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Independent Business Review Volume: 01, No: 2, July 2008

2008-07-01

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UGC Based Websites: Exploring the Business Models and their Sustainability

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ABSTRACT

At present web content is not only flowing from firm to its end users but also from users to the web. Users are empowered to generate the content. YouTube, Wikipedia, Flickr, Cyworld, OhmyNews etc. are gaining millions of users within their own UGC space. There are notable commonalities among those top Internet properties. However, apart the commonalities, what more important to look at is their specific resources and capabilities, how they craft the key activities to support their unique value proposition to the users and what is their revenue model. This paper will look into some of these UGC based web entities to find out their revenue model and the similarities of them.

Keywords: User Generated Content (UGC), Web space

INTRODUCTION

Blogs, podcasts, forums, user groups, video sharing, picture uploads, book reviews, playlist sharing, and related trends are all manifestations of "user generated content" or UGC. UGC refers to various kinds of content that are produced by individuals and accessible to other users, which carry certain degree of reliability. Unlike traditional pre-packaged content, which are developed inside of host companies, the power of UGC relies heavily on expertise of end users. Using Internet as distribution a platform with many-to-many content accessible from various devices is often referred as Web 2.0 (O'Reilly, 2007). Moreover, this term has also been interchangeably used with other terms such as social computing and consumer generated media.

As a matter of fact, UGC is nothing new. More than a decade ago, we were familiar with Yahoo! GeoCities and eGroups. These sites allow users to build their personal homepages or to create mailing lists. From these humble beginnings, UGC has continues to evolve. Digital content such as mp3, movies, and software were shared through peer-to-peer (P2P) network such as Napster and Kazaa. Then the trend of social networking services evolves the UGC model further. Friendster, MySpace, and Facebook have become de facto standards in this space. And then the phenomenal YouTube has made video watching experience much more convenient. Last but not least, social tagging players such as Digg.com make bookmarks accessible from anywhere and by anyone. Today, providers allow individuals to produce and consume those contents not only through PC Internet, but also mobile Internet. This high growth of UGCs easily provokes question on peoples mind about their business model. Moreover, it also provokes the question of sustainability of these business models.

In the introductory phase of this paper, few top UGC based websites' value chains have been discussed, and in the later part their commonalities and differentiating factors have been discussed. It has also shown how the basic commonalities play an important role to make a UGC value chain sustainable.

TOP UGC BUSINESS MODELS

In recent years, there are notable websites whose growth rates in terms of user base or unique visitors or page visit is extraordinary. YouTube, Wikipedia, Flickr, Cyworld, and OhmyNews although did not achieve such success overnight, but have crafted their name in the history of Internet. What makes these Internet properties great? How do their business models look like? What about profitability to support their popularity? Are there any commonalities shared amongst them? Or their unique differences are important? Using the analysis model presented by Afuah and Tucci (2002), this paper will assess their revenue models and business models in terms of both positioning and capabilities (Afuah & Tucci, 2002).

The business logic analysis will use a simplified value configuration diagram to capture the firms' key activities and interdependency among each other. Each diagram consists of two parts: positioning and capability building. Positioning will cover the targeted customer activities and value propositions, while capability building will cover critical tangible and intangible assets as well as the firms' core capabilities.

YOUTUBE: MEDIA SHARING PLATFORM

Simply, YouTube is a video sharing website, where by now we can find a wide variety of movies, TV clips, music videos, as well as amateur content submitted by its users. YouTube allows you to upload, view, share, and rate videos. Founded in February 2005, acquired by Google in October 2006, it converts the uploaded WMV, AVI, MOV, and MPEG to the FLV format which is playable in almost all Internet browsers (You Tube Web Portal). YouTube is currently available in 10 languages.

