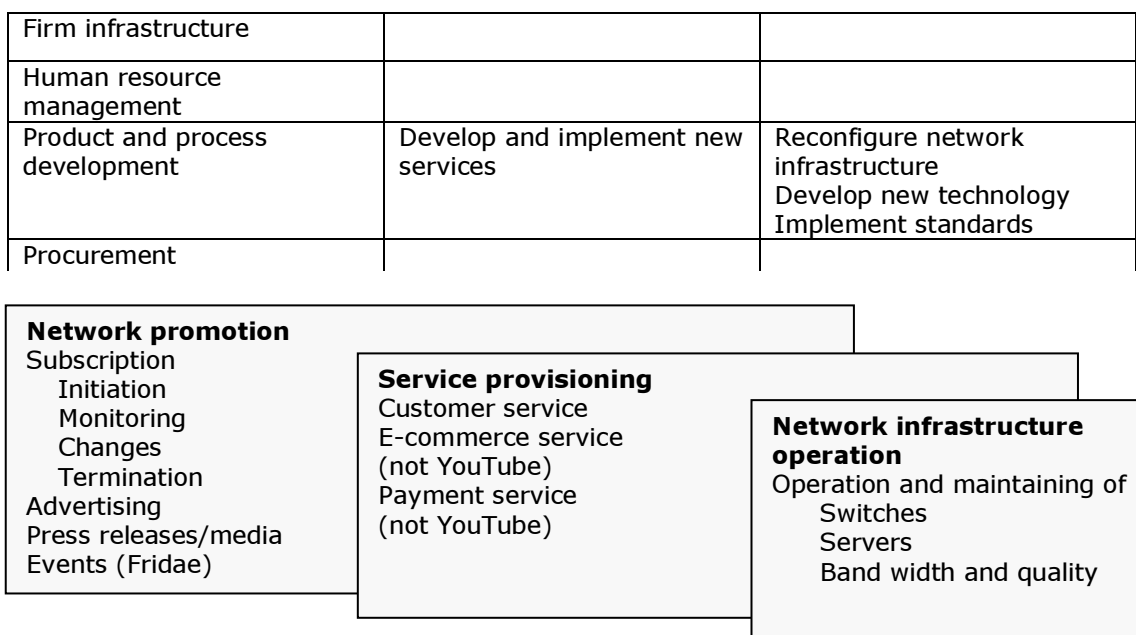


Figure 5-8: Value network configuration for an online community (based on: Stabell and Fjeldstad, 1998)

### 5.5.1 Network promotion and contract management

For online communities this consists of the activities related to inviting and approving customers to the network, and termination of accounts. Employees in each of the four cases monitor that all new members agree to the “terms of use”, and that they follow them. For instance, if a member uploads unwanted content (e.g. sexually or harassing content), the monitors will delete it. If a customer wishes to terminate the membership, the customer can cancel the account via the Internet site.

In addition there are many different network promotion activities such as advertising, press releases and news articles. As mentioned in the Channel chapter (see chapter 5.3), YouTube has managed to infiltrate the media the past months, which may be a reason for the large increase in number of users. Fridae uses the Nation event, and other events, to promote their site.

### 5.5.2 Service provisioning

The product development accompanying these activities is the creation of software for the social networking services. Cyworld have product developers creating the avatars, and MySpace have developers who are making new add-on-sellings (Sellers, 2006). All cases have employees for the development and maintenance of the software platform, but due to different focus on software development there are various types of product developers in each case. The service provisioning comes in the form of customer service, and maintenance of other services such as e-commerce and payments.

It is important to remember that the users create much of the sites' content, such as personal pages and video, music, and news sharing. However, the basic programming of the software platform is performed by the company. The social networking sites act as mediators with their mediation technology.

### 5.5.3 Network infrastructure operation

This element contains many important activities which are vital for the existence of the online community. For all the cases this involves operations and maintenance of the servers, the switches, and also provision of enough bandwidth with good quality. The breakdown of the MySpace server in July (McCarthy, 24.July.2006) is one example of the importance of skilled employees to perform maintenance activities.

Cyworld offers a mobile service for its members, meaning it must also consider its telecommunication network. The company's owner SK Telecom, provides the network infrastructure operations for this mobile service.

## 5.6 Capability

The in-house capabilities are the resources a company possesses which allow a firm to provide value to the customers. For all online communities there exist some basic capabilities which are required in order to provide the service. In

addition, each company has some core capabilities which separate them from their competitors. The resources can be divided into three resource types, tangible, intangible and human. (Osterwalder, 2004)

### 5.6.1 Tangible

For all the cases the tangible resources include the offices, the servers, the hardware, the software (social networking platforms) and other equipment needed to create value. As mentioned as a retention element, storage is becoming a capability which the cases compete over. Photo- and video-storage capabilities are high priorities for MySpace to be able to compete with YouTube and Cyworld.

The network infrastructure is a tangible resource which is needed to operate a social networking service. Figure 5-9 illustrates the technology set-up for MySpace. Between the customer's personal computer and MySpace's servers is the Internet. The network providers and the Internet service providers are not a part of the company's internal business model but a part of MySpace's *value system* (the implications of the value system for online communities will be discussed in chapter 6.6). The Domain Name servers (DNS servers) pick up the member's IP address when he or she enters the MySpace website. The proxy servers, application server, storage cluster and server switch are all important tangible assets the online communities rely on to deliver the products. Content travels from MySpace through a hub connecting all the networks and then it chooses the most efficient route to the user and the available bandwidth on a network at any given time. (Layton, 2006)

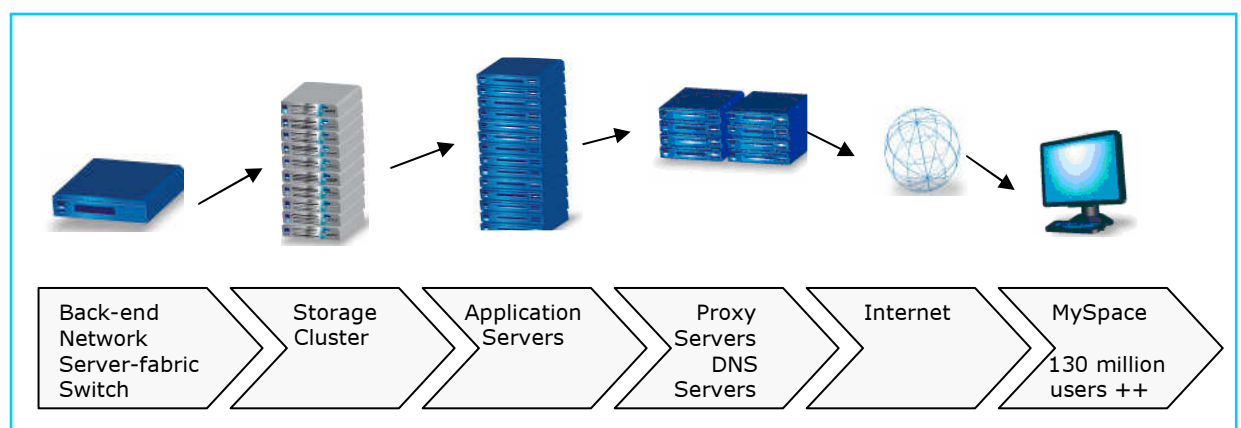


Figure 5-9: The MySpace technology set-up (Layton, 2006)

For all the cases, software is an important tangible asset. For instance YouTube's video streaming technology is considered to be better and easier to use than any of its competitors. YouTube's technology enables not only the sharing of uploaded videos but also opinions and reviews of extant content by using tags and highly coordinated linking uploads (Computer Science UIUC, 20.Sept. 2006). The co-founder of YouTube, Hurley, tried to explain the company's success by three of its capabilities: the user does not have to download any software or choose between media formats, and it is easy to search for and share content (Kiss, 2.Oct.2006).

MySpace and YouTube have both been bought by large corporations, News Corp. and Google respectively, so financially they have strong tangible assets. Cyworld and Fridae both make profit from their users, and have financially strong positions as well.

The different languages on the international sites are a tangible capability (for an overview, see Table 5-4). Finally the database of user information that each case possesses is a great capability that the cases can use for commercial purposes.

### 5.6.2 Intangible

The brands of each case are an intangible capability. The brand is an important factor; e.g. YouTube has become synonymous with video sharing and MySpace and Cyworld is expected to be your personal online profile in certain regions. The Nation parties and the other offline events Fridae has organised have built up the brand, and created a personal connection with the members.

### 5.6.3 Human

The founders and co-founders of each case have been mentioned many times in this paper. Each one of them represents a human capability which plays an important role in the companies' value creation. In MySpace, Chris DeWolfe and Tom Anderson have become icons for the company, and have made the cover of Fortune magazine as the "MySpace cowboys" (Sellers, 2006). Mr. Anderson automatically becomes the first friend of all new members on MySpace, and has over 130 million friends. Hence, everyone is connected through him in the network. The two founders have a contract with their owners, News

Corporation, until fall 2007 (Sellers, 2006). Many have questioned the future of the company if these highly profiled characters decide not to renew their contract. The founders of YouTube, Chad Hurley and Steve Chen are also great human capabilities. Stuart Koe, the founder of Fridae, has also an icon position in the company. He has an active role offline as well, working for homosexuals' rights and HIV and AIDS issues. Cyworld's founder Young Joon Hyung is also considered a valuable human asset.

The competitive landscape for social networking services is becoming increasingly tense. It is important to come up with the latest and most innovative technology, and the companies need great human capabilities in order to do so. Some of the developers are in-house, but partnerships and strategic alliances are becoming more and more important as will be discussed in the next chapter.

## 5.7 Partnership

A partnership is an agreement between companies with the means to create value for the customers by cooperating on activities and resources. There are many different partnership types with different levels of control and value integration. (Osterwalder, 2004)

A partnership is often made in order to increase the competitiveness of the company. By way of example, Google has signed a US\$900 million advertising deal with MySpace where Google will provide the search engine and advertising on the site. Other search engine companies were sceptical to such a partnership because they claimed that MySpace users were on the site for socialising, not buying (Hansell, 23.Apr. 2006). As mentioned earlier, MySpace also have a partnership with Helio, a virtual mobile network operator (Helio, 2006). When it comes to other mobile services, MySpace have made a strategic partnership with China Mobile Limited *"to explore wireless media business opportunities"* (Braithwaite and Edgecliffe-Johnson, 19.June.2006). There have also been rumours that MySpace will partner up with eBay and Amazon in order to cover the e-commerce services (Sellers, 2006).

Fridae and YouTube also have Google as their search engine. In addition, YouTube has recently entered into many partnerships with content providers such as CBS Broadcasting, Sony BMG, Universal Music Group, Warner music

group, and also with celebrities such as Paris Hilton, P.Diddy etc.(YouTube, 9.Oct.2006). Fridae have not stated any partnerships publicly.

Cyworld are planning to open a German site next year in a partnership with Deutsche Telecom. In some markets like Germany, Cyworld would rather partner with a local company. "*In different countries the site might take on different flavors, and in Germany the site could take on more of a dating element*", says Michael Streefland, Vice President of marketing for Cyworld USA (Gigaom, 27.July 2006). In addition, Cyworld also have a music provider partner and a partnership with a payment actor.

## 5.8 Revenue Model

The eighth element in the framework of Osterwalder (2004) is the revenue model which measures the ability to translate the value a company offers into money and incoming revenue streams. It can be composed by various revenue streams that all have different pricing mechanisms. Stream type describes the type of economic activity that generates a revenue stream. According to Osterwalder, a company can generate income through: *selling, lending or licensing* a product or service, taking a *cut of a transaction* or rely on different sources of *advertising*. Pricing mechanism can be divided into three main categories: *fixed pricing, differential pricing* and *market pricing* (Osterwalder, 2004). The distinction between these categories is the underlying parameters which the price is based upon.

### **Revenue stream type**

Online communities like MySpace have recently been subject to a discussion regarding profitability (Hansell, 2006), and there exist different opinions whether online communities can be a profitable business. YouTube's CEO Chad Hurley said during a conference in July this year that his company was not profitable (Forbes, 22.Aug. 2006). Currently, the use of MySpace and YouTube are free of charge, and the businesses are solely supported by advertising. The estimated revenue of MySpace this year is US\$ 200 million (Hansell, 2006), while YouTube did not see any revenue until March this year, when they cautiously began to sell advertisement (Forbes, 27.April. 2006).

In addition to traditional *advertising banners* on the sites, we are witnessing emergence of sophisticated advertising models. MySpace gives for instance

advertisers real-time information about trends and users (Hansell, 2006), which can be exploited in *target marketing*. This applies to Fridae as well, where it is stated clearly in the user agreement: "*We share the demographic and profile data with selected partners on an aggregate basis for the sole purpose of targeted advertising*" (Fridae, 2. Nov. 2006). On YouTube it is stated like this: "*We do share non-personally-identifiable information (such as anonymous User usage data, referring / exit pages and URLs, platform types, number of clicks, etc.) with interested third-parties to assist them in understanding the usage patterns for certain content, services, advertisements, promotions, and/or functionality on the YouTube Sites*" (YouTube, 20.Jan. 2006)

YouTube has recently introduced *pay-for-placement* concept, where advertisers can pay for a prime spot on the site (Forbes, 22.Aug. 2006). YouTube offers also brand channels, which is basically a place where a commercial actor can upload content. We find similar concept on Cyworld Korea (Brand Hompy). It is safe to assume that commercial actors have to pay Cyworld since it usually requires social security number to create a Minihompy. YouTube has plans to increase the *mediation of copyright content* and revenue sharing is expected to become evident. The content providers get a cut of the advertising revenue generated due to the increase of traffic (YouTube, 15.Nov. 2006).

There are other important revenue streams in addition to advertising. Fridae sells also a premium membership (Perks) and MySpace sells TV-shows and movies (Sellers, 2006). Cyworld has purposely stayed away from the large advertising revenues and banners, as stated by Joffe (Moore, 2006): "*For MySpace, it is not clear if the clients are users or advertisers and this is likely to have a very strong impact on the service popularity. Cyworld stayed away from advertising largely for this reason*". However, Cyworld demonstrates that online communities can also have powerful e-commerce components as well. It has even introduced their own online currency called Acorns, which is the only currency used in Cyworld (Joffe and Yeom, 2006). The second-biggest music store in the world is Cyworld, and it is reasonable to believe that they get a cut of the music companies' revenue. The same holds for the e-commerce on Fridae, where Fridae gets a cut of the sale. This is what Osterwalder (2004) described as cut of transaction stream type. Cyworld's primarily source of income is its US\$300 000 in daily sales of digital items used to decorate

members Minihompy (Braa, 2006) and is therefore also strongly present under selling stream type as well.

Table 5-5 shows an overview of the various revenue streams for the cases.

	Advertising				Selling		Cut of transaction
	Target Ad-banner	Commercial profile	Mediation of copyright content	Pay-for-placement	Premium membership	Avatar, digital items	E-commerce
<b>MySpace</b>	X						X
<b>YouTube</b>	X	X	X	X			
<b>Fridae</b>	X				X		X
<b>Cyworld</b>		X				X	X

Table 5-5: Revenue stream for the cases

### Pricing mechanism

Most of the pricing on the four cases are fixed, based on customer or product characteristics. When for instance Fridae customise the advertisements for the members based on their profile and/or activity on the site, they are likely to charge a higher price from the advertisers. We observe therefore both fixed pricing and differentiated pricing in the four cases, and none market pricing which is referred to as prices reflecting real-time market condition such as stock prices (Osterwalder, 2004).

## 5.9 Cost structure

The last element in Osterwalder's framework is the cost structure. It measures all the costs the firm incurs in order to create, market and deliver value to its customers. Since the cost structure is not easily observable, this section is solely based on the scarce public information. Thus, we will only be able to give general ideas about the cost structures in the four cases. Under value configuration (chapter 5.5), all of the activities for the companies are described and naturally every of these activities do incur cost. What is interesting and what we have focused on in the following section is typical costs incurred by the online communities.

In order to satisfy continuously changing customer requirement, all of the cases use a considerable amount of money on research and development, especially



within software and product development. MySpace has today 20 new products in the development pipeline and YouTube is aiming to launch a mobile version of the service within next year. For Cyworld, avatar development will naturally be a part of the continuous development. Another cost, which all of the cases incur to a greater or lesser extent, is the cost related to storage of data. In the case of YouTube, the bandwidth cost has been stressed in several articles. This cost is estimated to be around US\$1 million a month. The bandwidth companies usually charge video sites up to a cent per minute of video streamed, but discount is usually given to big players like YouTube. Neither YouTube nor its bandwidth provider (Limelight) want to comment on their pricing. (Forbes, 27. April 2006).

Maintaining a social networking service requires large sums spent on monitoring of the online community. That includes among other tasks deleting of inappropriate content or content violating copyright. This is something all of the cases have to deal with. MySpace established a huge sales force and doubled the total staff in the first quarter of 2006 (Sellers, 2006). This means that significant effort and resources have been invested in sales. Fridae however, has probably a much smaller sales force, although in their prior cost structure, setting up big offline events had been considered as costly. The founder, Dr. Koe, said that Nation 2006 will be Fridae's last, stating that *"We have limited resources and we can't afford to commit this level of human resources to organising big events anymore."*(The Nation, 27.Oct.2006)

## 5.10 Overview of the business models - keywords

	<b>MySpace</b>	<b>YouTube</b>	<b>Fridae</b>	<b>Cyworld</b>
<b>Value proposition</b>	-Networking -Access to content -Consumption of popular culture -Fake profiles -Global reach -Largest member volume	-Networking -Access to content -Global reach -Focus on video clips	-Networking -Access to content -Free space for gays -Customised information	-Networking -Access to content -Visualise personality through avatars -Trust -Facilitate offline relationships
<b>Target customer</b>	-Global -Mass market -Unknown bands -Fans -All ages (members: 14+)	-Global -Video interested -All ages (members: 13+)	-Asians -Homosexual community -All ages (members: 18+)	-Country specific -Mass market -All ages (members: 13+ in U.S. version)
<b>Distribution channel</b>	-Website -E-mail -Media -Mobile -Streaming	-Website -E-mail -Media -(Mobile <sup>12</sup> ) -Streaming	-Website -E-mail -Media -Offline events	-Website -E-mail -Media -Mobile
<b>Relationship</b>	Acquisition: -Word of mouth -Brand -Attractive website -E-mail invitations Retention: -High switching costs -Privacy policy -Storage -Offering improvements Add-on selling: -E-commerce	Acquisition: -Word of mouth -Brand -Attractive website -E-mail invitations Retention: - Privacy policy - Storage	Acquisition: -Word of mouth -Brand -Attractive website Retention: -High switching costs -Privacy policy -Storage Add-on selling: -E-commerce	Acquisition: -Word of mouth -Brand -Attractive website -E-mail invitations Retention: -High switching costs -Privacy policy -Storage Add-on selling: -E-commerce
<b>Value Configuration</b>	Product development, subscription, advertising, press releases, customer service, operation and maintaining of switches, servers, band width and quality + E-commerce	Product development, subscription, advertising, press releases, customer service, operation and maintaining of switches, servers, band width and quality	Product development, subscription, advertising, press releases, customer service, operation and maintaining of switches, servers, band width and quality +E-commerce + Offline Events	Product development, subscription, advertising, press releases, customer service, operation and maintaining of switches, servers, band width and quality +E-commerce + Mobile network
<b>Capabilities</b>	-Technology setup (hardware) -Software -Huge user database -Brand -Software developers -Founders	-Technology setup (hardware) -Software (video streaming) -User database -Brand -Software developers -Founders	-Technology setup (hardware) -Software -User database -Brand -Software developers -Founders	-Technology setup (hardware) -Software (Avatars) -User database -Brand -Software developers -Founders
<b>Partnership</b>	-Google (ads) -Helio (mobile) -China Mobile	-Google (ads) -Copyright Content providers, celebrities	-Google (ads) -E-commerce actors	-Deutsche Telecom -E-commerce actors
<b>Revenue model</b>	-Target advertising - E-commerce	-Target advertising -Commercial profiles -Mediate copyright content -Pay-for-placement	-Target advertising -Premium membership -E-commerce -Offline events	-Commercial profiles -Avatars -E-commerce
<b>Cost structure</b>	-R&D -Monitoring -Storage of data -Sale	-R&D -Monitoring -Storage of data -Bandwidth	-R&D -Monitoring -Storage of data -Offline events	-R&D -Monitoring -Storage of data

**Table 5-6: Overview of the business models of the four cases based on the findings**

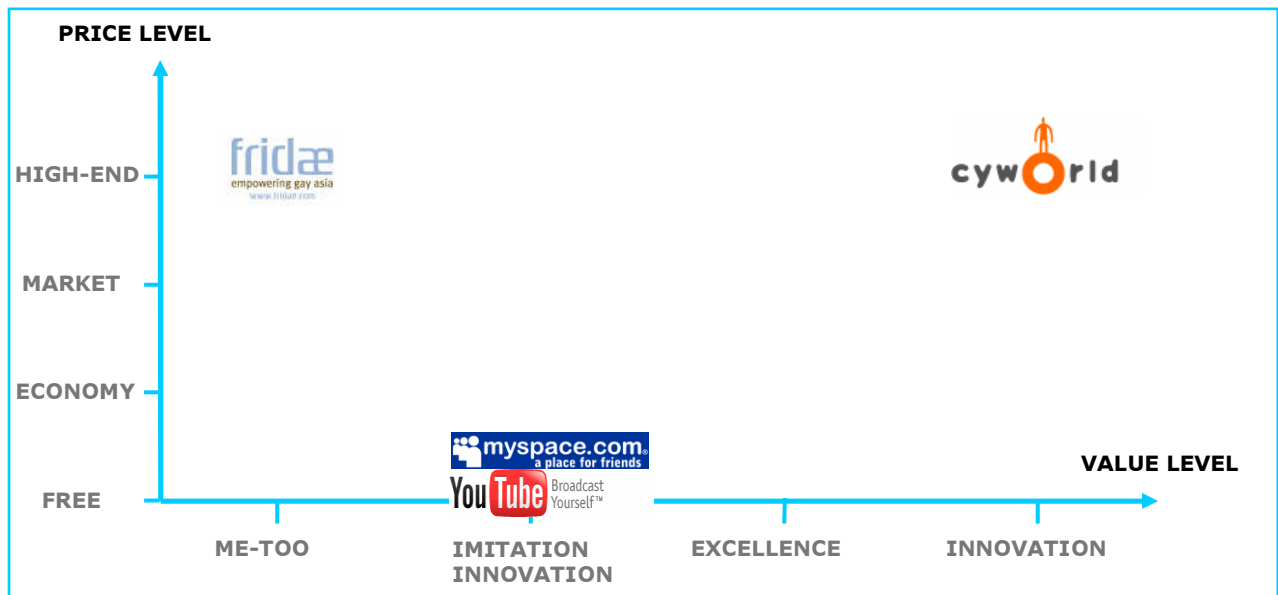
<sup>12</sup> Expected during next year

## 6 Discussion

This chapter discusses the results found in chapter 5. We used a cross-case analysis to try to identify certain patterns and interesting differences and similarities in the business models. Through an iterative process of comparing hypothetical explanations for these patterns with the cases, we have developed new constructs and frameworks that match the cases. It is important to emphasise that the conclusions are based on the four selected cases only, thus generalisation over a larger population must be done with great caution. Finally, we have validated the results with existing literature.

### 6.1 Differentiation strategies affect the price level

Recall the figure which shows the price level for each case. Two of the cases (Fridae and Cyworld) have a relatively high price level<sup>13</sup>, while the other cases are free. It is interesting to question what justifies this price level and what affects the willingness to pay. In the following, elements from *value proposition*, *target customer* and *revenue model* will be discussed.



