

Business Models of the Web 2.0: Advertising or the Tale of Two Stories

Orange Labs, Sense (Sociology & Economics of Networks & Services)

Jean-Samuel Beuscart, Kevin Mellet

Date : April 2008



Web 2.0 services as two sided platforms

- Web 2.0 sites : content is created and organized by users
 - UGC sites / Blogs, Social Media / Social Networking Sites
 - Large audiences

- Economic characteristics of web 2.0 services:
 - Low barriers to entry
 - Very strong networks externalities
 - incentives to offer free access to the service

- Web 2.0 services are multi-sided platforms (Rochet & Tirole, 2004) which :
 - Internalize indirect externalities
 - Do not price to the marginal cost
 - organize cross subsidies between stake-holders:
 - Audience / content creators / advertisers

Today's business models of Web 2.0 platforms

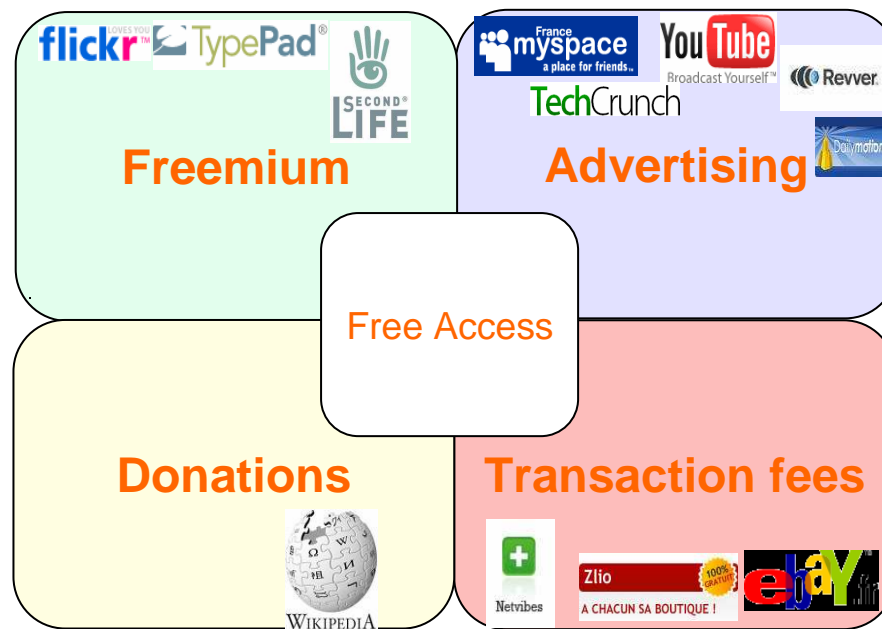
Various kinds of cross-subsidies :

- from heavy users to ordinary users : "freemium"

- from activists to ordinary users: donations

- from other service providers: transaction fees

- from advertisers to users



Question: Is Web 2.0 a good place for advertising ?

- Large audiences, lots of information about users
- very low rates

section 1 Web 2.0 & Advertising: the conventional story

section 2 Advertising on Web 2.0: 4 models of
intermediation

Web 2.0 Advertising: the conventional story



Economics of Advertising and consumer's sovereignty: a long time dispute

- **Persuasive advertising** or the "Harvard view" ...
 - Advertising creates "artificial" product differentiation and thereby produces informational confusion (Chamberlin, 1933; Solow, 1967; Galbraith, 1967)
 - Advertising changes preferences of rational consumers (Dixit and Norman, 1978)
- ... versus **informative advertising** or the "Chicago view"
 - Advertising, as a source of information, helps to match buyers and sellers who incur search costs (Stigler, 1951; Telser, 1964)
 - Advertising is a mean by which firms signal (and thus indirectly provide information about) their type to consumers (Nelson, 1974)

Economics of Advertising and consumer's sovereignty: beyond the controversy

- Leffler, 1981: "Advertising's effects need not be the same in different markets or in different settings within a market"
 - Becker and Murphy, 1993: Advertising, as a good or a bad, may either increase or lower consumer utility
 - Van Zandt, 2004; Goldman, 2006: advertisers do not fully internalize the utility consumers derive from advertising. Marketing creates a tragedy of the commons (i.e. essentially through the overexploitation of receivers' attention)
- ⇒ The advertising problem is essentially a problem of matching
- (J. Wanamaker: "Half the money I spend on advertising is wasted. The trouble is, I don't know which half")

