Value Chain Analysis:
Social Networking Communities

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Over the last few years, online social networking communities have become a global phenomena. This paper describes two social networks—Facebook and LinkedIn—outlining their value delivery process.

Introduction

During the late 1990s and early 2000s, most of the communication was through e-mail, instant messaging and cell phones. Nowadays, most college students are using a host of communication technologies such as blogs, video and photo messages, and other technologies to discover new friends and to keep in touch with them (Stutzman, 2006). A social networking community combines all these and newer communication technologies, and provides an opportunity to contribute one's opinions, interests and skills to the largest creative work ever built by mankind: the Internet (Post, 2007).

The core value proposition of any social networking community is connecting and communication with people (Karp, 2007). Using new technologies, these communities have made possible new ways of meeting people, checking on loved ones, spreading ideas, all from the comfort of one's home or work computer. Initially, social networking communities were a teenage phenomenon. Now, it is a part of all segments of the society. There are social networking communities for people varying from eight-year-olds to doctors and lawyers, to the aged (Post, 2007).

There are over 400 online social networking communities, each differing from the other in terms of profession, age range, culture and country. These communities could provide services for either business or personal networking. Most social network communities allow for richly-detailed personal profiles of the users. The data ranges from mild (favorite movies) to potentially invasive (political views) interests. This data serves as a snapshot for other users of the social network community. The user initially connects to people known to him either from work or from school. Based on similar interests, activities or communities, more people can be included in the user's network. The activities on a social network combine all the connectivity of e-mail, snail mail,

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instant messages, phone calls, and even conversations at the local coffeehouse (Post, 2007).

Two popular social networks are discussed next, along with the difference in their value delivery. One falls under the personal networking category, while the other under professional networking.

Facebook

Two students of Harvard class founded Facebook (www.facebook.com) in February 2004. Membership was initially open to Harvard students only. Later, it opened to various universities with education accounts. By mid-2005, Facebook opened doors to highschool students. However, invites were required from existing users of Facebook, for new users to join the network (Boyd, 2007). As a result, students tend to invite friends in the same age group. This ensured that the users of Facebook were primarily college students. Facebook became the 'cool' thing that college students did. Now, it includes networks for different geographic regions and various schools, colleges and organizations around the world. As of November 2007, the membership count in Facebook exceeded 57 million users.[1] Around 85% of the college students in the US use Facebook. The average time spent by a user in Facebook is 19 minutes. Facebook is currently valued more than $10 bn (Greenberg, 2007).

The users of Facebook are primarily college students. Hence, the features provided in Facebook intend to provide more fun and entertainment. These features include giving gifts (small icons of novelty items) to friends, listing of events in case of social gatherings, status updates, the 'poke' feature to interact with friends, and sharing photos and videos. Every activity of the user is listed in a news feed, which is visible to all visitors of the profile. Facebook Marketplace allows users to post free classified ads in categories such as sale, housing, jobs and others. The marketplace is open for all users and is free for use.[2]

Technology

The Facebook Platform was developed to provide a standards-based web service to access and contribute data to Facebook. This meant opening the system to third parties to add to the existing capabilities of Facebook. The platform enables Facebook to bring information in, rather than 'push' information out. Users need not depend on a larger set of different sites for their information. The platform enables Facebook to become the homepage, and the data is fed into the user's profile. The Facebook platform has led to the creation of over 7,000 applications.[3] Most of these applications replicate features that are present on other popular sites or social networks. The Facebook Markup Language was developed in order to customize the look and feel of the site. The interface of the site is smooth and non-messy, unlike most other social networks.

Revenue Model

The data that Facebook owns includes patterns, preferences, communication and adoption trends of the next web generation.

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[1] http://www.facebook.com/press/info.php?statistics
[2] http://en.wikipedia.org/wiki/Facebook
[3] http://www.facebook.com/press/info.php?statistics

The young people signed up with Facebook are the ones who will drive the next two decades of the social web. The data contained in Facebook is clean, trustworthy and segmented. This is exactly the kind of data that a marketer would dream of (Stutzman, 2006).

