

# Business model analysis for Chinese social networking website

Jingyi Yang<sup>1</sup>

Beijing 101 Middle School, 11#, Yiheyuan RD, Haidian Dist, Beijing, China, 100091

*Jennifer\_yang95@126.com*

**Abstract:** Business model takes an important role in the performance of any organization in the present digital economy, especially for social networking site. Aside from online advertisement and game, more focus would be paid to deliver differentiated products and services to the specific users for SNS in order to have competitive advantages .A case study from a top Chinese social networking site-Renren.com was examined in terms of its revenue model and its operational mode so as to give a clear implication for future trend of social networking site.

**Keywords:** social networking site, business model, revenue, differentiation

---

## 1. Introduction

Benefiting from developed technologies and altered user behavior, social networking sites have become the poster child of a series of new web services that have been emerging with the advent of “Web 2.0”. These sites may have an "Architecture of participation" that encourages users to add value to the application as they use it. In this article, the content of social networking sites and business model are made. In particular, how social networking sites can generate revenues through advertising, subscription, and transaction models is examined. Finally, a case study from Renren.com which is a famous Chinese

social networking site will be followed to examine which kind of business model would be suitable under the present competitive market situation in China.

## **2. Theoretical Background**

According to Wikipedia, SNS represents for social network site that focuses on building and reflecting of social networks or social relations among people, who, for example, share interests and/or activities and people with similar or somewhat similar interests, backgrounds and/or activities make their own communities.

The “Web 2.0” allows users to interact and collaborate with each other as producers rather than consumers, which means that user can not only passively view the content created for them but also get more participation by sharing information, sending instant messages, and other interoperable means. In general, “web 2.0” enables the websites become more user centered, which inevitably lead to the initiation and innovation of the social networking sites.

Stanley Milgram from Harvard University (Milgram, 1967) pointed out Six Degrees of Separation theory which refers to the idea that everyone is on average approximately six steps away, by way of introduction, from any other person on Earth, so that a chain of, "a friend of a friend" statements can be made, on average, to connect any two people in six steps or fewer. It could be thought as the early understanding of social networking. People use the above theory, expand their social networking range and build up social networking sites. Boyd and Ellison (2007) found that “social network sites as web-based services that allow individuals to construct, articulate, view and traverse.”

In general, SNS provides a virtual community for people to communicate with their family and friends about daily activities, or a platform to share their interest in a particular topic, or a way to extend their circle of acquaintances.

## **3. Business Model Analysis for Chinese Social Networking Site**

Business model describes the rationale of how an organization creates, delivers, and captures value (Wikipedia). Magretta (Magretta, 2002) defines business

models as stories—stories that explain how the enterprises work; business models describe, as a system, how the pieces of a business fit together, but they don't factor in one critical dimension of performance: competition. She argues that business model is not the same as a strategy, even though many people use the term interchangeably today.

Another approach common in existing literature is the definition of the business model concept by specifying its primary elements and their interrelations. People found the 9 building blocks to show the logic of how companies intend to make money. Customer segments, value propositions, channels, customer relationship, revenue streams, key Resources, key activities, key partnerships, and cost structure are often thought as the components of business model (Osterwalde, et al 2010).

The major functionality for social networking site is to provide a networking platform for people to make friends, including regular friends, new friends who get to know from the internet and also friends that have lost contact in the past. People would try to communicate with each other through any possible ways on SNS. Figure 1 shows PV (Page Views) change for social networking sites in China. It is clear that the usage of SNS has increased dramatically in China in the past several years.

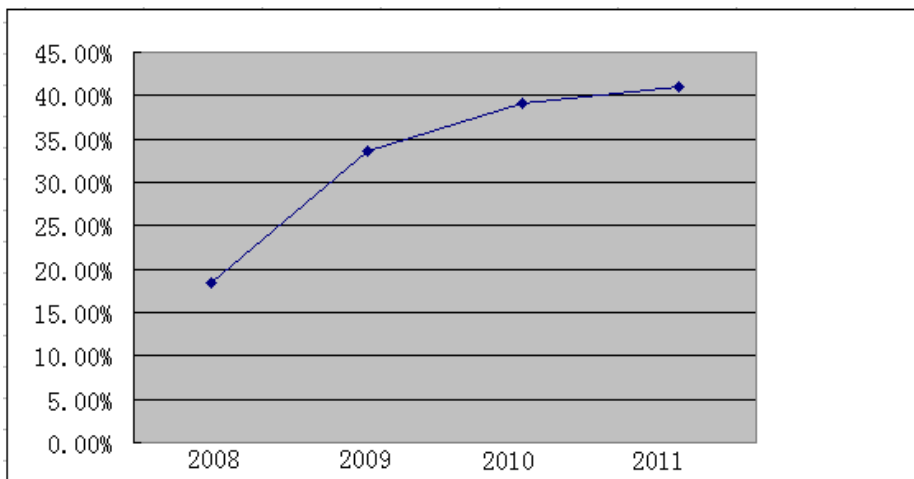


Fig. 1: Usage fluctuation for SNS users in China

Data source: DCCI (Data Center for China Internet)

As SNS has become the fastest growing applications in China, the market scale has grown greatly. And online advertising has become the major revenue source for social networking sites in China.

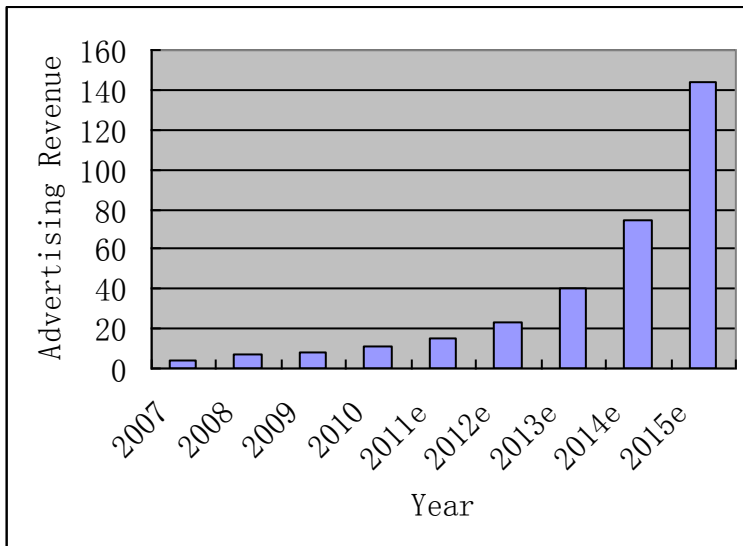


Fig. 2: Online advertising market scale for Chinese SNS

Data source: DCCI (Data Center for China Internet)

Although SNS has become more and more popular nowadays, a survey done by iResearch shows that most SNS users have not involved deeply with SNS. Inactive users who do almost nothing after their registration takes the largest proportion among all SNS users. Spectators who seldom log on to SNS and have limited online activities take the second place. There are not many Critics who would be involved in the discussions or sending feedback. The numbers of Creators, who actively originate a topic, build their video and upload album takes the last place. It is crucial for social networking sites to set up a mechanism to make interactions between SNS users more actively. Thus, individual value added services become more and more important with regards to SNS profit, for instance shopping and recruitment recommendation based on familiar people network. And interaction between online and offline activity will be the major profit model for public marketing.

