



The Future of Advertising And the Value of Social Networksⁱ

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1. Introduction

From the grooming hierarchies of chimpanzees to the status hierarchies of a suburban high school, social networks are a critical aspect of primates' social lives and interactions. There is increasing commercial and academic interest in the role of virtual social networks, from the *inhabitants* of Second Life and the hip young users of MySpace to the consumers who post their experiences with macaroni and cheese on Kraft's community website.

Social networking websites generate academic research because they're new, trendy, widely covered in the press, used by young and presumably technically savvy college students, and still poorly understood. They are of interest to the business community because they represent both a threat and an opportunity to traditional advertisers, because they terrify traditional media companies, and because they appear to offer yet another opportunity for non-traditional advertising powerhouses like Google to expand and dominate yet another form of online interaction. The biggest opportunity is also the biggest threat — if online social networks replace traditional advertising and commercials as the means by which consumers become informed, how can companies control what consumers learn in order to influence their behavior, what role is left for advertising agencies, and what profit sources are left for media companies like newspapers and broadcast companies, which receive most of the revenues from commercials?

We review what social networks and virtual social networks are. We evaluate a couple of the recent acquisitions of virtual social networking websites and question the commercial justification for the acquisition or the price paid. We examine a few online social networking websites that seem to succeed in generating a high degree of usage and loyalty, whether or not this usage can be directly converted into any form of financial returns for the website developers. Finally, we present what at best can be called some tentative and inconclusive conclusions.

2. Social Networks

Social networks are familiar to all who study primates, from baboon troops and gorilla and chimpanzee groups to human societies at all levels of cultural development [Fossey 2000;

Goodal 1996, 2000; Whyte, 1993]. A human social network can be a group of friends living within a city, or a group of college classmates who remain in frequent contact socially. It can also be a group formed specifically to accomplish a poorly structured set of tasks over time, like a business school MBA learning team.

Humans in all cultures at all times form complex social networks; the term social network here means ongoing relations among people that matter to those engaged in the group, either for specific reasons (like fantasy football, cancer support groups, task forces at work) or for more general expressions of mutual solidarity (like families, clans, friends, social clubs). Social networks among individuals who may not be related can be validated and maintained by agreement on objectives, social values, or even by choice of entertainment, such as a group of people who meet for tailgating parties when their professional football team plays home games. Membership in these networks can be relatively permanent (extended families, which endure for lifetimes) or flexible (pregnancy support groups, in which members rotate out after a few months). They involve reciprocal responsibilities and roles that may be altruistic or self-interest based (or a combination of both).

Social networks are trusted because of shared experiences and the perception of shared values or shared needs. A professor is likely to request recommendations for an accountant from another professor, assuming that their requirements are similar and that a colleague's recommendation will be both relevant to his needs and trustworthy. New parents will get recommendations from their neighbors for a pediatrician and, over time, will get recommendations for a baby sitter. Friends tell friends about restaurants and movies. Business interest in online social networks in many cases is based upon the belief that the networks will be trusted, that trust will lead to trusted recommendations, that trusted recommendations will lead to sales, and that these sales can somehow be harnessed to produce revenues for the network operator. It is not yet clear to what extent the relationships in virtual social networks are trusted or valued, or to what extent they can be harnessed and *monetized* without destroying the trust on which the entire business model is based.

We suspect that online networks are different from previous forms of social networks, at least at present. Online friendships need not be trusted relationships that have been validated by history and by the shared experience that this history implies. Online trust does not have the risk that trust and vulnerability imply in the physical world, and online betrayal does not have the physical risk that real world betrayal does; it is possible to be embarrassed in Second Life, but it is not possible to be physically injured by a Second Life encounter. It does not immediately follow that online network members look to each other for advice and support on a wide range on concerns, from product evaluations to life choices; that is, a declared friendship network in Facebook may not confer the same degree of trust that actual friendship and participation in social networks historically do offline.