One source of revenue for Facebook is advertising through the recently added Facebook Social Ads. It enables advertisers to target the user's friends or those who have recently interacted with the user. These ads target users based on their interests, as specified in their Facebook profile. For instance, advertisers can target only women above the age of 30 who have passed out from a Harvard College and are working in Goldman Sachs (Jesdanun, 2007). The companies can spread messages virally by linking ads to recommendations or to news feeds that members send each other. These ads are charged at either a cost-per-click or cost-per-thousand-impressions. Sponsored groups allow companies to advertise on their own profile pages on Facebook. Companies can interact with a large number of users using a message board. As of September 2007, there were 186 sponsored groups existing, the most popular being Apple (FaberNovel Consulting, 2007).

To explain this process, a value chain model is used. It is imperative to explain the terms 'value' and 'value chain', and this is done below.

Value

There are different interpretations to the word 'value', which is used very frequently. Value is assumed to be the benefits received from a product choice, minus their cost of acquisition. In business contexts, value talks about stakeholders' satisfaction. Satisfaction, here, not only involves the customers' expectations, but also the expectations of the employees, suppliers, shareholders, the market, etc. It implies that the stakeholder's satisfaction introduces the management with a broader range of decisions and a number of ways to fulfil the expectations and to deliver the satisfaction. Today, creating and delivering value is considered to be a part of strategic management, to ensure that the organizations respond to customers' satisfaction with flexibility.
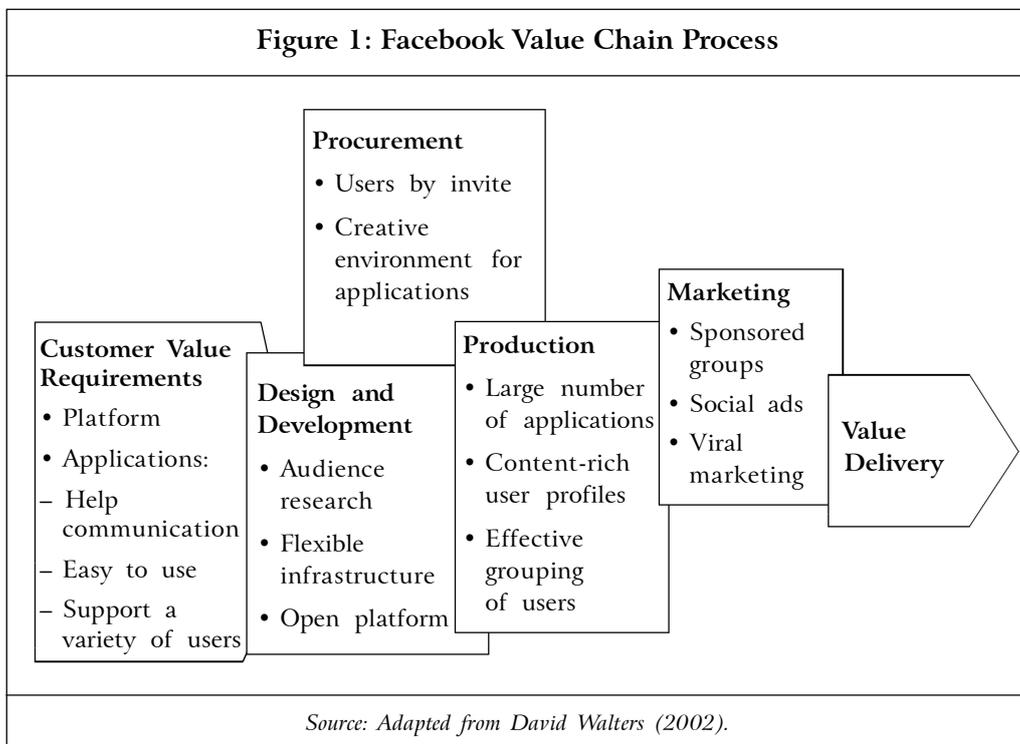
Value Chain

Competitive advantage cannot be diagnosed by looking at an organization as a whole. It descends from the various discrete activities performed. Each of the activities contributes to the organization's relative value position, thereby creating a basis for differentiation. For analyzing the sources of competitive advantage, value chain forms a tool—a means to evaluate the activities performed in an organization and how they interact in a systematic manner.