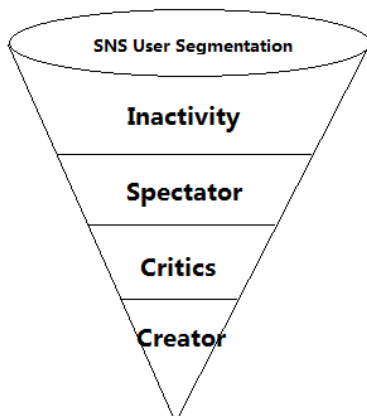


Fig. 3: SNS user segmentation

Traditional business model for social networking sites comes from advertising; value added services and application profit sharing. John Doerr (Doerr, 2011) points out a theory of SoLoMo (So-Social, Lo-Local, Mo-Mobile). Based on his ideas, the above three specifications are the key factors for the future development of internet.

With regards to social networking sites, mobility and localization will help social network to extend from both time and space perspective. The combination of physical location of user and real social relationship makes user information more precise so as to maximize the marketing functionality and increase the market value of social networking sites. It is not difficult for SNS owners to explore more diversified profit model.

#### **4. Case Study-Renren Inc.**

The number of SNS user has reached 0.26 billion by October, 2011 in China (Iresearch, 2011). User cultivation has become mature with the fast increase of SNS user number. The competition among social networking sites has never been so intense. Renren is the one which takes the first place in the present Chinese SNS market.

RenRen Inc. (NYSE, RENN) operates a social networking Internet platform in China. Its platform enables users to connect and communicate with each

other; share information and user-generated content; play online games; listen to music; and shop for deals.

Renren got its revenue from the following aspects:

1. Online advertisements. It is the basic revenue source for all of internet sites. However, internet users will be aesthetic fatigue since they will have to be faced with so many advertisements each day. It is far more important for SNS to provide adequate services to the users so as to be much more reliable.
2. Virtual gift services: Renren bean and coupons could be a good way to increase customer loyalty.
3. Special member services are provided for user who would like to DIY their own homepage.
4. Paid investigation services are available for sellers to make marketing research.
5. Event sponsorship.
6. Instant messages and open mobile platform.
7. Second hand dealing platform has been used by student to start up their own business.
8. Video sharing.

Table 1 shows the income construction of Renren.com.

Table 1: Income component of Renren.com Data source: www.renren.com

	2011 Q4 (million USD)	2010 ( million USD )
Total Income	32.80	76.54
Online Advertisement	15	32.15
Online Game	12	34.44
Others (Integrated Purchase & Value added internet services)	5.8	9.95

Income from online advertisements and game takes over 80 percent of total revenue for Renren.com. However, as more and more social networking sites compete with Renren, it is necessary to have differentiated products so as to be the market leader in SNS field. For instance, most of Renren users are students; it may be feasible to develop student related applications, such as search engine services, online recruitment and traveling etc. The more associated services are provided by the platform, the stickier to the site the users will be.

## 5. Conclusion

Business model is fundamental for business performance, especially for business application services in the new digital economy, such as social networking sites. As the competition among these sites has become more and more intense, it is important to provide differentiated products and services so as to gain competitive advantages. How to find out specific customers from the web site, develop related theme and attract users accordingly become the key success factors for social networking sites. Aggregation and referral affects would also be effective in the promotion of SNS.

## References

Alexander Osterwalder & Yves Pigneur Alan Smith Clark, Tim JOHN WILEY & SONS INC (2010), 17-18.

Boyd, D. M., & Ellison, N. B. (2007). Social Network Sites. Definition, History, and Scholarship. *Journal of Computer-Mediated Communication*, Indiana, 13(1), 210-230.

Magretta J. (2002), Why Business Models Matter, *Harvard Business Review*, 86-92.

Stanley Milgram (1967). The Small-World Problem, *Psychology Today*, 1(1), 61-67.

[http://en.wikipedia.org/wiki/Social\\_networking\\_site](http://en.wikipedia.org/wiki/Social_networking_site)

[http://en.wikipedia.org/wiki/Business\\_model](http://en.wikipedia.org/wiki/Business_model).

[http:// www.dcci.com.cn](http://www.dcci.com.cn).

[http:// www.renren.com](http://www.renren.com).

<http://www.iresearch.com>.