**Figure 6-1: Graph showing value level in connection with the price level (based on Osterwalder, 2004)**

<sup>13</sup> The observations are made on non-commercial users

By combining the observation of price level and value level, the connection between the four cases and the two dimensions can be shown graphically, see Figure 6-1. It is evident that the Asian founded services (Fridae and Cyworld) differ from the American founded services (YouTube and MySpace).

Let us first review Cyworld's position to the right of the value level scale (innovation), which implies that Cyworld differs from its competitors. From Figure 6-1, we observe that this position is accompanied by a high price level, which can indicate that the high price level in Cyworld is justified by the great degree of innovation, and subsequently lower degree of competition in this area. While Cyworld differentiate itself through extensive use of avatars and mobile presence, a possible explanation to Fridae's price level is that it differentiates itself by catering to the homosexuals in Asia and chasing the so-called "Pink dollar". Although the value level of Fridae is not different from its competitors, it has achieved higher price level through differentiated segmentation. It is therefore arguable that the price level reflects the competition within the value level in which the company operates; the less competition the higher price level.

MySpace and YouTube are both subject to significant competition because of relatively low degree of differentiation and the fact that they are targeting a global audience competing with many actors. The price levels for these two cases are set accordingly to the high competition they are facing. Shapiro and Varian (1999) support our proposal and claim that competition reduces the pricing flexibility:

*"Create a product with few close substitutes so that you can base your price on the value you offer to the consumer rather than the prices set by the competition"*

*(Shapiro and Varian, 1999: 50)*

To sum up, a remedy to competition is differentiation through innovative products (Cyworld) or segmentation of the target customer (Fridae), which allows for a greater pricing flexibility.

Differentiation through either innovation or segmentation of the target customers allows greater pricing flexibility
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## 6.2 Degree of personal involvement and trust affect the price level

We have observed that in general the profiles on Fridae and Cyworld are more personal than on MySpace and YouTube. By personal we mean how much of themselves the members reveal through the profiles. In this chapter, elements from *value proposition*, *customer relationship* and *revenue model* will be discussed.

The content on the online communities will necessarily reflect the value proposition to each individual case. By reviewing the value propositions we think that the members on Fridae and Cyworld are more motivated to create genuine profiles. In order to find like-minded friends in Fridae, the member has incentives to reveal who he or she really is. Likewise, since Cyworld also facilitate the offline network of the members, it will be pointless to pass one self off as somebody else. The Real-name policy in Cyworld Korea ensures real identities inside the community. Consider on the other hand MySpace, which allows so-called fakesters in their community, and subsequently becomes a space where the non-personal content becomes just as important as the people in the community. Recall that consumption of popular culture after all is an important part of MySpace's value proposition. The strong focus on the content holds also for YouTube, where the access to a large number of video clips constitutes a major part of the value proposition. There is practically no personal information revealed (except from age and country) on YouTube.

To summarise, we find two extremities: Cyworld is on the one end with strong focus on the people and reliable information within the community, and YouTube on the other end with solely focus on the content where mostly the identity and profile of members are irrelevant, see Figure 6-2. MySpace and Fridae will be somewhere between these two extremities.



Figure 6-2: Focus on the four cases

Preece (2000) emphasises the importance of the people in an online community and claims that people are the pulse of any community. Further she explains that strong online ties among individuals are possible, based on prior researches. This is supported by Hjort and Kim (2005) who claim that online relationships in Cyworld are far from being purely virtual, but have also deep impact on the relationships in the actual. However, trust must be present before the relationships in online communities can flourish. "*For online communities, specifically, trust is essential because it's the glue that holds together not only your relationship with your members, but the members' relationship with each other*" (Preece, 2000: 192). If we go back to our cases and reflect on trust issue and the scale presented in Figure 6-2, we see interesting patterns. The cases with high price level are those with high degree of person focus. We see also that the person focus has subsequently enhances the trust within the community. For instance, the Real-name-policy in Cyworld Korea is said to bring responsibility, courtesy and a lot of benefits for users themselves in terms of trust in the information they can find. There are apparent connection between "people focus" and price level, which may be explained by trust. This indicates, for our cases, that the price level is higher where there is greater possibility to meet genuine people and where trust has a strong presence. However, caution must be shown on attempts to apply this correlation to other cases.

Personal involvement and trust in the online community is related to higher price level

### 6.3 Various revenue streams as the online community evolves

Online communities can rely on various revenue streams. Compared to Osterwalder's categories of revenue streams, we have only observed three of the five categories in the cases: *selling*, *advertising* and *transaction cut*. However, there exist various revenue sources within the same category. For instance, advertising can be traditional advertisement banners on the website or more sophisticated revenue sharing with actors from the entertainment industry, see chapter 5.8. The discussion in this chapter will concern elements from *value proposition* and *revenue model*.

Hagel and Armstrong (1997) describe in general three types of revenue streams for online communities: *fee-based*, *advertising* and *transaction commission*. This supports our findings and correspond to the three categories we have found using Osterwalder's framework.

The absence of income and continuously incurring of cost related to development, storage and bandwidth etc. have made people question the sustainability of online communities. During the period of data collection we have however, witnessed that new revenue sources are emerging. YouTube are steadily searching for new advertising revenue sources and MySpace are tapping into e-commerce. We believe that as online communities grow in terms of members, advertising and transaction commissions will become more viable sources of revenue. Hagel and Armstrong (1997) regard the reach of a critical mass as an important milestone for online communities. Profitability of an online community will grow significantly after the reach of critical mass of members. This can maybe explain the absence of great revenues for relatively new online communities such as YouTube. Further, Hagel and Armstrong imply that the revenue stream from transaction commission will emerge after advertising in time. "*Community must be in place before commerce can begin*" (Hagel and Armstrong, 1998: 132).

This give reasons to believe that the choice of revenue streams will reflect the age of the online community. For our cases, Table 6-1 shows that this holds for our cases. We see that YouTube has solely advertising revenue sources, while the two year older MySpace are tapping into revenue sources related to transaction commission as well. In the case of Fridae and Cyworld, we find all three revenue stream types. However, the advertising in Cyworld is limited to commercial profiles only.

<b>YouTube (2005)</b>	<b>1 year old</b>	<b>advertising,</b>
<b>MySpace (2003)</b>	<b>3 years old</b>	<b>advertising, cut of transaction</b>
<b>Fridae (2001)</b>	<b>5 years old</b>	<b>advertising, cut of transaction, selling</b>
<b>Cyworld (1999)</b>	<b>7 years old</b>	<b>(advertising),cut of transaction, selling</b>

*Table 6-1: The age and revenue streams for the four cases*

We see that, as the community grows, the flexibility in choosing different revenue streams increases. This can be explained by the fact that advertisers and vendors will not be interested in participating in any online community in a meaningful way, until the critical mass of members is reached (Hagel and Armstrong, 1997). Another way to look at this is the model of Klang and Olsson (1999), see chapter 3.1.3. The model regards online communities as dynamic phenomena which change over time. They tend to become hybrids of the suggested categories. This is applicable to all of our cases. MySpace started out as a pure club, but has with time developed into an online community with elements from club, shop and bazaar. YouTube is developing towards shop, but still keeping elements from club. In the case of Fridae and Cyworld, we know little of the development, but currently Fridae has both elements from club and shop, and Cyworld has elements from club, shop and bazaar. Supported by Table 6-1, the revenue streams of the online communities will necessarily follow the changes, leading to various revenue streams as it enfolds elements from the different categories.

The flexibility in choosing different revenue streams increases as the online community grows, and the reach of the critical mass constitutes an important milestone.

## 6.4 Different strategies throughout the membership cycle

It is not a novelty that members develop different roles in an online community, and that they may partake a selection of roles throughout the membership. What is more interesting is looking at what strategies to use towards the customers when they are in a specific stage in their membership. In this chapter we will discuss areas that will touch into the *relationship* element, the *target customer* element and the *channel* element in the business model.

### **Reaching people**

We have witnessed that in order to draw potential new members' attention, *offline* channels like media, word of mouth and a known brand will work as effective tools. When the person becomes interested in the social networking site, he or she visits the website, an experience which hopefully convinces the customer to become a member. We have found that all the cases attract offline



communities in one way or another. In addition, the company has an attractive website in order to convince new members to join. The site attracts members *online*, with an inviting user interface and arguments for why people should join. As we have seen, members invite their friends to join the community through an e-mail service on the site, which is probably the most common way of reaching new members online. The online media works also as a gateway to people's attention, as links to the sites usually are attached when the communities are mentioned online. YouTube harvests in addition great attention as the videos can be streamed on practically any website.

Kim (2000) focuses also on the importance of an attractive user interface and what visitors may do without being a member. However, we have found that a recommendation from a friend or a strong brand can generate trust which can be more crucial than an inviting website. Hagel and Armstrong (1997) emphasise in addition to attractive content, that marketing and free membership and usage attracts new members. Marketing can be both an offline and online strategy.

### **Keeping people online**

When the customer decides to become a member, the customer relationship between the company and the member becomes a member-to-host relationship. A mutual bond is tied, where each part of the deal makes promises. The customer promises to follow the terms of use, and the social networking site ensures that the privacy is in good hands. We see that the distribution channels move closer to the customer, as the website, e-mail and in some cases mobile availability becomes the channels of communication. Through these channels, the relationship with the customer grows, and the relationships between members grow.

In the beginning, the members are not familiar with the community, and are trying to learn about the possibilities on the social networking service. The target customers within the online communities seem to be diverse, hence it is important to express and communicate a value proposition that meets this diversity. Kim (2000) emphasises that the newcomers need to be welcomed and instructed. It is well known that companies use information about the member from the personal profile and cookies in order to create a personal customer relationship. In that way, the value proposition becomes more and

more customised, and eventually the member can be reached with a more targeted strategy. Hamel and Armstrong (1997) claim that the user will have little economic value in the beginning, but eventually they will take different roles which will create value. We believe that more targeted information available to the customer enhances the customer relationship.

The findings from the cases imply that switching costs are a strategy to keep the members. This can be supported with the fact that emotional attachment to the content increases as the effort put into making it increases. If the site makes it possible to upload or create content and be creative, the switching costs become even higher. Members who do not put any effort into building the community will have lower switching costs. This is in line with Varian et al. (2004) who describe this as a "lock-in effect" in switching cost theory. We believe that this lock-in effect becomes more evident through enhancement of the customer relationship. We have shown that one way to enhance the relationship is to offer a large storage capacity. This goes hand in hand with the lock-in effect, as the more content the customer stores on the site, the less willing is he or she to change community. The members on Fridae are even willing to pay for the extra storage. This can be explained with the fact that the willingness to pay increases with higher switching costs, as claimed in Varian et al. (2004). An established network within the community will also create a lock-in effect. The member will hesitate to leave the community if it results in loss of many online relationships. The social networking services exploit this lock-in effect by enabling and stimulating communication among members, so that online networks are quickly established and continuously evolving.

YouTube has relatively low switching costs since the member does not have a personal profile. The online relationships are therefore rather based on the uploaded content than the persons. However, as long as the site gives better viewings than competitors' sites, the member remains. Viewings and ratings are tools for rewarding good content and a strategy for retaining your customers. And let us not forget that good content creates an attractive community, so this is a win-win situation. The rating trend is confirmed by Anderson (2006), who claims that we are entering an "*epochal shift*" where trends are no longer defined by the elite, but by you and me. People become so called "taste makers", and it is the "collective intelligence" who decides what is hot and what is not. By putting tags on your content, people can browse it and

you can reach the narrowest niches. This is also in accordance with Kim (2000) who emphasises the importance of rewarding your regulars, especially those who are valuable. If you do not satisfy your regulars, you can experience complaints and damage of the social networking service's reputation (Kim, 2000). Anderson (2006) agrees with this, and adds that informed and trusted advice becomes important as the amount of information on the web explodes. Based on this, we can say that rewarding the members enhances the customer relationship, and increases the members' retention despite low switching costs.

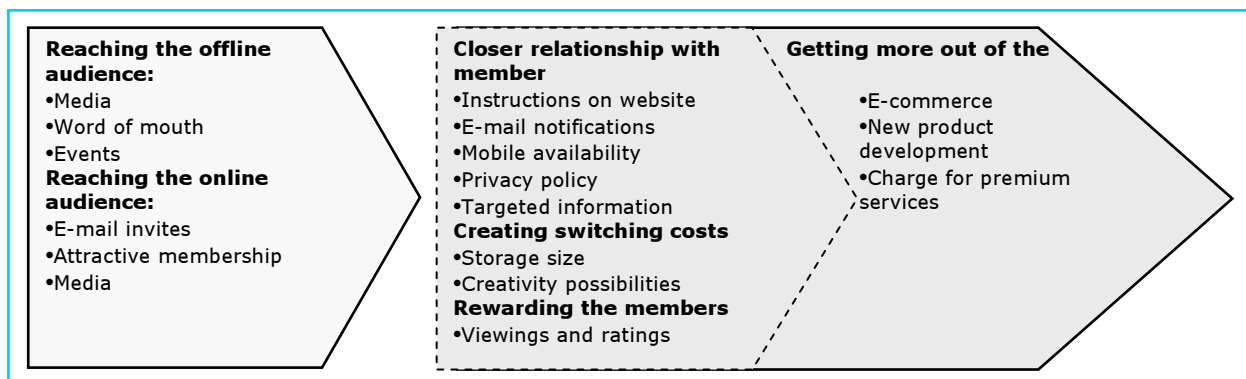
### Getting more out of your members

Our findings show that the online communities offer an extended range of services to capture more value from the members. This part will be discussed further in the following chapter. Through new product development, premium memberships and e-commerce the cases prolong the customer relationship, and add additional value to the site. Here you find what Hagel and Armstrong (1997) call the "buyers", which are the members who spend a significant amount of money on goods and services in the community. The authors stress the fact that loyalty pays, and acquiring new members are costly (Hagel and Armstrong, 1997). We believe that in order to make a member explore new possibilities on the site, the customer relationship must be based on both attractive products and trust.

### The customer relationship strategies

It is important to be aware of the different roles the members have when creating a business model for an online community. Only then can you attract and retain not only the curious browser, but also a potential valuable member.

Figure 6-3 sums up the different strategies.



**Figure 6-3: Strategies used to reach potential new members and enhance established customer relationships**

Online communities use diverse customer relationship strategies in different stages of the membership cycle.

## 6.5 Convergence of Internet services

As shown in Table 5-2 and Table 5-3 the social networking services offer a broad range of features to the customers. Some of the features were not available when the companies first went online, and we see a trend where members no longer need different sites for services like social networking, Instant Messaging, e-commerce, music and videos etc. The integration of an increasing spectre of services on the social networking sites is part of a new trend; often referred to as a digital convergence of Internet services (Schlueter-Langdon and Shaw, 2002). As discussed in chapter 6.3, the cases are entering different categories such as *club*, *bazaar* and *shop* (Klang and Olsson, 1999), which is a direct result of the digital convergence. In this chapter, the elements from *value configuration*, *capability* and *partnerships* from the business model framework will make the basis of the discussion.

The activities that create value for a customer can be performed by either internal resources or a partner. The companies integrate horizontally, which means that they integrate additional services. We believe that one of the reasons why the companies integrate new services is that they see the value in the established user base. Network services require a critical mass, however with an already established network, the critical mass is immediately reached for the new service. It's a win-win situation, since the customer experiences immediate network externalities when a new service is offered. This goes hand in hand with the switching costs and the lock-in effect, as these factors keep the members in the network and increases network externalities. Schlueter-Langdon and Shaw (2002) supports this notion by saying that by aggregating content in an online network and offering competing products, the buyer reduces the search costs for new products and services, and the seller reduces costs on finding the buyer. This is in line with one of the attributes in Osterwalder's (2004) reasoning for choice of distributions channel. He says that ICT contributes to an increased value creation by reducing the customer effort.

An additional way to explain the convergence is the acquisitions of some of the companies. News Corp's acquisition of MySpace lead to e-commerce of FOX TV-

shows, and products like VoIP are said to be in development. Google's acquisition of YouTube has affected the availability of copyright content, and emergence of services like mobile presence is to be expected. In addition to the acquisitions, all of the cases use partnerships to provide an increasing number of services. We believe that the core products of the social networking services, like the huge information database of users and the basic software solutions, are in-house activities. Support activities, such as search engines and advertising solutions, are put out to partners.

Finally, increased competition has led to a fierce battle for online community members that may have resulted in the increasing convergence. It seems that the companies compete on offering a broad range of services, in order to capture most of the consumer's activities on the Internet. YouTube and MySpace are competing on video streaming, and now both companies have announced mobile presence in the near future. The two companies were anything but rivals in the beginning, but as the number of members has increased, the competition for the same members has grown. This is in accordance with Hagel and Armstrong (1997) who say that the more a community has to offer, the greater will the incentives be to join it. They explain this with that an increase in number of services increases the member-generated content, which again will attract people to join and stay in the community. Another example is Cyworld's IM service, which was compatible with MSN messenger <sup>14</sup>in the beginning (Developer Zone, 27.Jan.2003), but eventually the compatibility was withdrawn. This strategy was probably used in order to reach critical mass on their IM users, and to facilitate the switching process between service providers. We believe that one of the reasons for convergence is the companies' hope that the less time a member spends in other communities, the more time they will spend in their community.

To sum up, the convergence of Internet services can be a result of:

- network externalities in ICT, both for buyer and seller
- increased availability of services through acquisitions and partnerships
- high level of competition for the same customers

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<sup>14</sup> MSN Messenger was a free instant messaging client that was developed and distributed by Microsoft, renamed to Windows Live Messenger

The online communities are cooperating with an increasing range of Internet actors and create a convergence of Internet services.

## 6.6 Online community in a value system perspective

Online communities operate in a complex environment where boundaries between the involved actors often are blurred. The theory of value system perspective (Andersen and Fjeldstad, 2003) will help us understand the external environment of online communities. As described in chapter 3.3, the value system can be modelled as a set of interconnected and layered services provided by mediation actors. Based on the findings from the case study and dialogue with professor Fjeldstad, we have put online community into a value system perspective, see Figure 6-4. It consists of five complementary layers and all the layers have to be present in order to deliver value to the customer. The layers are (from the bottom):

- Network operators – that operate and provide Internet access to the customers.
- Internet service providers – that offer Internet service to the customers over the networks of network operators.
- Payment providers – that offer payment solutions over the Internet.
- Service providers – that offer services which enable interaction between individuals on the Internet, such as e-mail system, instant messaging system (IM), search engine, e-commerce service etc.
- Social networking service – that offers an online space where people can interact and share content, based on accumulation of services provided by the service providers in the layer beneath.

The horizontal line, illustrating Internet Protocol (IP), separates the services (above the line) from the access to the Internet (below the line).

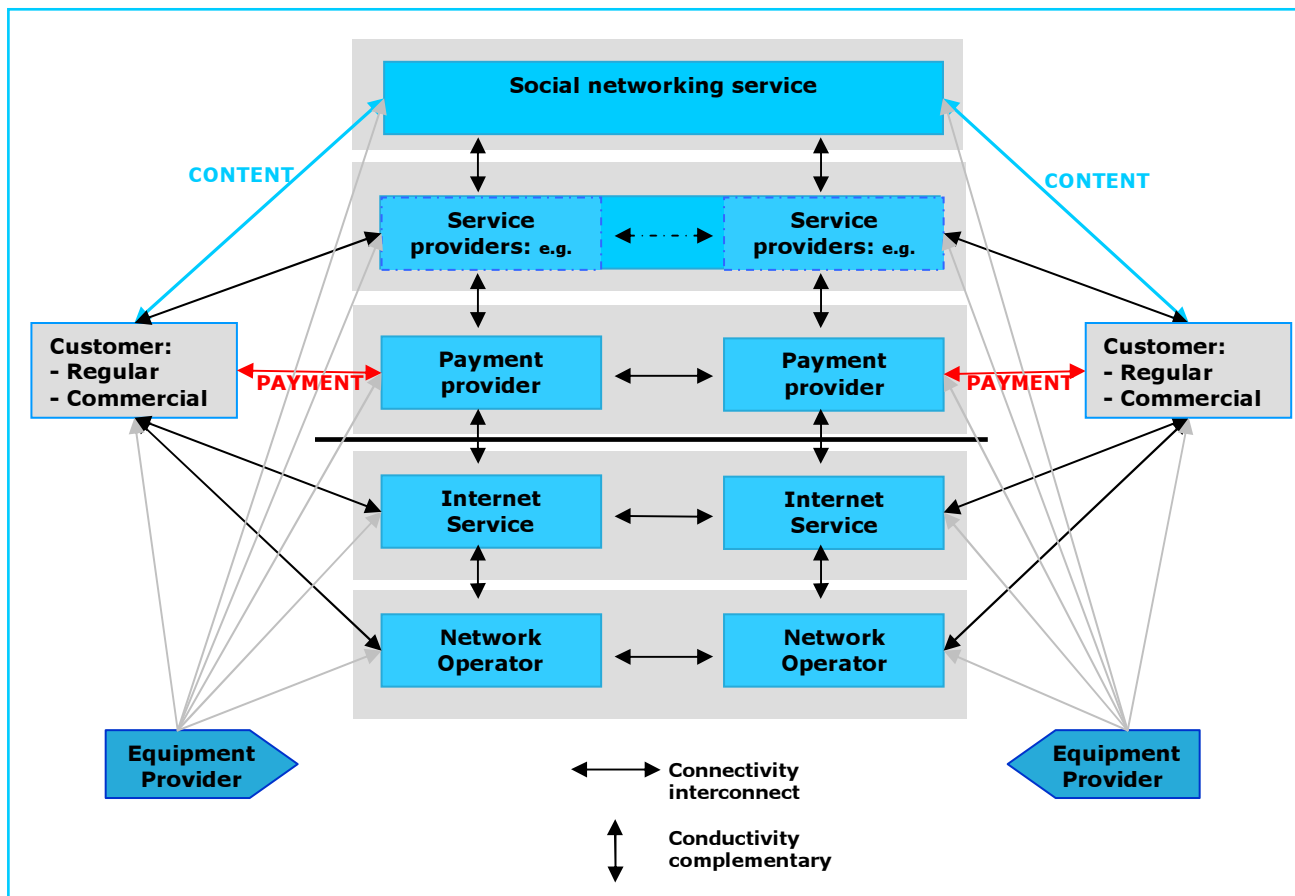


Figure 6-4: Value system for online communities, based on Fjeldstad<sup>15</sup> and Andersen and Fjeldstad (2003)

Very often we are witnessing social networking services that create their own online services and hence become less dependent on the layer beneath. For instance, a social networking service that develops its own search engine will be capable of running its business independently from a search engine provider. The layer with service providers is illustrated with dashed interconnection in Figure 6-4, because not all of the services are necessarily interconnected. Let us give some examples: search engines are usually not interconnected, but IM-systems, however, can be interconnected. The IM-system integrated in Cyworld used to be compatible with the MSN messenger (Developer Zone, 27.Jan. 2003).

One of the characteristics of the value system for online communities is the fact that there are no explicit content providers. It is the customers themselves that provide the content to the community. As mentioned in chapter 5.1.5, both

<sup>15</sup> Telephone dialogue with Fjeldstad, 8<sup>th</sup> Desember 2006

regular consumers with no commercial intention and commercial actors can be regarded as customers in an online community. Commercial actors will provide either content in form of traditional advertisements (passive marketing) or copyright content and profiles (active marketing). For the regular customers, the content can be anything from personal profiles to video clips.

### **MySpace – an example**

This section is dedicated to explain a typical transaction in a value system for online communities, using MySpace as an example. We will describe what a MySpace member encounters in this setting, we will approach it from the bottom layer to top layer.

First of all, the member will need equipments such as computer, modem and cables in order to get online. These equipments are delivered from an equipment provider. If the member uses an IBM computer, then IBM will be the equipment provider to the customer. The grey arrows in Figure 6-4 show that every actor within the value system needs a provider of equipments. Further, the member needs access to the Internet, which is provided by a network operator and an Internet service provider together. (Sometimes a network operator can also be the Internet service provider). In order to buy TV shows offered by FOX or doing transactions through the classifieds feature on MySpace, a payment service is required. The payment provider takes care of the financial aspect of the transaction. But before the transaction takes place, the member has to search up the relevant classified and send an inquiry to the other member who has uploaded the classified. This interaction can be executed by e-mail or IM. The search engine in MySpace is provided by Google who represents one among many service providers (the layer second from the top). When it comes to e-mail and IM, MySpace has its own systems. Lastly, the layer at the top represents MySpace itself. By providing its own services and services by other Internet service providers, it has created a space where communities can grow and thrive. The content in MySpace is uploaded by members themselves, such as the classified in this example. The blue arrows in Figure 6-4 represent all the uploaded content in MySpace ranging from music, advertisement, pictures, video clips etc.



## Indications

The value system perspective reveals the importance of externalities in value networks. It is crucial to be aware of other actors within the value system in order to fully exploit the opportunities. For instance, what the equipment providers offer in the value system will have deep impact on the social networking service: the fact that many mobile phones nowadays have incorporated 3G<sup>16</sup> and WiFi<sup>17</sup> technology enhances the Internet experience on these hand devices. Subsequently, the social networking services can as well become mobile. Another example is how the actors below the horizontal IP line affect on the ones above. A faster bandwidth enhances the quality of the services in the layers above and leads to a greater perceived value for the customers. This is especially crucial to video streaming in MySpace and YouTube.

When it comes to business models based on mediation technology, the value system should be a natural part in development and evaluation of the business model. It is a powerful tool and a good starting point for discussions about the roles within the value creation. These roles are changing and the one and same actor may hold several roles. What we have seen is that social networking services are increasingly developing their own services which make the other service providers superfluous. In this way we can claim that social networking services are taking over the roles of service providers in some areas.

## 6.7 General important findings

In addition to the discussions in the previous chapters, there have been findings from the result that are important in order to understand how the business models in online communities are. We acknowledge that business models for online communities can be highly case specific, but having in mind our research question a generalisation of the four cases is in its place. This chapter gives a the general idea and tries to capture the essence of what business models in online communities comprise of, based on the findings.

*The value proposition* is crucial and will strongly affect how the business is conducted. Both the regular consumers and the commercial actors can be regarded as the customers of online communities, thus, there exist different

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<sup>16</sup> Third generation technology on mobile phones, allowing transfer of voice data and non-voice data simultaneously

<sup>17</sup> The underlying technology of wireless local area networks

value propositions in one and same online community, depending on which point of view we take. We have seen that the value proposition is highly case specific. However, general values of being part of a community apply to all cases. These values are 1) opportunity to meet and interact with other people and 2) easy access to content and information.

*The target customer* is who the value proposition caters to. In conformity with the value proposition, it is highly case specific, and different online communities target different segments. This targeting can be either broad, catering to a vast group of people or narrow, catering to a niche. Characteristics to recognize a certain segment of target customers are geographic and socio-demographic. For online community, the boundaries of geography turned out to be less important than the socio-demographic aspects.

*Distribution channels* describe how the online communities reach out to the customers and the relationships involved. Various channels are used in order to reach the customer. The choice of channel seems to depend strongly on the situations of the customers. Word of mouth, media, e-mail and websites are important channels. Recently, we have also noticed the emergence of mobile presence for online communities, which constitutes a new and closer distribution channel. It is worth noticing that both on- and offline channel are used. Finally, technologies such as streaming enable user friendly distribution of music and videos.

*Customer relationship* regards the relationship between the online community (the company) and the customers. Different relationships seem to evolve pre and post sign-up; where the former focus mainly on the acquisition of the member, and the latter focus on how to keep and prolong the membership. Since the whole online community concept is based on network logic, the relationships among the members are crucial, and very often they define the relationship between the company and the individual customer. In order to keep the customers, various strategies to raise the switching cost are employed. In addition, the online communities face issues like privacy and reputation.

*Value configuration* uncovers the activities needed in the value creation. Online communities are built on mediation technology, and thus we can establish that

value network is the prevailing configuration. For online communities, important activities in the value network are management of invitation, approving and termination of memberships, software development, maintenance of servers and improvement of service provision.

*Capability* refers to the tangible, intangible and human resources which must be present in the online community in order to provide the service. Of tangible resources, we will like to stress the importance of the companies' software and the databases of members. For online communities especially, the brand name constitutes a significant intangible resource. When it comes to human resources, the founders of the online communities usually are valuable in terms of public relations and their personal network.

*Partnerships* are made in order to enhance the competitiveness of the companies involved. Online communities tend to cooperate with many actors, ranging from mobile network providers to service providers. The partnerships are formed aiming to fill the capability gaps, either related to value creation or distribution of the service.

*Revenue models* for online communities can comprise of several revenue streams. This reflects the various value creating activities which can take place. When online communities offer the service free of charge, advertising is inevitable. However, income can also be generated through e-commerce, where the online communities take a cut of the transaction. Both fixed and differentiated pricing mechanisms are used. The revenue model is a trade off between different revenue streams in search for the optimal combination which does not undermine the value proposition. The revenue model can be highly dynamic and adapt to trends and the environment around.

*Cost structure* measures all the costs the online communities incur in order to deliver value to the customer. The online communities operate within an industry that is continuously changing. This implies that the online communities incur considerably cost related to research and development. The online communities are likely to face large costs related to maintenance, storage and monitoring.

## 6.8 Summary

This chapter is dedicated to sum up both the discussion and the general important findings from the cases. This summary is presented in Figure 6-5, which is a bird's view showing the business model for online communities. The grey boxes illustrate the nine building blocks of a business model, and the dashed lines show the main four business area used in Osterwalder's (2004) framework.