Internet, web 2.0 & advertising in the light of economic theory

- The 2 main Internet advertising formats are:

- Display




- Search



- The Internet provides marketers with the tools and data they need to reach "good" consumers and avoid annoying uninterested (i.e. "bad") consumers.
 - Macro Level: shift of online advertising spendings from Display to Search format.
 - Micro Level: Evolution of display through the use of contextual and behavioral profiling tools (massive investments)
- Increasing Web 2.0 advertising rates thus implies an improved matching through targeting (cf Myspace's acquisitions and Facebook's offer)

=> End of the story?

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1. Premiers pas

2. Choix du public

3. Création de l'annonce

4. Définition du budget

[Aide](#)

I want to reach men between 25 and 35 years old who are single in France who graduated from college and like Music And Lyrics.

moins de 20 personnes

Lieu : Sexe : Masculin FemmeÂge : - Mots-clés :

(centres d'intérêt, musique favorite, films, etc.)

Formation : Tout Diplôme d'université À l'université Au lycéeUniversités: Major: Lieux de Travail: Statut de la relation : Célibataire En couple Fiancé(e) Marié(e)[Retour](#)[Continuer ▶](#)

Advertising on Web 2.0: 4 Models of Intermediation



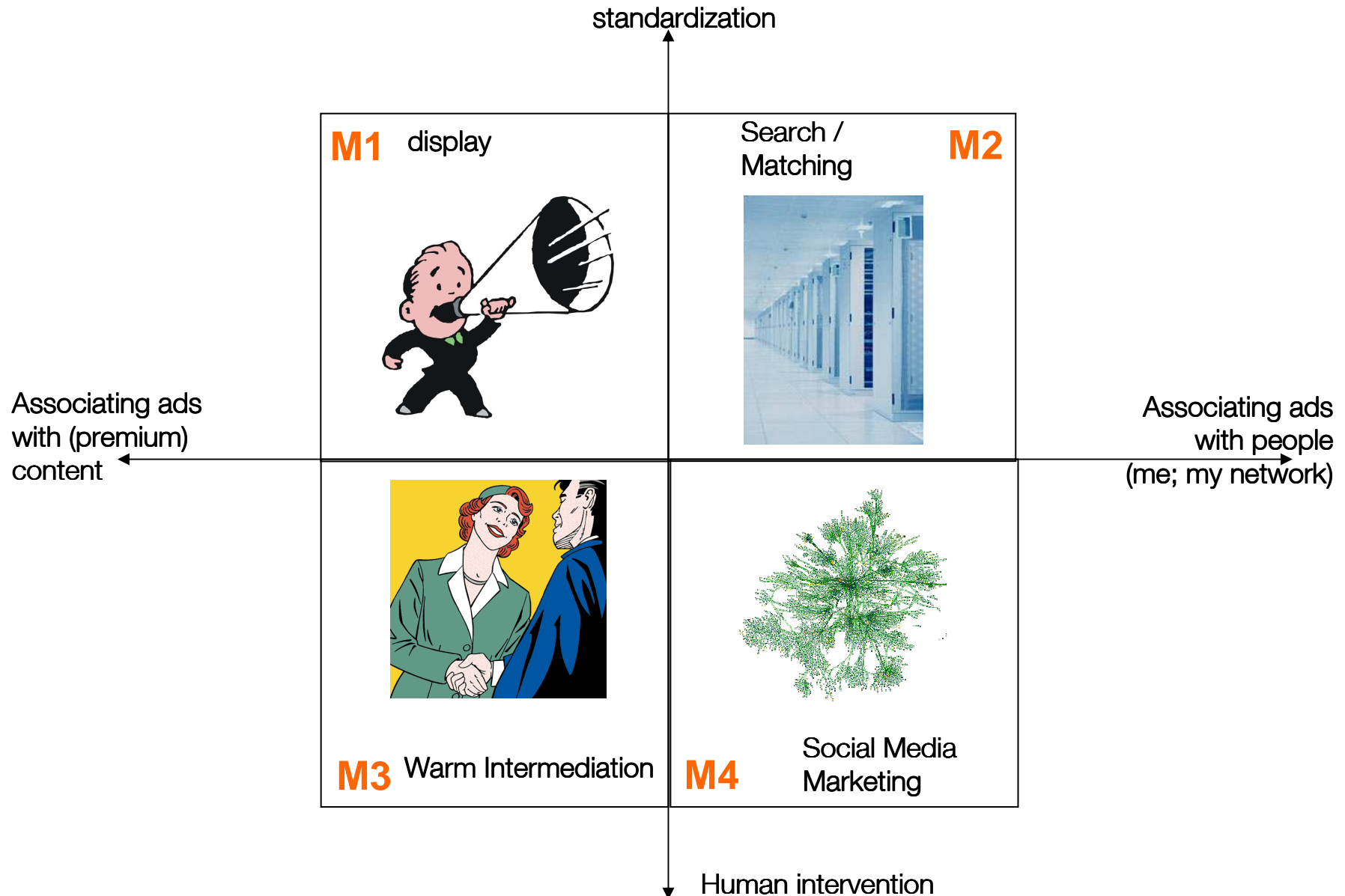
Material and theoretical framework

- Markets are heterogeneous
 - Salais, Storper, 1993: Each "world of production" is organized by a set of conventions that help actors to reduce uncertainty
 - Eymard-Duvernay, 1989: Plurality of "modes of coordination", i.e. general agreements that sustain relationships and agreements between economic agents => main role played by quality conventions

- Conventions are embedded in technical tools, measure standards, standard contracts, qualification standards, etc. (Callon, Muniesa, 2004; Mirowski, 2004)

- Material :
 - Analysis of the directory of French online ad Networks ;
 - French and US case studies