The purpose of a value chain is to:

- Identify business activities;
- Identify interrelationship between different activities;
- Choose business's competitive positioning; and
- Identify alternative value chain delivery systems (Walters David, 2002).

This value chain process of Facebook is further explained in detail, as shown in Figure 1.

Figure 1: Facebook Value Chain Process

Procurement
- Users by invite
- Creative environment for applications

Customer Value Requirements
- Platform
- Applications:
  – Help communication
  – Easy to use
  – Support a variety of users

Design and Development
- Audience research
- Flexible infrastructure
- Open platform

Production
- Large number of applications
- Content-rich user profiles
- Effective grouping of users

Marketing
- Sponsored groups
- Social ads
- Viral marketing

Value Delivery

Source: Adapted from David Walters (2002).

Customer Value Requirements

- Platform: Facebook provides a platform for the exchange of information between different users.

- Applications: Facebook provides applications that enable easy communication between users through the site. Also, the format is very user-friendly and supports a variety of users.

Design and Development

A detailed audience research supports the site, to enable designing the format to be in line with the current user preferences. To support this, the infrastructure on which this application is built is very flexible. Also, it uses an open platform architecture.

Procurement

It is to be noted that users have to be invited into the circle in order to enable participation; the objective is to create an environment where creative applications could be designed by the users themselves. To that extent, the buildup is outsourced to the users.

Production

The validation of new applications is done by the back office of the site, which supports a large number of applications. It also provides that users would have to upload a content-rich profile of themselves before they are accepted. This exercise also permits the site to categorize the users under various groups to permit a common platform for exchange of thoughts.

Marketing

Marketing of this social network is done through sponsorship from the pre-formulated groups. Also, social advertisements in the site are encouraged. Viral marketing, wherein the users of the

social networking communities facilitate and encourage other people to join the network through word of mouth, video clips, e-mails and other text messages, etc., is the main source of logging new users in.

Value Delivery

The value delivery of Facebook as such, depends on, and is driven by all the processes described above.

LinkedIn

LinkedIn (www.linkedin.com) is a social networking site that caters to professional networking. The main purpose of the site is to allow registered users to maintain a list of contact details of people whom they know and trust in business. As of November 2007, it had more than 16 million users across 150 industries and 400 economic regions.[4]

The users added in the list are known as connections. The contact network consists of contacts from direct (first circle) or indirect (n^{th} circle) connections. LinkedIn adds value to the user's professional life in four ways (Sundar, 2007), which are as follows:

1. It provides an online identity—often the LinkedIn profile is the first result in the search engine;

2. It helps the user to find a dream job;

3. It maintains and fosters relationships with colleagues, people the user meets at events, and so on; and

4. It makes connections with people that would have been impossible otherwise. Being on the LinkedIn network validates the user.

LinkedIn's value proposition is different from that of Facebook. In LinkedIn, different actions are possible, depending on whether the contact is in the first circle or in the nth circle. LinkedIn focuses on tools that help the user to connect to other users n circles away. In contrast, Facebook focuses on staying connected with the user's first circle (Shelton, 2007). LinkedIn is primarily for professionals who cater to the age of 30 and above. The interface, hence, does not include profile pictures and other features as does Facebook.

LinkedIn Answers,[5] a service similar to Yahoo Answers, lets the user ask questions. The user can enter a question and pick members from his/her network who are likely to know the answer. The users are classified as per the circle (personal network) closest to the questioner. If the innermost circle does not answer, then, it is put up progressively to each contact in the next circle. Users can browse questions by category and gain points every time the answer to the question is selected as the best one. The top experts appear in a ranked list. The primary value of this exercise is to increase the possibility of finding referrals and connections.

