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

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

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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

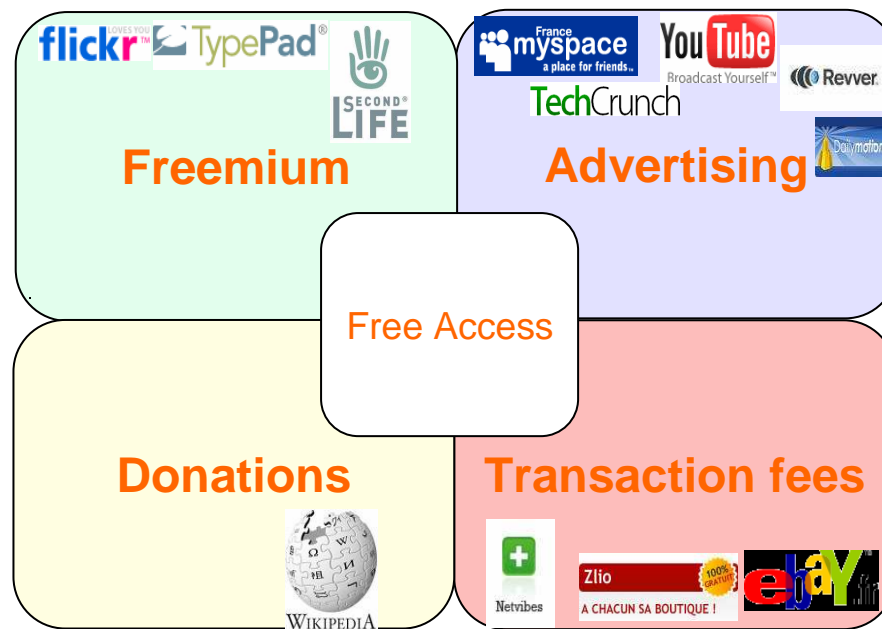# Today's business models of Web 2.0 platforms

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

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 ennoying uninterested (i.e. "bad") consumers.

  – Macro Level: shift of online advertising spendings form 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?

facebook

Rechercher ▼

[search box] 🔍

Applications modifier

📘 Annonces et Pages
📷 Photos
👥 Groupes
📅 Événements
📰 Petites annonces
🎵 iLike
🎬 Movies

▼ plus

| 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 : France ▼

Sexe : ☑ Masculin   ☐ Femme

Âge : 25 ▼ - 35 ▼

Mots-clefs : Music And Lyrics ✕

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

Formation : ○ Tout ⦿ Diplôme d'université ○ À l'université ○ Au lycée

Universités:

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 Netwoks ;
  - French and US case studies

4 intermediation models on the online Ad Market

standardization

M1 display

Search / Matching M2

Associating ads with (premium) content

Associating ads with people (me; my network)

M3 Warm Intermediation

M4 Social Media Marketing

Human intervention

The "classic", display model (M1)

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)

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)

The human intervention of the ad network company.

Highly valuable niche audiences associated with pro-am content

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"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)

Providing brand presence inside communities.

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

Social Media Marketing (M4)
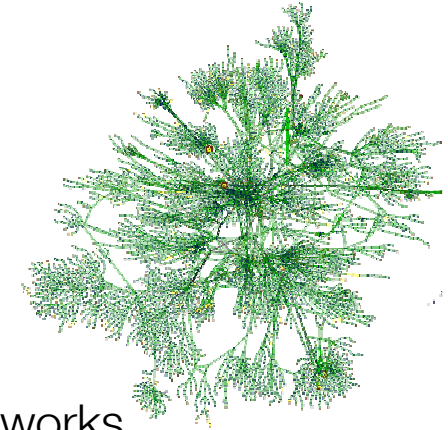
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  – Taking advantage of the viral nature of information within networks

  – 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-equiped" 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

- Recommandation associated with story 1:

- INVEST MASSIVELY IN CONTEXTUAL AND BEHAVIORAL PROFILING

- Recommandation 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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