People who participate in online social connections typically may not yet trust each other sufficiently to look to other participants as valued sources of objective information. This is critical since the business model for the acquisition of social networking websites assumes that advertising can be moved to these websites, based upon the presence of trust among members (viral marketing) or upon the transfer of trust from the online relationships to the owner and operator of the website itself (traditional advertising). In contrast to the optimism expressed in the business press, in the remainder of this posting we will suggest that advertising in these online venues will be unsuccessful, and that at best advertising will be little more than irrelevant

to viewers and waste of advertisers' money; at worst, advertising will be seen as an unwelcome intrusion, and as reducing the value of the social website to its participants.

3. Virtual Social Networks

The newest attempts at the development of social networks have tried to create online social networks without relying upon initial face-to-face encounters to create the network; Facebook, MySpace, and YouTube are simply the best known and most publicized of this new generation of social networking websites. The virtual reality shared world, Second Life¹, enables participants to enter a complex world, to choose their avatars (physical manifestation), to build homes and businesses, and to a great extent shape the evolution of that world. Online businesses in Second Life sell prime "real estate," virtual homes in preferred locations, or sell real music that can be enjoyed offline. Politicians hold press conferences and meetings. The online interactions in Second Life have morphed into actual businesses, with monetary transactions that can be converted into US (real world) dollars, so that actual money is now a part of a virtual environment.

Virtual social networks can allow participants a high degree of freedom to explore not only relationships that they would not explore in their real lives, but also to explore who and even what they want to be. Virtual social networks let users interact through their chosen, personal, and possibly carefully designed artificial self, your avatar. The appearance of your avatar can be as real, idealized, ordinary, or as imaginary, as you wish. See figure 1 for a spectrum of avatars, ranging from two avatars that look almost like parodies of 21st century male and female sexuality, to a cool and controlled timeless sophisticate.



Figure 1.—A range of avatars from Second Life, selected from Flickr.com.

¹ Second Life, often simply abbreviated SL, is the most popular and most technically developed virtual reality meeting place. It has no objective, and few rules; it is more like a virtual city, or virtual world, than a game or any of the previous attempts at massively shared multi-user domains. See all Wikipedia (http://en.wikipedia.org/wiki/Second_Life)

A wide range of behaviors is observable on Second Life. Some carry over from our *meatspace*² first life here on Earth with very little explanation required; for example, there is a beach where French is spoken, and where the other inhabitants will all ignore you if you have the poor taste to attempt to communicate in English. Some Second Life interactions appear confusing; is a wedding conducted in Second Life actually binding on anyone? And some are disturbing; what is the woman in figure 2 doing and why is she smiling?



Figure 2.—What is this woman doing and why is she smiling?

4. Death of Traditional, Pushed-Message Advertising

The public distrusts advertising messages and advertising is losing much of its impact. Recent experiments by MIT Professor Dan Ariely confirm the extent to which consumers have come to distrust paid advertising and have come to distrust information that is pushed at them from a source with an interest in influencing outcomes³. This is true whether the provided information comes from a trusted company or a political party. Professor Ariely describes two experiments, both of which are aimed at assessing the extent to which consumers alter their perception of the reliability of a statement based solely on its source.

- In one of Professor Ariely's experiments subjects were asked to assess the truth value of a large collection of statements; half were indeed true, but consistent with a slight but well-known bias towards trust subjects accepted about 55% of the statements. The willingness to accept the statements dropped significantly, and the fraction accepted was closer to one third when the statements were attributed to the Democratic Party or the Republican Party. Well-respected companies like Procter & Gamble fared slightly better, with an acceptance of close to 40%. Interestingly, the willingness to accept statements from either party was not significantly better among members of that party than among members of the opposition party. Equally interestingly, this lack of trust was evidenced in the rejection of statements that had nothing to do with candidates, with the policy of either party, or with products from P&G or its competitors.

² Wikipedia provides the following definition of *meatspace*. Meatspace is a dysphemism for real life or the physical world, and conceived as the opposite of cyberspace or virtual reality. The term originated in science fiction literature, specifically the cyberpunk genre, but it has become increasingly common in general usage, as a reference to transactions or interactions which occur in the presence of physical bodies ("meat"), rather than online or electronically.

³ This section is based on recent and unpublished work by Professor Ariely at MIT's Media Lab.