The sources of revenue for LinkedIn are primarily through banners and text ads embedded throughout the site. LinkedIn also provides a job classifieds section, where companies/users can post their required employment details for some fee. LinkedIn provides more details of its users (including recommendations) than applicants to jobs, by other means. This ensures that employers gain more value by recruiting effectively.

Viral marketing is a technique used by both Facebook and LinkedIn to increase brand

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[4] http://www.linkedin.com/static?key=company_info

[5] http://www.linkedin.com/static?key=press_releases_011607

awareness. Viral marketing is a marketing technique of self-replicating viral processes. The analogy is derived from the spread of viruses. Here, the users of the social networking communities facilitate and encourage other people to join the network through word of mouth, video clips, e-mails, text messages, and so on.

The components of Figure 2 are explained in greater detail as follows:

Customer Value Requirements

The customer value requirements which the site focuses on are job search, which is further achieved by active communication among the users. This also serves to improve the business relations of the site with the user community.

Design and Development

Audience research is one of the mainstays on which the site is formulated.

To facilitate this, the interface is simplified and made user-friendly.
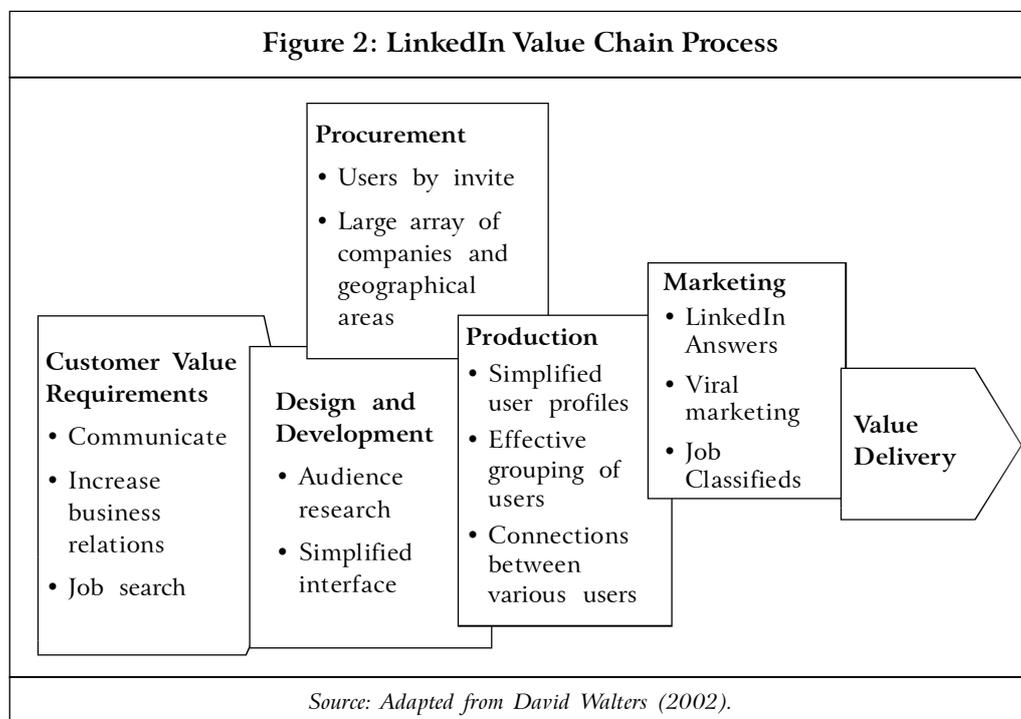
Procurement

The content is derived from the specific objective of the site, and, this results in a large array of companies becoming members. These companies are spread widely in various geographical areas. In addition, the user companies and members participate by invitation only; this serves as a very active filter.

Production

The user profiles demanded by the site are very simplified. The content of the profiles is used to create an effective grouping of users. It also serves to establish connectivity between users.

