

Social networks must prove their worth

By Elizabeth Clifford-Marsh

Social networks have long been the darlings of digital media, but they will be hard hit this year unless they focus on generating revenue from their users.

A report from Deloitte claims that sites such as Facebook, MySpace and Bebo have failed to effectively make money from their subscriber base, meaning they will have to work hard to prove their worth to investors and advertisers during 2009.

The study shows that the ARPU (average revenue per user) for some of the UK's largest social media sites is measured in just pennies per month. This compares to a typical ARPU of tens of pounds for satellite TV customers, newspaper readers and cinemagoers.

EMarketer also predicts tough times ahead for UK social networks, which are expected to see ad spend reach around £140 million this year, down 20 per cent on the previously forecast figure of £175m.

Jo Hyder, Coca-Cola GB's head of consumer marketing, claims social networks must concentrate on demonstrating ROI (return on investment) if they are to succeed financially. "Understanding how a pound spent with a network performs versus a pound spent on TV,



Coca-Cola wants social networks to improve their commercial offerings

press, mobile or search is really important," she says.

MySpace UK country manager Anthony Lukom claims the social network has always concentrated on delivering a robust service to advertisers. "As part of News Corp you have to be a profitable business," he says. "A lot of our competitors are still focused on growing reach rather than sustainable business models."

Indeed, Deloitte says social networks have so far been afforded the benefit of the doubt, with cash regarded as a long-term objective rather than

Smart thinking Social networks

- The research from Deloitte suggests social network users are at least 100 times less valuable in terms of revenues than users of traditional media
- Growth may be exacerbated by litigation, as owners of hosted content pursue payment for use
- Networks should consider how elements of their technology could be applied to other areas

an imperative. However, harsh financial conditions in 2009 are likely to increase investor demand for tangible returns.

"Networks whose future looks uncertain may suffer debilitating outflow of senior management," claims Deloitte analyst Paul Lee. "The book value of some social networks may be written down and some companies may fail altogether if funding dries up."

Already reports have surfaced that ITV is preparing to writedown the value of Friends Reunited, which may herald a new round of revaluations in the social networking sector.

Hyder says Coke will not shy away from investing in social networks, but wants to see more innovation in their commercial offerings. "Social networks need to help brands create functional and entertaining content that enables an ongoing dialogue with the community," she explains. "If you've got the budget for a big campaign, then you've got the money to do something far more interesting than buy off-the-shelf advertising formats."

In 2009, social networks are forecast to garner a 4.4 per cent share of total online ad spend. However, they will have to work hard if they want to increase their slice of the pie.

Second opinion // Will McInnes, NixonMcInnes

Call me old-fashioned, but what's wrong with making money as you grow your online social network? Indeed, where's the sustainability here? Have we learned nothing from these recent 'issues' in the global economy? Shouldn't Facebook and MySpace redouble their efforts to make some dollars, and put that before intergalactic domination?

They claim it takes time to grow a

great business (yup, agreed), that size is a benefit (it certainly can be), and that one day in the reasonably near future, there will be a critical mass, a tipping point, a moment in time when suddenly everything will be right in the world. The doves will coo, sunbeams will dance merrily across the long grass, behavioural



targeting won't upset consumers, and instead well-manicured hotties of both sexes will arrive with hampers full of freshly minted dollar bills and 'making money' will be confidently struck from the to-do list.

Sounds a bit far-fetched to me. I like LinkedIn's strategy: it was niche from day one, had a clear

path to revenues, and was profitable in 2008.

Whatever you think the problem is for social networks, there's no turning back now. If you didn't take the niche fork in the road, then you really need to be the biggest, especially with the advertising market softening.

Will McInnes, managing director, NixonMcInnes