- In a second experiment, subjects read a review of a stereo system and then listened to the stereo and were asked to rate it. In one case subjects were told that the review was from a highly regarded stereo store close to MIT and in another case they were told that the review was from Consumer Reports; in both cases the wording of the review and stereo and the listening conditions for the stereo were identical. Subjects were asked to evaluate and rate the stereo after listening to it. Although there were no wording differences between the reviews shown the different subjects and the stereo and the listening conditions were identical, subjects who believed the favorable review was from Consumer Reports actually gave the stereo significantly higher assessments after listening. If the review was from a disinterested source, subjects either (1) actually experienced the stereo as superior, or (2) were less willing to contradict the source.

Professor Ariely describes the collapse of credibility of paid messages as an example of the “Tragedy of the Commons.” [Hardin, 1968] In the traditional tragedy of the commons, all households start by grazing a single cow, the commons supports all cows, and every household has enough milk. A single resident decides to graze two cows; the decrease in the welfare of each cow is small, no household suffers significantly, and the individual with two cows is almost twice as well off as he was before addition of the second cow. One by one, each of his neighbors adds a second cow as well, until ultimately the common land is over-grazed, each cow is near starvation and gives very little milk, and everyone is worse off than before. Tragically, at this point no single cow can provide enough milk to support its owner, and every household needs to add a second cow just to survive. Similar phenomena are already observed in the significant collapse of numerous commercial fish harvests. Ariely argues that as long as any single advertiser is tempted to over-claim, over-grazing in the commons of consumers’ trust, consumers’ trust will be weakened, additional advertisers will be tempted to make exaggerated claims in order to have an impact on consumers’ perceptions, and ultimately each advertiser will be forced to over-promise and to over-claim. This will effectively over-graze the commons of consumer trust, explaining the phenomena that Professor Ariely observes in his experiments.

Simultaneously, viewers are abandoning not only advertising, but mass media as well. Television viewership is fragmented, with hundreds of channels on subjects as specialized as military aircraft, golf, fine dining, classic sporting matches, or movies of every period and every genre. Television viewership is also down, with Internet and gaming activities replacing television, which itself replaced afternoon newspapers. Those viewers an advertiser or network is lucky enough to attract to a program will most likely channel surf to an alternative, or fast forward if watching via TiVo or other time shifting mechanism, simply to avoid seeing the advertisements.

5. Virtual Social Networks as a Response to the Fear of the Death of Traditional Advertising

Not surprisingly, corporations that rely upon advertising to reach consumers and media giants and ad agencies for which advertising represents virtually all of their revenues are reluctant to recognizing the death of advertising. Both the loss of viewers and the loss of credibility are seen as temporary, or as a function of the choice of medium, and not as a profound and lasting change in consumer behavior. Since advertisers, agencies, and media executives have misunderstood the true nature of the problem they are facing, their responses have been inappropriate:

- *Viewers want to skip the ads? Give ‘em only ads!* You can now see your favorite Bud commercials online. Soon you will be able to watch the online *Budweiser Network* or

Bud TV (<http://www.budweiser.com/index.html>) for multiple channels of branded entertainment. Neither will help reach or inform anyone not already committed to Bud. How interesting can a Budweiser advertisement be?

- *Viewers won't watch traditional ads through traditional media? Give 'em new ads through a new medium.* This is the principal justification for media acquisitions of social networks, like News Corporation's acquisition of MySpace⁴. Friends will recommend products to friends, for a fee, or MySpace will recommend products to users who can be effectively targeted when they are in a shopping sort of mood, generating viral marketing at warp speed. No doubt this is intended to generate revenues to replace those that News Corp is losing due to erosion of readership in its newspaper empire.

Although the justification offered above for the acquisition of MySpace seems quite implausible to me, it has been embraced by the ad industry. It is widely understood that the age groups that frequent Facebook, MySpace, and YouTube frequently “*buy stuff online*”, but that they cannot shop online at these three websites. As USA Today approvingly notes, “*And that means that there may be billions of dollars being left on the table by the major social networking websites, according to an eye-opening survey to be released today by the American Marketing Association.*” (See “Survey, Social-network sites could also lure shoppers,” *USA Today*, p 1-B, November 24, 2006.) Of course, I cannot buy stuff online when I check USAir flights at their website nor can I shop when I check out TV offerings using AOL or read the New York Times or check stock prices at the New York Stock Exchange. Does this suggest that *all* of these websites are also leaving billions of dollars on the table? That The New York Times, CNN, or the New York Stock Exchange are poised to take on Amazon and Wal-Mart as new online retailers? How eye-opening would that be?

6. Questionable Value of Social Networking Websites

The central issue in generating revenue from social networking websites comes down to the extent to which they can be understood as actual networks, functionally comparable to older — face-to-face — networks. Actual networks create trust and credibility, precisely those traits being lost by push advertising. These do not appear to be the attributes that draw users to MySpace, Facebook, or YouTube. Viewing YouTube does not require trust or create social interaction; it merely requires time. A virtual community does not substitute for an actual community and someone known only online is not a “real” friend. While signage for Budweiser or Absolut Vodka on Second Life happens, it does not lead users to say, “*That person is really enjoying that Bud,*” or “*Bud is best*” or “*I want a Bud.*” Worse, such signage can be seen as unwelcome, the penetration of the bad aspects of the real world into the virtual world. Users in these sites want a sense of control and of active participation, and advertising that is pushed at them will reduce their enjoyment of their new online world.

As my colleague Dr. Steve Barnett of Bardo Consulting notes, “Understanding the relationship between real and virtual connections is basic; it is premature to assume that the real and virtual social relationships are similar, and premature to assume even if they are similar that virtual relationships can readily be commercialized without affecting the value of the relationships or the attractiveness of the online social network. It seems that the purchase of social networking websites has neglected developing this understanding or using this understanding for the

⁴ See http://www.businessweek.com/technology/content/jul2005/tc20050719_5427_tc119.htm for expectations at the time of the acquisition.

development of business models or accurate valuations.” It seems more likely that the acquisitions appear to be a second wave of dotcom hubris.

We believe that most social networking websites will not work as advertising websites. Indeed, the current valuations, and the current justifications claimed for acquisitions, appear hugely optimistic and based on the discredited valuation theories using eyeballs and click-throughs, which featured so prominently in the disasters of the first wave of eCommerce. Any analyst valuing a social network apparently may still need the following obvious reminders:

- A virtual community is not really a community
- A virtual friend is not really a friend
- Product recommendations from virtual friends may be neither welcome nor trusted
- Paid product positioning — seeing someone drinking a Budweiser beer in Second Life or treating a virtual car with a branded virtual car wax — is likely to be seen as at best absurd, and not as an indication that the non-virtual product works well and confers status in *meatspace*.

In those instances where push-based advertising and paid content are seen by users as truly intrusive and truly offensive, it may be sufficient to slow growth of the offending website and eventually tip the balance towards a new entrant. Although those who are making enormously expensive acquisitions of social networking websites believe that their current user population represents an enormous network effect benefit to users and a correspondingly large barrier to entry for later competitors, this may be overstated and needs to be explored further.

7. Is there Some Value from Observing the Appearance of Avatars and Objects?

My colleague Professor Arjun Appadurai of The New School for Social Research believes that manufacturers and providers of services may gain considerable value by observing what people do in Second Life, what they wear, and the objects they choose to employ. Dr. Appadurai has written about the social life of objects and their natural peering [1988]. Just as we are not surprised to see two friends walking together, we are not surprised to see certain objects paired with their peers. Object peerings change over time; in the 1960s denim jeans might be worn with a leather jacket, or occasionally, with a corduroy coat; now the same jeans, or their designer cousins, might be worn with the top half of an expensive Italian suit. With no constraints imposed in Second Life by designers, by good taste, by the current merchandise selections available in stores, by the weather, or by the interactions between physics and the human body, can we learn something by observing what people do with their avatars?

The initial appearance of default Second Life avatars is demeaning Newbies, before users have designed their customized avatars. The actual appearance of more humanesque avatars therefore represents choice. In many cases the appearance of someone’s avatar also represents a significant investment in time to design and implement it, or in actually cash payments to a skilled avatar designer. We can all look however we want in Second Life; there is no technical constraint or Second Life rule or social norm that suggests we have to preserve anything of our actual appearance, age, gender, or race when designing a personalized avatar. Figure 3, taken from *The Economist* (Sept. 28, 2006), shows Donna Meyer, a “grandmother from New York,” along with her Second Life avatar.



Figure 3.—A grandmother from New York, and her more youthful Second Life Avatar.

We are indeed free to look however we wish in Second Life, and our appearance represents conscious choice, effort, and sometimes funding. But what does the appearance of avatars tell us, and what do we learn that we did not know from observing individuals in New York, Paris, Milan, or Caracas, Hong Kong, Beijing, or Bangkok? Figure 4 is informative precisely because of how little it does tell us; apparently, people design their avatars to look in accordance with current social norms of male or female perfection, including all the stereotypes that we pretend were forcibly imposed upon us by Madison Avenue against our wills.



Figure 4.—Four very traditional, and nearly perfect, male and female avatars.

Admittedly, some bolder individuals do choose to exploit the freedom of Second Life to offer an appearance that would be impossible to achieve in this life. Figure 5 shows a cheerful dog-headed boy out shoe shopping and a woman with a small pair of cat-ears and an amazing pair of wings. (I have chosen to ignore the implications of shopping for virtual shoes for virtual feet as a form of recreation.) It is not clear what these avatars teach us about product design that firms can port over to their *meatspace* product offerings.



Figure 5.—Two of the more creative avatars to be seen in Second Life.

Second Life residents can be observed engaging in almost any recreational activity we would expect to see in *meatspace*. They can be seen lifting weights, sunbathing, smoking and drinking, surfing, skiing, sky diving or riding in a hot air balloon with no bottom to the observation basket to either ruin the view or provide any sense of security. More peacefully, they can be seen sitting in a hot tub, or quietly observing their shadows in the water as they quietly sail by. See figures 6A and 6B for examples.



Figure 6A.—Second Life recreation looks a lot like traditional recreation.



Figure 6B.—Even in Second Life, humans like to play on the water.

Second Life residents can beautify themselves at a hair salon, compete in a beauty pageant, or punk themselves up with dozens of body piercings, lip rings, and eyebrow rings. They can even be seen bowling. Indeed, where but in Second Life can we find the same woman competing in and winning a global beauty pageant, bowling, and sky-diving (see figure 7)?



Figure 7.—In Second Life one person can engage in many forms of recreation.

Do we really believe that observing these Second Life activities will tell us anything that we don't already know about consumers' preferences? Do we really believe that this observation will tell us anything we can use to design and sell products? Do we believe that there are many individuals in our first life *meatspace* who actually enjoy the real world activities of having her hair styled, bowling, and jumping out of airplanes; would we expect to see these activities performed by a single individual? Would there be more people like this in our *meatspace* world, absent some poorly understood set of social norms and constraints? I have my doubts.

Of course, observing these activities begs us, almost forces us, to ask the simple question, "Why?" Why compete in a beauty pageant when it is not real human beauty, and quite possibly not even your own work? Why lift weights in second life? There is no pain, of course, and no gain, of course, just the passage of time. Where does the exhilaration come from in high altitude pretend skiing or in pretend surfing, or even the need for balance, skill, and athleticism? There is a serenity in sitting in an outdoor hot tub in Vail on New Year's Eve, surrounded by friends, warm under the stars in the softly falling snow, or in seeing your reflection in the water on a calm day's sailing, or watching Nantucket Harbor slip behind you as you take your yawl out on the early morning breeze; where does the serenity, or the sense of exclusivity, come from watching your cartoon character go through the same activities? We will return to this question in section 9.

8. Travel as a Potential Source of Value for Social Networking Websites?

It may indeed be possible to find activities for which Second Life is appropriate. Organizations are experimenting with holding meetings in virtual space. Such meetings give you a chance to observe who is "raising his or her hand" and who is interacting, in a way that is not possible using traditional telephone teleconferencing. It is probably far easier to fake interest, or even fake attendance, in Second Life than at a *meatspace* meeting or in video teleconferencing, and I suspect that Second Life offers a poor substitute for video teleconferencing rather than a good

substitute for travel. Still, there was considerable interest in Second Life at the most recent sessions of the World Economic Forum in Davos. Virtual world Second Life is a hot topic at the World Economic Forum this year, according to *The Independent*. Indeed, even the forum's founder and chairman, Klaus Schwab, has his own avatar, or virtual identity, and Reuters is conducting interviews with major players at Davos at its virtual bureau in the Second Life realm. This is likely to increase the number of big companies that have a presence in the alternate computer world, owned by Linden Labs. Picking up the climate-change theme at this year's gathering, Linden's chairman, Mitch Kapor, told the newspaper that Second Life could help reduce carbon emissions if big business conducted meetings in the virtual realm rather than jetting around the world for face-time⁵.