4 intermediation models on the online Ad Market



The "classic", display model (M1)



relooking de peau
skin styling

Jean Paul GAULTIER
monsieur
relooking de peau
skin styling
Beau comme un monsieur!

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Mardi 1.04.2008 - 19h16

Sarkozy aux Farc : "Ce serait un crime de ne pas libérer Ingrid Betancourt"
Un des sept chefs du secrétariat du groupe avait annoncé dans l'après-midi que les perspectives d'une libération de l'otage franco-colombienne se sont "évanouies". 01.04 à 18h06
» Verbatim » Ingrid Betancourt a commencé une grève de la faim
» La famille Betancourt veut relancer la mobilisation Vidéo
Marche blanche pour Ingrid Betancourt et les otages en Colombie » La France prête à accueillir des militants des Farc » L'ex-mari d'Ingrid Betancourt craint qu'elle soit déjà morte" Vidéo Les dernières images d'Ingrid Bétancourt Vidéo Betancourt s'adresse à Reyes, numéro 2 des FARC (2002) » Chronologie de la captivité

Afghanistan : Fillon annonce l'envoi de renforts
Le Premier ministre a annoncé à l'Assemblée l'envoi de quelques centaines de soldats supplémentaires, sans préciser leur mission. Le PS va déposer une motion de censure. 01.04 à 18h25
» Les réactions » Bernard Kouchner défend l'absence de vote » Revue de presse » Le précédent de la guerre en Irak » Le PS craint "un nouveau Vietnam"

Les lycéens contre les suppressions de postes
Plusieurs milliers de lycéens, 15.000 selon les organisateurs, 4.500 selon la police, ont défilé à Paris contre les suppressions de postes prévues pour la rentrée. 01.04 à 18h35
» Les revendications des lycéens » 3 questions à... Hanna Boisson (FIDL): "Il faut éviter de parler d'argent lorsqu'il s'agit de notre éducation" » 3 questions à... Florian Lecoutre (UNL): "C'est le début d'un grand mouvement national"

LA QUESTION DU JOUR
Les six Français de l'Arche de Zoé graciés
 C'est bien
 C'est trop facile
Nombre de votants : 6712 Votez !
» Voir les résultats » Les autres questions
PUBLICITÉ

Georges-Marc Benamou jette l'éponge : dans un entretien au *Nouvel Observateur*, l'ancien conseiller de Nicolas Sarkozy explique pourquoi il n'est plus candidat à la direction de la Villa Médicis à Rome. 01.04 à 19h05
» Sur BibliObs

LES CONFIDENTIELS
Paris en ligne C'est décidé: le Président de la République veut libéraliser. L'annonce devrait être faite dans les prochaines semaines... » la suite

LES DEPECHEES
- Zimbabwe: des pourparlers en cours sur un éventuel départ du pouvoir de Robert Mugabe [AP 18h44]

Jean Paul Gaultier lance

Display of banners and rich media.

High prices through collective audiences and the "superbowl" effect

The "classic", display model (M1)



- typical web 1.0 advertising model
 - Display of banners and rich-media in a standardized format
 - pricing based on a page-view audience measure (CPM: cost per mil)
- Favours "collective" audiences:
 - huge and concentrated audiences associated with "premium" content (portals + ad networks)
 - Cf the Superbowl "common knowledge" effect (Suk-Young Chwe, 1998)
- Web 2.0 trends:
 - A commonplace model: Myspace; Technorati; YouTube...
 - The average CPM on Social Networking and UGC sites is very low (0,3 to 0,5 \$)

Automated intermediation : the *matching* model (M2)



Fr.MySpace.com Aide | Inscription

tokio hotel MySpace powered by Google

Mon MySpace | Parcourir | Chercher | Inviter | Film | Mail | Blog | Favoris | Forum | Groupes | Ecoles | MySpaceTV | Music

MySpace Recherche sur le site --> 1 - 10 sur environ 6 400 pour **tokio hotel**. (0,13 secondes)

[Billy perd sa voix](#) Liens commerciaux
Billy Kaulitz perd sa voix. Tokio Hotel annule des concerts.
www.mcm.net

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1 person to group of 162 welcome. New, clean & safe rooms in Asakusa
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[Hôtels de dernière minute](#)
RatesToGo: Dernière minute promos Réservez et économisez jusqu'à 70%
www.RatesToGo.fr/Promos

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Hotels mit bis zu 60 % Rabatt Sparen Sie bei Hotels weltweit!
www.Hotels-And-Discounts.com

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Site -->

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MySpace.com - Tokio Hotel Official French Page - 21 - Female ...
MySpace profile for **Tokio Hotel** Official French Page with pictures, videos, personal blog, interests, information about me and more.
profile.myspace.com/index.cfm?fuseaction=user.viewprofile&friendid=171824859



MySpace
Ce que tu as du mal à comprendre c'est que ce n'est absolument pas possible de créer des topics **Tokio Hotel** dans les sections suivantes ...
forums.myspace.com/t/3724068.aspx?fuseaction=forums.viewthread



MySpace
Tokio hotel est un groupe genial .. qui vaut la peine d'etre soutenu.. elodie mathilde et mwa avons formé le groupe des fanatikth... pour eux..rejoignez ...
groups.myspace.com/index.cfm?fuseaction=groups.groupProfile&groupD=104183343&MyToken=173d3295-fab0-43da-9a85-6bf8d25cfa3e





AVIS

En ce moment louez la Peugeot 207 CC

The prevailing model on the Internet (captures growth).

But still quite ineffective on web 2.0 sites

Automated intermediation : the *matching* model (M2)



- The "Google AdWords-AdSense" model:
 - Automated use of key-words and content to target messages
 - In theory, the ad server reaches the *long tail* of small publishers and small advertisers
 - Pricing: Cost per Click

- Web 2.0 trends :
 - A commonplace model: Myspace, Blogs, Flickr, Facebook, etc.
 - Small actors' low earnings (advertisers; publishers)
 - Failure of big agreements between platforms (Myspace+Google; Facebook+Microsoft)?

"Warm" intermediation (M3)



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The human intervention of the ad network company.

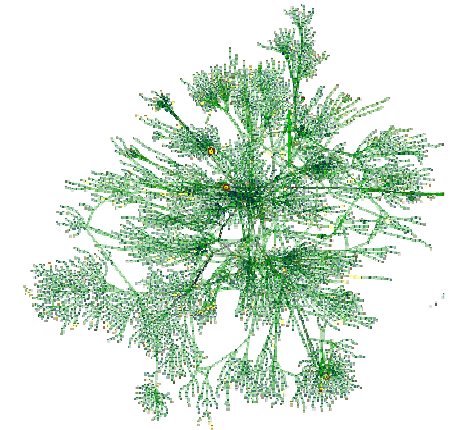
Highly valuable niche audiences associated with pro-am content

"Warm" intermediation (M3)



- On publishers' side, many small audiences are forgotten or unsatisfied by M1 and M2
- On advertisers' side, the marketing value of premium, quality content
- The human intervention of the ad network company:
 - As an "editor" (selecting, valuing and monetizing relevant contents)
 - Long-lasting relationship with advertisers
- A wide advertising offer: display, site packaging, newsletters
- Web 2.0 trends:
 - Blog ad networks: Federated Media Publishing (USA), Influence, AdRider, Blogbang (France)
 - For bloggers, increased income (5 to 10 times more than M2)
 - niche market limited to valuable content

Social Media Marketing (M4)



HAVANA

"HAVANA IS COMING TO GLASGOW'S OLD FRUIT MARKET"

Fille
29 ans
Royaume-Uni

Dernière connexion : 26/04/2007

Voir : [+ de photos](#) | [Vidéos](#)

CONTACTE HAVANA

- Email
- Ajouter à mes amis
- Message Instantané
- Ajouter au groupe
- Transférer à un ami
- Ajouter à mes favoris
- Bloquer l'utilisateur
- Classer l'utilisateur

URL DE SON PROFIL :
<http://www.myspace.com/pieceofhavanaglasgow>

HAVANA : SES CENTRES D'INTÉRÊT GÉNÉRAL

havana fait partie de ton réseau étendu !

HAVANA : DERNIER BLOG [\[Souscrire à ce blog !\]](#)

Prepare to party!! (...)
[\[Voir tous les articles ...\]](#)

HAVANA : PRÉSENTATION

QUI JE SUIS :
"...gets under your skin and into your soul."

A PIECE of HAVANA IS COMING TO GLASGOW

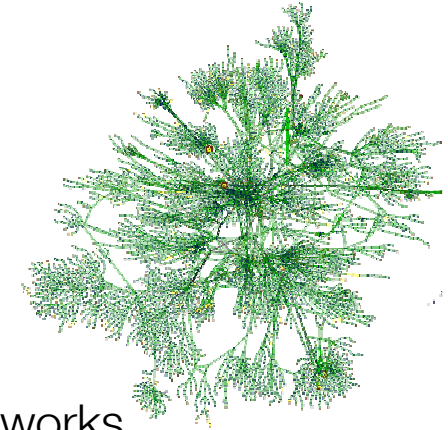
Cuba is coming to the Glasgow Fruit Market in spectacular style in February with Havana Club. After the success of 'Piece of Havana 2006' and unprecedented demand The authentic Cuban rum will be returning to Glasgow recreate 'a piece of Havana' with an exclusive night of music, rum and raw passion at The Old Fruit Market on 24th February 2007.

The Old Fruit Market will be transformed into a genuine Havana streetscene for the

Providing brand presence inside communities.

Still an under-equipped model: devices, measure, scalability?

Social Media Marketing (M4)



- c
 - Taking advantage of the viral nature of information within networks
 - Selling "space" in the heart of communities: a Myspace Page, a sponsored group on Facebook
 - Public Relations rather than Advertising : Nikon space on Flickr

- An emerging, "un-equipped" model: still difficult to measure the outcome of a campaign

- Lack of control: the message/brand is appropriated by the community

- Is the attention of Internet users within these communities compatible with marketing (be it social)?

Conclusion

- Recommendation associated with story 1:
 - INVEST MASSIVELY IN CONTEXTUAL AND BEHAVIORAL PROFILING

- Recommendation associated with story 2:
 - DO NOT FORGET THE PLURAL NATURE OF ADVERTISING AND INVEST IN NEW EMERGING ADVERTISING FORMATS

thank you



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