Marketing

Marketing, as in Facebook, is achieved through viral marketing. Support is

Figure 2: LinkedIn Value Chain Process

Procurement
- Users by invite
- Large array of companies and geographical areas

Customer Value Requirements
- Communicate
- Increase business relations
- Job search

Design and Development
- Audience research
- Simplified interface

Production
- Simplified user profiles
- Effective grouping of users
- Connections between various users

Marketing
- LinkedIn Answers
- Viral marketing
- Job Classifieds

Value Delivery

Source: Adapted from David Walters (2002).

provided through the answers provided by the back office of LinkedIn. Also, job classification provides friendly access to users.

Value Delivery

Value delivery is achieved by focusing on the activities detailed above. The adopted value delivery process fully matches the objective of the site.

Discussion and Conclusion

The value expected by the users (and customers) of Facebook and LinkedIn are completely different from each other. Hence, the value delivery process in each of these social networking communities is different (refer Figures 1 and 2).

The comparison made in Table 1 highlights the difference in the social networking communities.

From a review of the table, it is seen that the strategy adopted by both Facebook and LinkedIn follow from the target audience and the content of the service that they intend to deliver.

Table 1: Comparison Between Facebook and LinkedIn		
	Facebook	**LinkedIn**
General		
Type of users	Primarily college students (18-24 years)	Professionals (above 30 years)
Categorization of users	College/University	Company/Industry
Value to user	To keep in touch with family and friends	To generate business connections among professionals
Platform	Open platform—allowing third party applications	Closed platform—all the functionality of the site is developed in-house
User interface	Detailed—emphasis on interests, hobbies and other fun activities (photo and video sharing)	Simplified—emphasis on work experience, qualifications and business connections
Revenue model	Context/Profile-based advertisements and sponsored groups	Advertisements and Job Classifieds
Value to customers	One of the largest social networks; first generation of online society	Potential employees/ employment, business contacts

(Contd...)

Table 1: Comparison Between Facebook and LinkedIn *(...contd)*		
	Facebook	**LinkedIn**
Technical		
Customer value	Communication with friends and family	Professional interaction and job search
Design and development	Flexible infrastructure	Simplified interface
Procurement	Creative environment for users	By users who include large array of companies
Production	By providing content-rich user profiles	By establishing connections between various users
Marketing	Social ads and viral marketing	Linkedin Answers and viral marketing

A question may arise—whether this presentation implies that other social networking sites could follow some other model, different from the value chain model described herein? This needs to be clarified from the observation that all businesses can be viewed from the value chain perspective, in order to understand the business from the standpoint of an analyst. Value chain comprises of both the supply chain and the demand chain (Beech J, 1998). Brown (1997) emphasizes that the value chain is a tool to disaggregate a business into activities which are strategically relevant.

Future Scope

Seeing the success of these social networking communities, there are a large number of new communities coming up these days. E-mail service companies such as Yahoo and Google are also planning to enter this space. Generally, the first set of friends on Facebook is obtained from the e-mail address book. Since Yahoo and Google already have a headstart with this kind of information, they would be able to create a better social network quickly. All they require to work on is on the building of a few new services in order to connect to the contacts on that address book. For instance, Yahoo is working on the concept of 'Inbox 2.0'. This service displays messages from important contacts of the user more prominently. It has a method of determining the strength of the relationship of two users depending on the number of e-mail/instant message exchanges (Hansell, 2007).

The social networking community market is still very young. Innovations in the value delivery process are the only way the new communities can sustain in this ocean of social networking. Facebook was one of the few that made a change in the value delivery process by outsourcing almost

every activity, thereby providing more value to the users. Facebook achieves this on an open platform and permits third party applications. In the case of LinkedIn, outsourcing is only limited to getting information and ideas, whereas the format or the templates are developed internally, depending on the user group to which the application caters. A large number of social networking communities are expected in the future. The only hope is that all should provide as much value to all the stakeholders as Facebook does.

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