The Changing Business Models of Social Networking Sites: 
the case of Facebook

Introduction
There is no doubt that the Internet has fundamentally reshaped almost every aspect of human life (Zhang et al., 2008). Social networking sites (SNS), in particular, have emerged as a major societal phenomenon in recent years; the number of sites and users increasing daily. Communicating by SNS fits today’s mobile digital lifestyle; people join these networks because they provide entertaining and practical way to stay in touch interactively with friends and acquaintances. Every Social Network Site (SNS) has its own scope and purpose; attracting a particular user group to the applications that it offers. Drury (2008) argues that social media may provide companies with the most personal, trusted, and direct access to consumers, notwithstanding the network’s shareholders who should be able to set goals for the network’s business model (BM), including revenue models, customer value and key resources.

The rapid growth of SNS calls into question the means by which these networks actually create customer value and how this value can be converted into sustainable revenue streams for SNS operators. In other words, how can SNS develop a successful business model? In this enquiry, we explore the business model of the popular SNS, Facebook. The Facebook business model was based on advertising - but studies (Gamm, 2012) show that this type of business model has weaknesses, linked to consumer behaviour. Facebook users did not use Facebook ads to search or to buy products. Furthermore, Facebook ads were not initially available for mobiles (one of the most popular ways of connecting to Facebook). As a result, Facebook modified its business model. The aim of this enquiry is thus to explore the new business model of Facebook, using qualitative and quantitative data collected from users.

We want to know if the new business model of Facebook is likely to succeed with regard of consumer behavior
The three parts of the enquiry are organized as follows; firstly, we review the literature that defines social networks and their business models. Secondly, we present our methodology, our rationale, and process for collecting data. The third part highlights our results. The main elements of the study and plans for future research are discussed in the conclusion.

Literature review
• What are SNS?
Social network sites are defined by Boyd and Ellison (2008) as web-based services that allow individuals to (1) construct a public or semi-public profile within a bounded system, (2) articulate a list of other users with whom they share a connection, and (3) view and traverse their list of connections and those made by others within the system. The nature and nomenclature of these connections may vary from site to site
• What are the different types of SNS?
There are many types of social networking sites. The main difference between them is their purpose and the reason a user may choose a particular SNS over another for communicating. Social networks can be classified according to the different points of views of the users or their reason for using the Internet, for example:
1. Information Networks: designed to provide answers to everyday problems,
2. Specialist Networks: help users to progress in their career and industry, such as LinkedIn,
3. Learning Networks: to create communication between scholars and provide them a suitable environment for their interaction, such as e-learners,
4. Entertainment Networks: unites Internet users worldwide who have common hobbies,
5. Scientific Networks: to develop scientific collaboration among academics, such as MIT,
6. News Networks: allow their users to publish their news, stories, and their comments.

- What is the Business Model of SNS?

The value of business models lies in their ability to capture important elements of organisational strategy and make them form a coherent and compelling whole (Timmers, 1999). Until now, the vast majority of research on business models has treated them as descriptions of how business is done (Chesbrough & Rosenbloom, 2002; Magretta, 2002), identifying the underlying elements or components that detail what the business model is at the level of the firm (Osterwalder, Pigneur, & Tucci, 2005; Zott & Amit, 2007). The three key elements consistently identified as the cornerstones of business models can be summarized as:

1. the technologies that make up the product/service offering, its delivery and management,
2. market offering: what is actually offered to the customer and how,
3. network architecture: the configuration of buyers and suppliers that make the market offering possible.

In this research, we consider a business model as an objective representation of the reality of the firm and its markets. In this way, the business model is understood to represent a truth, describing the way a particular business works.

The BMs of SNS are divided into two. First, Kalakota (1997) considers BMs according to the nature of the activity, we distinguish so Business-to-Business BMs (B2B) and Business-to-Consumer BMs (B2C). In our research, we focus on this latter category because we are interested about the changing in the business model of Facebook, which is the largest SNS in B to C.

**Facebook and its business model**

The table below summaries the success and popularity of Facebook’s business model, in terms of user statistics (source: [http://newsroom.fb.com/Key-Facts](http://newsroom.fb.com/Key-Facts) visited on January, 2nd, 2013)

<table>
<thead>
<tr>
<th>1. Facebook Statistics</th>
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<tbody>
<tr>
<td>Monthly active users (at October 2012)</td>
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<tr>
<td>Daily active users (in September 2012)</td>
</tr>
<tr>
<td>Objects (pages, groups, events)</td>
</tr>
<tr>
<td>Active applications</td>
</tr>
<tr>
<td>Mobile users</td>
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<th>2. Average Facebook user characteristics</th>
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<tbody>
<tr>
<td>Friends</td>
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<tr>
<td>Minutes on Facebook per month</td>
</tr>
<tr>
<td>Groups, Pages, events</td>
</tr>
<tr>
<td>Pieces of content created per month</td>
</tr>
<tr>
<td>Pieces of contents shared per month</td>
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When first launched, the BM of Facebook - based on monetizing customer data and social media - was considered remarkable because:

- The users do the work: there are over 900,000,000 unpaid members that are generating meaningful content and value to each other,
- Brands send traffic and inject revenue,
- This small company stayed agile: despite big revenues ($3.7b), their cost of goods is only $860m,
- Facebook has published their employee base (some 3500+ employees at their Silicon Valley HQ and beyond) thus a small set-up compared to headcount at Google (33k employees), and therefore with lower staffing costs.
Despite the success of the BM of Facebook, this SNS is facing many challenges, which can be summarized as follows:

1. Facebook needs a mobile business model because:
   - Facebook generates the vast majority of its revenues - more than 85% in 2011 - from advertising derived from usage on PCs (Deagon, 2012).
   - Mobile as a substitute for use on personal computers may negatively affect the company’s revenue and financial results,

2. Facebook faces many problems with social norms:
   - Consumers do not agree with the use and the storage of their data (complaints in Ireland),
   - Facebook has to find another business model that generates significantly more revenue per user without hurting the user experience,

3. Initial Public Offering and inefficient advertising:
   - From its $38 offering price, the stock to date is down nearly 30% (Deagon, 2012).
   - The effectiveness of Facebook ads is highly questionable; people prefer using Google when searching a product to buy,
   - 80% of users have never purchased a product or service based on Facebook’s ads or comments (Reuters, 2012)

In the light of these challenges, Facebook recently changed Business Model. Thus Facebook now:
   - Sponsors posts for individuals,
   - Launched mobile payment in-app,
   - Launched into e-commerce with the sale of birthday gifts,
   - Displays commercial offers for pages that get paid,
   - Is testing mobile advertising
   - Possibility of paying analytics for brands
   - Encourages interactivity with consumers (such as voting when Facebook proposes changes) to avoid ‘Facebook fatigue’,
   - Provides qualitative and quantitative data.

Methodology
Our methodology involves two steps: first a qualitative study was conducted to better explore our research topic, second a quantitative study to confirm the results as shown in the following figure:

1. Qualitative research:
   As SNS are a relatively new phenomenon and their business models are a recent aspect to be explored, we think that qualitative case-based approach is suitable for initial theory building (Eisenhardt, 1989). The purpose of this enquiry is to better understand the use of social networks by young people in general and especially Facebook. We tried to determine whether the elements of the new BM Facebook are accepted and used by the consumer, which means in other words, the success of this new BM.
   Our qualitative study consisted of 10 semi-structured depth-interviews conducted with young adults aged between 18 and 22 years. We selected a sample of this age because 18-25 years accounted for the largest proportion of Facebook users, ie more than 29% (Toussaint, 2012).
The average length of interviews was 35 minutes. Through interviews, we explore the use of different items proposed by the new business model of Facebook (such as paid games, applications on mobile phones, and so on). This study was also used to design the questionnaire for the following part of the investigation.

2. Quantitative research:
A quantitative study was conducted with a population of 167 students aged between 17 and 23 years. This study thus provides us with a deeper insight into the use of Facebook and the consumer response to its new business model. Our questionnaire was interested in:
1. The general use of Facebook: the age of the account, the number of friends, the number of real friends that the consumer has already rubbed shoulders with the frequency and duration of connection, the connection means, the reasons for connection etc.
2. The elements of the BM Facebook: the applications used, games facts, games purchased, used and paid mobile applications, sponsors, shopping, etc.
3. The socio-demographic characteristics of the respondent whose income

Results
Our investigation provides further understanding of the use of Facebook (36% of consumers use only PC to connect to Facebook, 11% use only mobile and 53% use both PC and mobile). We have established a segmentation of consumers based on the date in which they join Facebook and time spent on the social network.
The results have provided many groups with different profiles, and set different uses and responses to the BM of Facebook from one group to another as shown in the table below:

<table>
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<th>User profile</th>
<th>Main characteristics of the profile</th>
<th>Interest in the new elements of Facebook’s new BM</th>
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<tr>
<td>Long standing users</td>
<td>spend less time on the social network</td>
<td>Are less interested in the latest elements introduced by Facebook in its new business model (they do not spend a lot of time playing, are not interested in ads, and so on).</td>
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<td>Early adopter users</td>
<td>68% of the consumers confirm that they use Facebook less, compared to last year.</td>
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<td>Late adopters</td>
<td>spend more time on the network</td>
<td>Like using Facebook games but this is conditioned by free apps. This category seems to be sensitive to free or pay-for content because it does not represent a significant income.</td>
</tr>
</tbody>
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Taken as a whole, the results reflect an evolution in the users’ perceptions and use of Facebook; indeed, a new business model has a knock-on effect on the way in which Facebook is used. Our study showed that if the consumer is not interested in advertising on Facebook, he will nevertheless use Facebook recommendations when looking for a restaurant or a nightclub. Facebook is also used by prospective students to choose a business school or term-time accommodation.

Conclusion
This enquiry focuses on the evolution of a business model of social networking, namely Facebook’s. After discussing the nature of social networks, their segmentation and business
models, we set out our rationale for studying Facebook. This SNS is one of the biggest social networks used and it has changed its business model recently. The aim of our study was to take a closer look at how the new business model of Facebook works, basing our opinion on the behaviour of users. Thus we established two studies (qualitative and quantitative) that enable us to conclude that the new business model of Facebook has introduced improvements but that these changes have not necessarily been the most effective. In our sample, some users are not sensitive to new sharing policy of the BM, some make use of only free applications. More research is needed to understand ongoing change in consumer behaviour which could be used by Facebook to change and improve its BM.

Our study has limitations because it was conducted in France only with a population of young adults. Further research can be conducted in other countries, with other segments of the population to validate the results.

References: