15.571 – Generating Business Value from IT

Business Case Analysis

Social Networking Sites

Jane Li
Ryan McDonald
David Salamon
Arthur Villa
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Agenda

- Industry Overview and Analysis
- Business Model
- Architecture and Design Philosophy
- Investment Strategies
- Case Analyses
  - MySpace, Facebook, Friendster, LinkedIn
- Future Trends
- Success Factors
Industry Evolution Timeline

First social networking site launched: Classmates.com

2003

Facebook launched

2004

The industry flourished as Friendster, LinkedIn, MySpace, and many others entered the market

2005

MySpace got purchased for $580M

2006

Google struck a $900M deal with MySpace to become an exclusive provider of advertisements
Industry Overview

- **US market size:**
  - $865M Ad revenue in 2007 ($350M in 2006)
- **Top 5 players occupy 94% of market share** (by traffic)

![Pie chart showing market share of social networking sites](chart)

- **MySpace**: 80.74%
- **Facebook**: 10.32%
- **Xanga**: 0.87%
- **BlackPlanet**: 0.88%
- **Bebo**: 1.18%
- **Others**: 6.01%

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[1] Source: eMarketer

Five Force Analysis

- **Rivalry**
  - Intense competition
  - Unstable position

- **Supplier**
  - Low supplier power

- **Entrant**
  - Low barriers to entry but difficult to reach the tipping point

- **Substitutes**
  - Low threats of substitutes

- **Buyer**
  - Growing power of both Ad buyers and users
Business Model

- Traditional advertising + Transaction
- Advertising partnership
- Subscription

Niche Player (Small User Base) vs. Mass Market Player (Large User Base)
## Architecture & Design Philosophy

### Customization

<table>
<thead>
<tr>
<th>User Network Openness</th>
<th>No customization allowed</th>
<th>Customization/Development allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed network design</td>
<td>Advantages: Privacy, standardization.</td>
<td>Advantages: Privacy, IT flexibility, user freedom.</td>
</tr>
<tr>
<td></td>
<td>Drawbacks: Less social interaction, less features.</td>
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<tr>
<td></td>
<td>LinkedIn</td>
<td>Facebook (post Sept. 2006)</td>
</tr>
<tr>
<td>Open network design</td>
<td>Advantages: Open social network, standardization.</td>
<td>Advantages: Open social network, IT flexibility, user freedom.</td>
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<tr>
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<td>Friendster (prior to 2006)</td>
<td>MySpace</td>
</tr>
</tbody>
</table>
IT Investments at different stages

- **Ferment:**
  - Infrastructural IT: build foundation
  - Strategic IT: enter market

- **Take-off:**
  - Transactional IT: reduce cost per user

- **Mature:**
  - Strategic IT: differentiate
  - Informational IT: market research, interact with users
  - Transactional/Infrastructural IT continue to be important as user base grows
MySpace

Facts:
- 140M registered accounts
- Fifth most visited website
- 81% market share
- Pure advertising model (estimated $30M/month)

News:
- Parent co. bought for $580M by NewsCorp
- $900M exclusive deal with Google

MySpace Infrastructure & Architecture

- ~500,000: Two web servers, one DB server
- ~2,000,000: Vertically partitioned DB servers
- ~3,000,000: Distributed computing architecture
- ~17,000,000: ASP environment, SAN, caching tier
- ~26,000,000: SQL server, 64-bit apps
- And still growing!

Facebook

**Facts:**
- 21M+ users
- Started by Harvard students
- Targeted niche college/university market
- Promoted security, privacy, exclusive communities

**News:**
- Exclusive Microsoft ad deal
- Launched transactional revenue model

Facebook

Interesting topics:

- One of few companies to open API to developers
  - Rakket (location-based beta service)
  - Leverages loyal user base and extends value
- Focused on mobile market
Friendster

Facts:
- 36M users
- Former industry leader
- Turned down Google buy-out offer in 2003

Problems:
- Lacked scalable infrastructure
- IT decision makers focused too much on strategic investments
LinkedIn

- **Facts:**
  - 9M users
  - Business-oriented networking tool
  - Subscription revenue model
    - ~$3,600/year for Premium Services

- **Situation:**
  - Facing competition from Monster and HotJobs
  - Recently launched LinkedIn Answers
Future Trends

- **Mobile Devices**
  - Huge potential market for publishing and viewing content on the go
  - By 2008, at least 5% of SMS’s will be related to social network sites ($3B market)
  - Location-aware devices will allow innovative services

- **Third-Party Development**
  - Leverage talents and ideas of user base (crowd-sourcing)
  - Permitting 3rd-party access to social network data may generate new revenue streams
  - Requires scalable infrastructure and mature architecture – successful companies will have to be flexible and fast to respond to change
Success Factors

- **Site stability**
  - Does this help provide a more consistent and pleasant user experience?

- **Flexibility**
  - Does this preserve/enhance our ability to add features or respond to user requests?

- **Growth of user base**
  - How does this help us register more users?

- **Stickiness of user base**
  - Once users are registered and connected to their friends, does this keep them coming back?

- **Market segmentation (for new entrants)**
  - Are we targeting a population with unmet needs?