

# Business Models for Social Networks

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# Timo Ewalds

- Founded Nexopia.com in February 2003 as a hobby during first year of Electrical Engineering at the University of Alberta
- Built Nexopia.com into a major player in the Canadian social networking market with 1.5 million users, up to 30,000 users online at a time and a billion pages served per month
- Boot strapped Nexopia with pocket change to be a profitable company of 25 employees
- Profitable from month 15 until hiring a CEO and selling control of the company in early 2008

# Business Models

- Indirect
  - Advertising
  - Partnerships
  - VC/Buy out
- Direct
  - Subscriptions/Freemium
  - Nickel and Diming
  - Merchandise

# Advertising

- Sources
  - Ad networks - high volume, low price
    - Huge volume of general ads, little targeting
    - Works better for context based sites
  - Direct - low volume, high price
    - Huge audience without context is a hard sell
    - Works well for branding, but only the biggest sites get traction from the big brands
    - Automated marketplace
      - increases volume, drops overhead, but also drops price

# Advertising

- Types
  - Standard – high volume, low price
    - Leaderboard/Banner/Skyscraper/Big Box
    - Interstitial/Vocun/Pop-up/Pop-under
  - Non-standard – low volume, high price
    - Email/SMS
    - Contests
    - Polls
    - Company/Paid Profile
    - Custom Site Skin
    - Whatever you can think of

# Advertising

- Targeting
  - Context
    - Google Adwords works well
  - Demographics (age/sex/location/interests)
    - No ad networks do this well, though several try
    - Works best internally for now
      - Facebook does a good job of this
- Payment Models
  - CPM/CPC/CPA – all translate to eCPM
  - Flat Price

# Partners

- Cross-over with advertising
- Some examples
  - Referrals (amazon/itunes)
  - Company/paid profiles
  - Content partners
  - Sell information (analytics)
    - Demographics
    - Polls
    - etc

# VC/Buy Out

- Low cost to start up a business
- Easy to gain a userbase
- Costs go up very fast if successful
- Needs investment support to support the burn rate and to get to exit
- No guarantee of an exit
- Only works in a bubble economy



# Subscriptions/Freemium

- The users are the product
  - To other users
  - To advertisers/partners
- Don't want to turn away target users
  - Site must be attractive to use for free, paid features should be considered bonus features
  - Tough to decide what to charge for

# Subscriptions/Freemium

- Benefits
  - High Profit margin
  - Consistent recurring revenue
  - Scales with growth
  - Can encourage loyalty from hardcore users
  - Gives a feeling of exclusivity and community

# Subscriptions/Freemium

- Challenges
  - Risk disenchantment with user base
  - Hard to compete when other sites give away your paid features for free
  - Risk alienation of subscribers by changing service levels
  - Works better with an already loyal user base
  - Online payment is tough, especially for users without credit cards
  - Can stifle growth

# Nickel and Diming

- Only pay for what you use, but pay for each thing you use
- One time charges for virtual things
  - Virtual gifts
  - Username change
  - Extra pictures
  - Game upgrades
- Virtual Currency
  - Buy points with cash/credit card, then use them for virtual things over time

# Merchandise

- Works well for some companies, but not for social networks
- Would you buy a t-shirt from your phone company?
- Not our expertise!
- Not an easily scalable business model
- Low profit
- More useful as advertising and to build loyalty than as a business model

# Trends to watch

- Demographic based ad targeting will be figured out by an ad network
- Advertising based sites will try the Freemium or Nickel and Diming model as advertising and venture money dries up
- Aquisitions will be based on results, not eyeballs