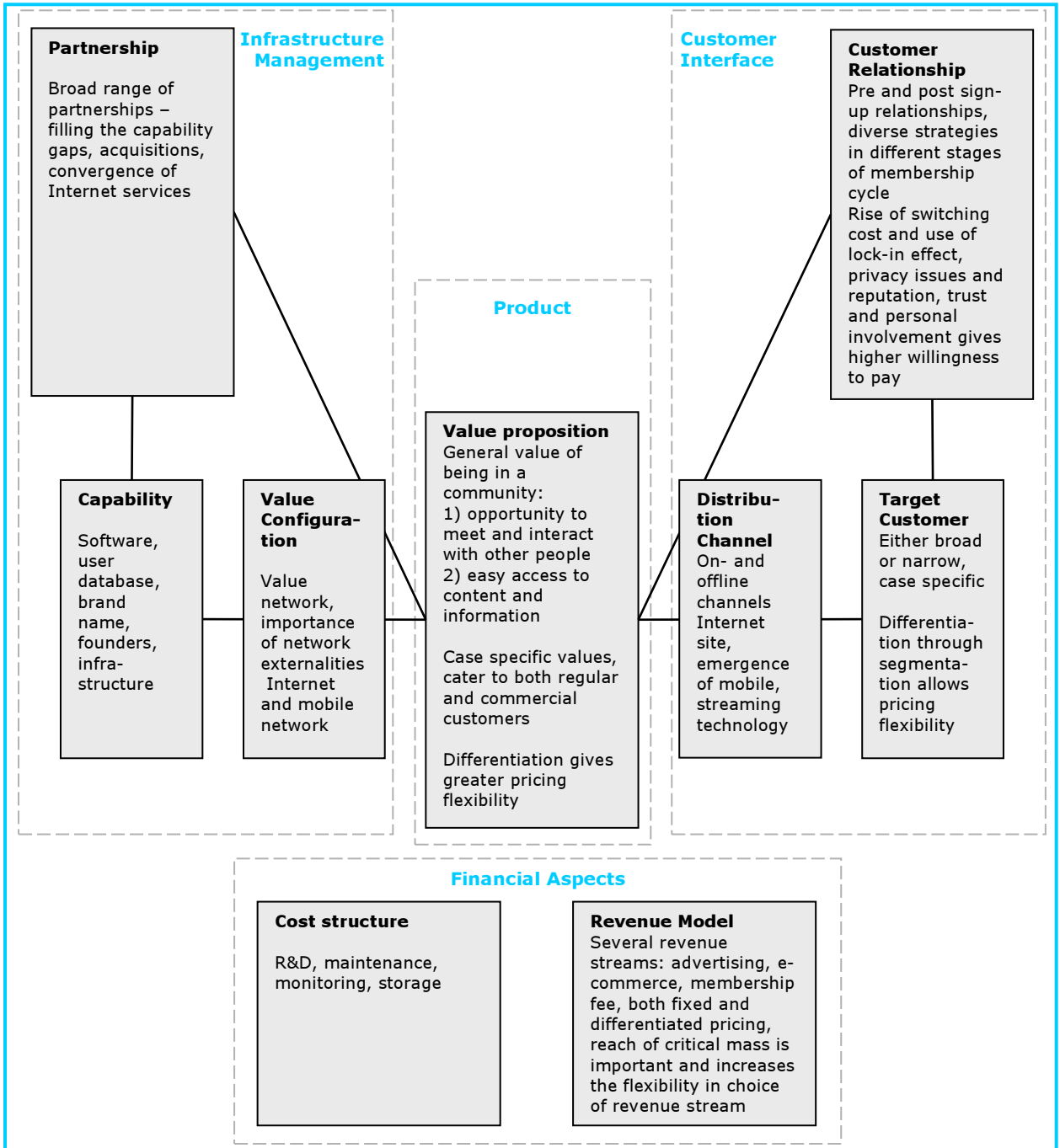


Figure 6-5: Bird's view of business models in online communities, based on Osterwalder (2004)

## 6.9 Recommendations for further studies

Our research is a preparatory study that has resulted in many unanswered questions. This is one of the intentions of an exploratory research process; to reveal new and undiscovered areas that should be studied in more detail. In the following we will present some of the interesting findings that we propose for further studies.

The focus in this paper has been on the value proposition for the regular non-commercial members. It will be interesting to investigate whether the value propositions of the non-commercial customers and the commercial customer are conflicting or not. An interesting research question will then be: how will an increasing presence of advertisement and other commercial content affect the value proposition to the regular customers? If the two value propositions are conflicting, will this be a vicious circle where consumers flee from the social networking services with heavy advertising, which again will decrease the value for the commercial actors?

It is interesting to discuss why online communities start their business, and to whom they direct their value proposition. We have mentioned the non-commercial and the commercial customers, but it is believed that there exists a third value proposition targeting towards potential buyers of the company. When for instance YouTube tried to figure out who to target, maybe one of the approaches was to attract a buyer like Google?

An interesting finding was that the target customers' demographic characteristics are dynamic over time. We see for instance that the cases have an older audience than before. This may contradict to the belief that online communities are primarily for youngsters. Another interesting aspect is how this will affect the content and the purchasing power within the online communities.

We have seen that online communities on mobile phones are emerging. It would have been interesting to study how this affects the value system for online communities, and what implications and possibilities this may result in. Also, in what way will mobile presence affect the market penetration?

Finally, we recommend that research shed light on the increasing convergence of services in the community. This is a current phenomenon, which we have not yet seen the final outcome of. How will this affect the value of the online communities and other Internet service providers and their businesses? Will strategic alliances be evitable in the battle of survival? Preece (2000) has thoughts on this matter, which indicates a negative effect of gathering a too great amount of members in one place:

*"The size of a community can strongly influence its activities. Too few people will generate too little communication, making the community unattractive to newcomers. Too many people will create the sense of being overwhelmed, of not knowing anyone." (Preece, 2000 : 9)*

Research over a larger time period is recommended, in order to see the effects of the convergence trend.

In general, we recommend more research on business models in online communities, and also on the value systems they operate in. Business models are complex, and much of the information is non-public. So in order to fully reveal the required data, access to company data and interviews with key persons in the company are recommended.

## 7 Conclusion

In this paper we have used the framework of Osterwalder (2004) to explore the business models in online communities. The main purpose has been to achieve a better understanding of the phenomenon online community and the business models used, and develop constructs and framework for the master thesis.

The attempt of generalisation of our cases has led to a picture which shows that there exist factors which apply to all of our cases. For online communities, both regular consumers and commercial actors can be regarded as the customers. Subsequently, there exist also two value propositions. Even though the focus in this paper has primarily been on the regular consumers, it is important to be aware of this duality. The value proposition will directly affect the price level of the service, and we have seen that different differentiation strategies will give greater pricing flexibility, and subsequently lead to a higher price level for the service. Further, the degree of personal involvement and trust within the online community will also affect the price level positively. Reaching the critical mass is an important milestone for online communities, which will affect the ability to generate revenue from several revenue streams.

Throughout the membership cycle, the online community will use various strategies to cater the different roles a member undertakes. Brand name and recommendation from friends constitute important factors in acquisition of members. We observed that both offline and online channels have been used in the cases. In order to keep the customers, online communities actively increase the switching cost by establishing unique and special customer relationships. Customer relationships are enhanced through customised value proposition and by giving the members incentives to put down effort in the community. The latter is achieved by offering services that stimulate to content creation and interaction among the members. Subsequently, this will lead to high switching cost in terms of established network and emotional attachment. Further, the online communities are likely to extend the range of services in an attempt to capture more value from the members. This is often referred to as digital convergence of Internet services. When the online communities already hold the critical mass of members, they become an attractive target for the launch of new network services.

The online communities operate with a dynamic business model. We claim that the value system perspective is highly relevant and a powerful tool when developing and evaluating a business model for online communities. It can help to understand the impact of network externalities, which is important in order to fully discover and exploit the business opportunities. Hopefully, it will initiate a discussion regarding the different roles within the value system, which is useful in developing long term strategies.

Through the thorough comparison of the result and the follow-up discussion of some interesting patterns, the research question has been answered. We have achieved a better understanding of the online communities as a concept, and the business models they operate within. In addition, new constructs and frameworks have emerged as a result of our discussion.

This paper has explored the world of online communities and in the process only touched the tip of the ice berg. Further in-depth studies are therefore recommended. It is believed that there exists great potential for profit in online communities. However, the complexity of the industry makes it difficult to carry out. Prior studies have only focused on parts of the business models, but this is not adequate to give the in depth understanding. The one who fully understands the rules of this game, and plays it accordingly is believed to gain substantial profits.



## Appendix

	Features	Not Logged In	Logged In Without Perks	Logged In With Perks
<b>Profile Views</b>	Profiles per day	Nil	20	Unlimited
	View Text Entries	Partial	Full	Full
<b>Mailbox Capacity</b>	Messages	No	10	200
	Hearts	No	10	100
	Download archive (to be launched)	No	No	Yes
<b>Messaging</b>	Messages per day	0	5	Unlimited
	Stop Email Notification (to be launched)	No	No	Yes
<b>Search profiles</b>	Who's online	No	Yes	Yes
	Username search	No	No	Yes
	Advanced search	No	No	Yes
	Interests Search	No	No	Yes
	Saved Search	No	No	Yes
<b>Pictures</b>	View Private Photos	No	No	Yes
	Photo Vault	No	No	Yes
	View Thumbnails in Search result	All except who's online	All except who's online	Yes
	Photo@Fridae	Thumbnails	Thumbnails	Full

Table 2: Restrictions on Fridae with or without Perks (premium membership)

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