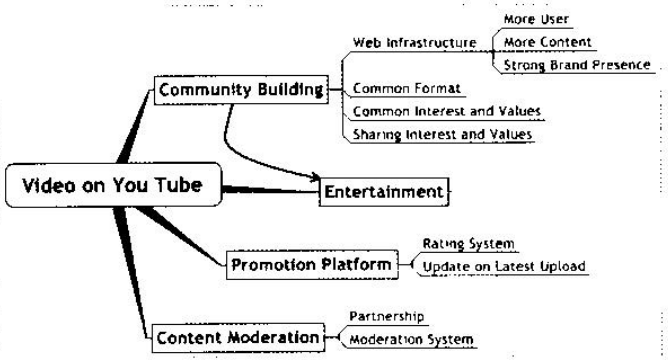

Figure - 1: You Tube's Value Chain

YouTube targets people who love to watch videos. On top of that, YouTube realizes that the power of sharing will expand the platform further. It provides values such as entertainment, convenience, and legal content supported by its partnership with BBC, NBA, CBS, TNA Wrestling, Warner Music Group, Sony Music Group, The Sundance Channel and many more. In addition to professional content partners, YouTube also provides the opportunity for the most popular and prolific amateur content creators to become partners. It also has a moderation system in place to assure no copyright infringement is made by the uploaded videos. YouTube also serves as a promotion platform for users who would like to expose their specific talents, and this value is supported by the rating system. One superior element of YouTube is their Internet infrastructure which allows more than one hundred million videos to be streamed every day. Last but not least, YouTube also provides socialization through its basic social networking feature on its website, such as contact management, active sharing, and play list sharing.

Revenue sources for YouTube come from advertisements, and recently they secured a strategic partnership with Verizon Wireless to make the content accessible for mobile subscribers. However, YouTube does not publish the detail of their revenues. Currently YouTube has publicly announced that it is assessing alternatives to monetize their content to further benefits the community.

WIKIPEDIA: THE ONLINE ENCYCLOPEDIA

Wikipedia is a free online encyclopedia within which articles are editable by anybody. Although it aims to have the highest possible quality, but due to its open nature, Wikipedia should be regarded as a work in progress, instead of as a solid reference like encyclopedia Britannica. Formally launched in January 2001, Wikipedia is currently available in more than 250 languages (Wikipedia Web Page).

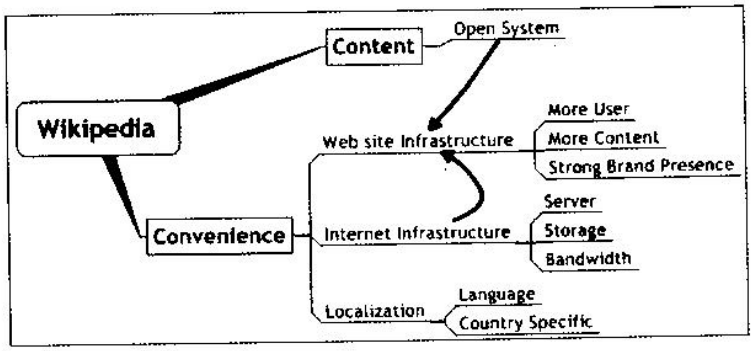

Figure - 2: Wikipedia's Value Chain

The business model of Wikipedia is simple and straightforward. Wikipedia targets people who would like to have free access to an encyclopedia without the cost of buying Britannica. Wikipedia has smartly identified that there are also knowledgeable people who would like to contribute and share their know-how. Thus, Wikipedia provides them the opportunity to contribute and enrich the whole encyclopedia in various languages. This value is supported by an open system, which allows users to read as well as edit an article.

Wikipedia does not have any revenue model other than asking for donations. Since 2005, Wikipedia managed to raise more than US$ 2 million. This budget is used to cover day to day operational cost such as hosting, bandwidth, payroll, etc. The fund raising activities can be monitored through http://fundraising.wikimedia.org.

FLICKR: PHOTO SHARING PLATFORM

Flickr claims to be the best online photo management and sharing application. It was launched February 2004 and was acquired by Yahoo! slightly a year after. The free membership allows users to upload images up to 100 MB per month (Flickr Webpage). Image format supported include JPEG, PNG, BMP, TIFF, and non-animated GIF. Currently Flickr is available in 8 different languages.

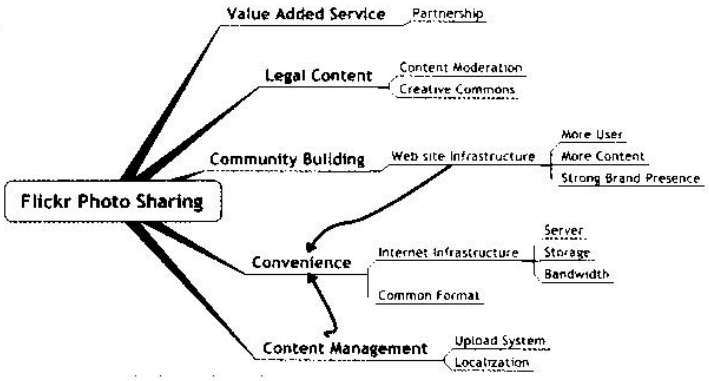

Figure - 3: Flickr's Value Chain

Flickr targets people who love sharing photos. They make sure that photos being uploaded are legal through rigorous moderation system and creative commons (Creative Commons Webpage). Flickr also provides email services and contact management to complement the socialization efforts of its services. They provide ease ways for users to manage their photos through providing broad range of upload systems, including Flickr Uploader, iPhoto, Aperture, and other Windows XP Plug-ins. Flickr offers value-add services by partnering with other provider such as QOOP and ImageKind. Out of the photos, user can order wall decorations, framed art, stickers, canvas prints, and many other types of merchandise.

Flickr has three sources of revenue. First is from advertising, which supports its free membership model. Second is from subscriptions, which cost about US$24.95 per year. For this amount, users gain unlimited storage, upload, and bandwidth capabilities, as well as ad-free browsing and sharing. Last is from other services such as prints and gifts, which are made available through partnerships with QOOP, Zazzle, and others.

CYWORLD (2008): SOCIAL NETWORKING SERVICE

Cyworld (2008) is a 3D social networking service from South Korea which was one of the most advanced SNS services. Cyworld (2008) was established in August 1999, and then acquired by SK Communications in 2003 for US$8.5 million. In Korea, these services have also been available to mobile subscribers since December 2003 (Cyworld Webpage). Today, Cyworld (2008) is available in 5 different languages.

Cyworld's emphasis is on self-expression and socialization for the modern Korean public. Although this approach works very well in its home country, it has yet to prove the similarly successful in other countries. Specific country culture may play a certain role on the adoption the of so-called "mini-hompy" concept (Joffe & Yeom, 2006). They offer a large number of digital items and music collections

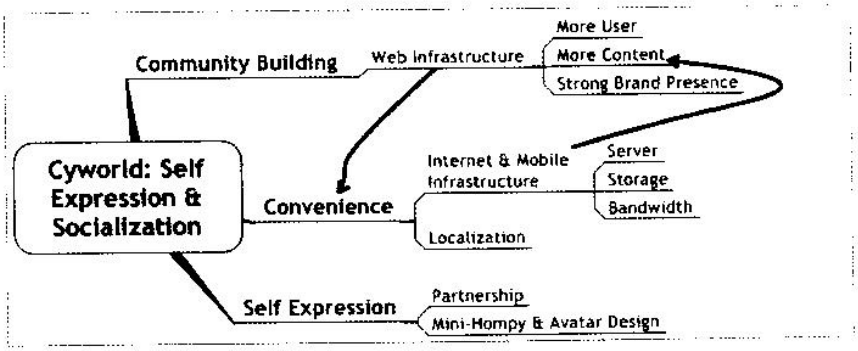

Figure - 4: Cyworld's (2008) Value Chain

to decorate a mini-hompy. Users can buy these decoration items using Cyworld's (2008) digital currency called "dotori" purchasable through retail stores and cell phones. Each dotori is equal to USD 10 cents (Ihlwan, 2005, 2008). In addition to this, they provide cool tools to accommodate the users' emotional needs such as photo tools, sketchbooks, and journals. Last but not least, partnerships with NateOn, Bravo TV, and music providers escalate Cyworld's (2008) unique experience to the user.

Cyworld (2008) has several robust sources of revenue. First is from the sales of digital items such as skins, decoration items, and background music using "dotori", which cost less than US$ 1 per item on average. Second is from advertising of branded hompy and traditional banner advertising. And the last is from mobile subscriptions which cost about US$1 per month. Of all, the sales of virtual inventory account for 70% of Cyworld's total revenue.

OHMYNEWS: PROVOKING JOURNALISM AT INDIVIDUAL LEVEL

OhmyNews is another form of UGC in the news publishing sector, called "citizen journalism". OhmyNews was established in February 2000 with the motto "Every Citizen is a Reporter". This South Korean online newspaper has combined traditional journalism with citizen reporting. Started with merely 700 citizen reporters, in less than 5 years OhmyNews managed to gather 35,000. Currently OhmyNews is available in 3 different languages: Korean, Japanese, and English (Ohmynews Webpage).

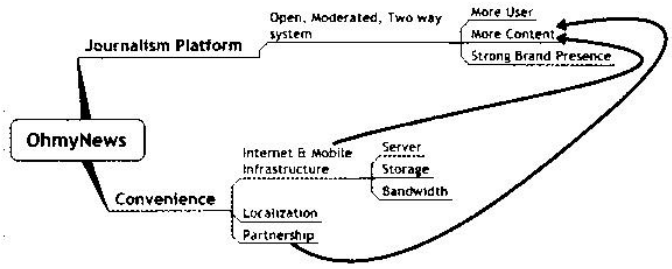

Figure - 5: OhmyNews's Value Chain

OhmyNews revolutionized the news publishing industry in South Korea. They target those people who would like to be journalists. This online newspaper provides the opportunity to contribute news article from around the globe through its international website. To attract more users, OhmyNews implemented a two-way open system. News reader can give comments on any news item, and anybody can be journalist after going through a verification process and agrees to a code of ethics. Although money is not believed to be the major driver of participation, OhmyNews has employed voluntary rewards system from readers to writers. To provide more content, OhmyNews established partnerships with International Herald Tribune, Global Voices Online, and other news providers.

OhmyNews has three sources of revenue. First is from advertising which accounted 70% of total revenue. Second is from sales of news content which accounted another 20%. The rest comes from subscription fees. Citizen reporters will earn up to $20 for each article submitted and published in the top spot. In addition to that, starting October 2004, the tipping service allows readers to reward writers through credit card and mobile payments.

SOMEWHEREINBLOG: UGC WEBSITE CATERING BENGALI COMMUNITY

Somewhere in... is one of the blog based network from Bangladesh, which initiates social networking and community building through expressing views and ideas on different topics. Even though this network is available in Bengali and English, the primary language of discussion is Bengali. Another interesting feature of this blog is its transferring capability of English to Bengali so that a user doesn't need to know Bengali typing, but can get Bengali script by typing in English. It becomes a major network of expressing views on current issues of Bangladesh among the Bangladeshi communities around the globe.

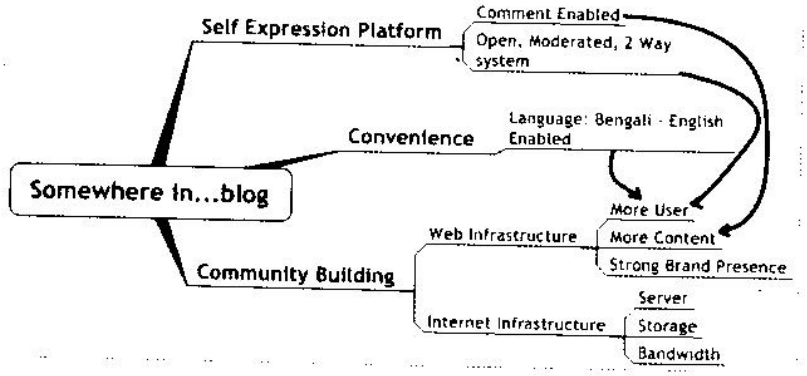

Figure - 6: Somewhereinblog's Value Chain

The blog server is hosted in United States and it has more than 9000 daily page views (Somewherein Webpage). The revenue source of this site is through partnership with other telecommunication agencies. It gets revenue by providing m-commerce solutions to the mobile telecommunications companies. There other concerns are somewhereindhaka.net and aawaj.com which offers mobile based community building.

Major Findings

Commonalities

In reviewing of all of the business models that we have observed, there are notable common activities and capabilities we can conclude on. In short, these commonalities have laid the success foundation of those Internet businesses and possibly any UGC business.

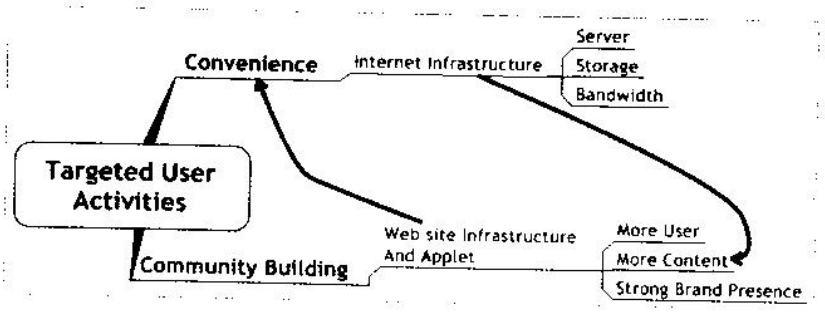

Figure - 7: Common Factors of UGC Value Chain

Firstly, on the capability part, they all share a solid Internet / mobile infrastructure and website infrastructure. The former is supported by clusters of servers, gigantic storage, and big pipes of bandwidth. These are unconditional requirements since the size of UGC ranges from gigabytes to terabytes. The latter is supported by website features, pleasant user interfaces, and overall eases of use. These may not be as crucial as the former ones, but these will affect the overall user experience.

Secondly, the infrastructure mentioned above enables the mutually reinforcing resource of user, content, and brand. This is the law of UGC. The greater the number of users, the greater amount of content will be created. And more content will attract more users. The more users will strengthen the brand. The stronger the brand, the more users will be attracted. The more content will also strengthen the brand, and the stronger brand will attract more users to contribute content.

Lastly, the capabilities mentioned above support both the socialization or community building and convenient value propositions. These offerings are common across the top UGC sites discussed above. Thus, absence of one or all of these elements may prevent a UGC business from getting the critical mass required to grow and succeed.

Differentiation: Unique selling points

Regardless of barriers to imitation, the above mentioned top UGC websites initially offered certain unique selling points to differentiate themselves from other sites. Once they created a strong network of users, ongoing innovations had to be crafted carefully to deliver higher order advantage to their users. Assuming competitors have the same cost structure, UGC platform providers can only rely on a differentiation advantage in order to stay competitive.

"Convenience" is the key of YouTube success. There is no client application or codec that need to be installed on the users' PC. Users can watch videos from within the browser due to the common format they adopted. And most importantly, users can watch videos while they are streaming. All of these lead to You Tube's ease of use as a video sharing service. YouTube has expanded the value proposition of watching videos by providing services such as active sharing, streams, audio swaps, and remixes through its TestTube platform.

Wikipedia's strength lies in its openness. This is a truly community-based model. However, at the same time, it exposes weaknesses regarding content reliability. Wikipedia could implement a reputation system to address such issues. Another key strength is the availability of Wikipedia content in so many languages. This has truly enhanced the power of Wikipedia.

Flickr offers photos sharing capabilities available to everybody. Their power lies on their photo management system. The input system is comprehensive enough to accommodate both Windows and Mac users, from email, from the website, and from various free third-parties desktop applications. At the same time, the output system is inclusive covering not only the website but also RSS feeds, emails, and blog postings.

Cyworld's core strength is in their self-expression platform, which allows users to design their avatar, their room, and their mini home in 3D. These enhance the overall social status and emotional experience of Cyworld users. Receiving good testimonies on the mini-hompy decoration encourages more purchases of digital items.

OhmyNews smartly combines traditional journalism and citizen reporting. Its core strength is in the two-way open and moderated system. Although any registered citizen can submit news, it will go through a series of editorial processes to ensure quality and reliability. This cross-check system resulted in a roughly 30% rejection rate. Thus, they have unlimited news sources with high quality. Citizen reporter can also monitor their article status and note the number of readers visiting each of their stories.

"Somewhere in..." has the first mover advantage since it is catering only the Bangladeshi communities. But the distinctive factor of this site is the language transferring capability. Other strength is this site is two-way open and comment enabled system. Moreover a user can report on some contents if they are hostile in nature.

More Insights: Two Way Business Approaches

From the business model point of view, shall we build the community first and then the strategy to monetize it, or vice versa? Currently there are two apparent approaches to choose from. First is the one taken by YouTube, which is to build the community first, which in return will stack huge content in the repository, then build the strategy to monetize it. Second is the one taken by Amazon, Ebay et al, which are to build a proven business model such as e-commerce and e-auction, and once it reaches a certain scale, then it will build the community to further strengthen the whole value chain.

Although the former approach could promise mouth watering exit value, those free UGC platforms mostly exhibit no real value exchange. This means no real consumer spending. What is valuable in UGC business is the users' profile and behavior reflected by the content generated, as well as the mapping of relationships

(Li, 2004). And those values are cumulative; meaning that the better understanding of users is possible given that enough data is collected over a long enough timeframe. MySpace's acquisition value is US$580 million, but what does News Corporation get in return? A mountain of user profiles, networks, and online activities such as comments and blogs. What about YouTube? Google spent US$1.65 billion to buy user profiles and preference, video content, and network of friends. The ability to mine those valuable data and to offer real products or services is the key to earn back the investment and possibly to sustain profit.

However, the second traditional approach is established with the foundation of a real value exchange. With more than US$10 billion and US$5 billion total sales, Amazon and eBay have demonstrated a proven business model. In addition to that, they also own similar valuable data such as user preference and pattern of purchase generated from the real business transactions. They even managed to use those data to generate more transactions through cross-selling and up-selling. Today, through blogs, groups, and other types of community-centric solution, they try to leverage the customer base to generate more content to enhance their future businesses.

Sustainable Revenue Model

Regardless whether it is mobile or PC platform, reliance on advertising might not be good enough to sustain the business in the long run due to similar action taken by competitors. Moreover, since the advertisers are the ones who pay the money, UGC platform providers will be very likely to focus to please them instead of the community. This could degrade the overall quality of service in the long run.

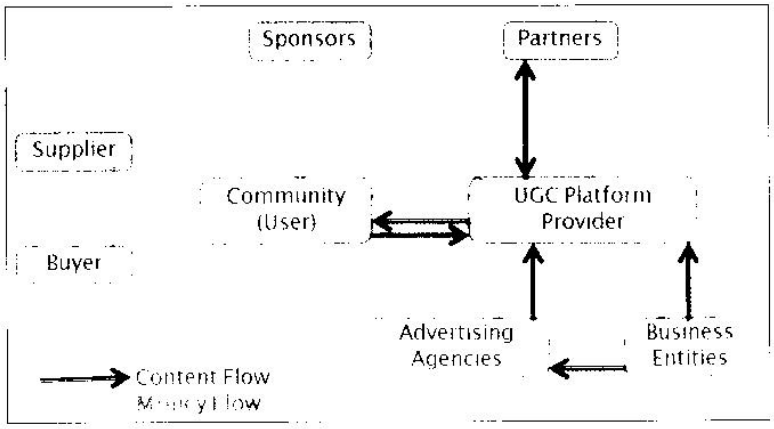

Figure - 8: Sustainable UGC Website's Value Chain

Regardless of the actual numbers, the ideal structure of a UGC revenue model will be subscription fees or transaction fees as the main source plus advertising as the secondary source. The key assumption here is that advertisers will come anyway whenever a solid user base has been built. Again, the question comes in a way that whether the users are really interested to pay for these services. After analyzing six UGC value chains, a conclusion can be made up in a way that an ideal UGC website's major money flows can be from the users, the business entities or the sponsors as shown in figure eight. However, as there is a question of making these users paying for these UGC services, all the sites really need to consider the fundings from sponsors, partner agencies or business entities to survive in the market.

Figure nine (9) shows the relationship between figure eight (8) and figure seven (7). After looking at the six UGC value chains and also the value chain of a sustainable UGC website, a conclusion can be made up that UGC based website can have strong brand presence in the community by providing good internet and website infrastructure. And with strong brand presence in the community, they can earn a good amount of advertisement revenue.

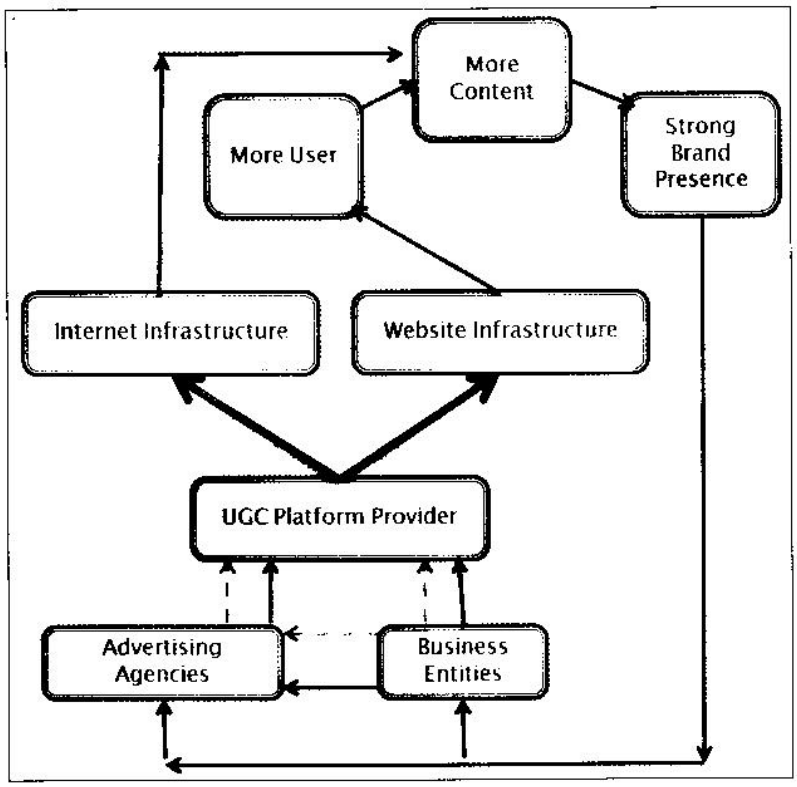

Figure - 9: Relationship between figure 7 and figure 8

CONCLUSION

There is nothing wrong with relying on the UGC community to grow by itself through word of mouth or other types of viral marketing. However, the probability of copying YouTube's and others' success is nearly impossible. Not only they have successfully built the user, content, and brand but also users are unlikely to switch away from these services if there is nothing new or valuable for them. Thus, to have unique value offerings are fundamental for new entrants. Once the community has reached critical mass, sustaining it is another issue. The strategy to monetize the community and content has to be put in place from the beginning. Otherwise reliance of advertising revenue will dominate, which is a misuse of effort. A more reliable revenue model such as subscription-based, brokerage-based, or sales-based would sustain the UGC business better (Rappa, 2008).

Although PC is the preferred UGC platform, the role of the mobile counterpart should not be ignored. Blend of both platforms not only is crucial to give the best overall experience to the user, but also could provide richer information regarding user profile and preference, location and activities and behavior, as well as the immediate networks of similar information.

This research paper has explored the fundamental business models of key UGC businesses. It gives details from business logic and revenue model perspectives. However, this analysis is based only upon publicly available data. More detailed financial information, although difficult to find, could be obtained through direct interviews with company executives.

Another area related to this paper that could be further explored includes the study of specific UGC implementations from their inception. Such research should cover technologies being used in terms of hardware, software and network infrastructure, resources and time frame for development stage, operation management, marketing and partnerships, as well as ongoing value innovation. Issues related to UGC business exit strategies are also worth analyzing due to the extraordinary growth of this industry, as well as the study of similarities and differences of this UGC and the dotcom era.

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