Of course, Second Life will reduce carbon emissions and replace travel only if such virtual meetings are effective substitutes for travel. At present, they do not appear to be even effective substitutes for video teleconferencing. Figure 8 shows two Second Life meetings. The first is a users group meeting of Tech Soup, a group that provides technical support to non-profit organizations (<http://techsoup.org>). The second meeting was *Crisis In Darfur*—a live Second Life event with Mia Farrow, John Heffernan, Ronan Farrow, Ron Haviv and Bill Lichtenstein, on 9 January 2007⁶.

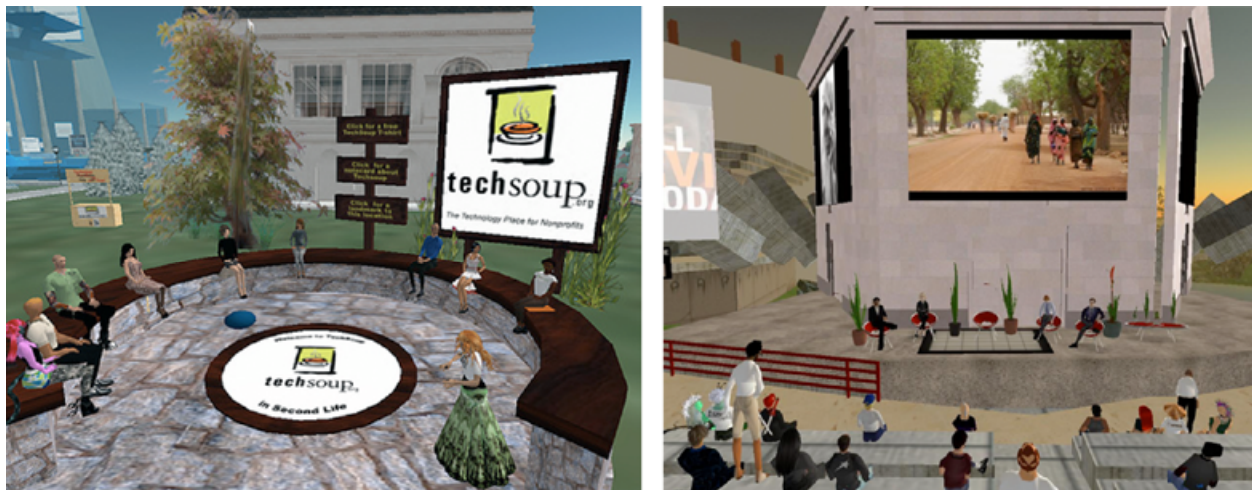


Figure 8.—Two virtual meetings in Second Life.

9. Performance and Reality Television as Models for Social Networks: Travel as a Potential Source of Value for Social Networking Websites

It is too easy for those not taken up in Second Life to dismiss it. The idea of surfing, high altitude skiing, ski diving, or any other athletic activity seems absurd; where is the reward for skill and practice, where is the sense of danger and adventure, where is the adrenaline rush? The idea of dancing with a partner, of sharing a quiet moment in a hot tub with friends, sipping cognac by a fireplace, or engaging in any form of virtual physical intimacy with an avatar whose age and gender is as much a mystery to you as yours is to him or her, is baffling to me. How exclusive is virtual exclusivity? How athletic is virtual athleticism? How intimate is virtual

⁵ <http://dealbook.blogs.nytimes.com/2007/01/26/davos-in-the-papers-second-life-wto-talks-ceo-pay/?ex=1170478800&en=cbs56a6f94843f1f&ei=5070&emc=etal>.

⁶ See <http://www.flickr.com/photos/78184734@N00/352984519/in/set-72157594405375090/> for more photos.

intimacy? Even the idea of virtual travel as a form of broadening horizons or as education seems demeaning; what do the Second Lifers in figure 9 now know about Morocco after their *visit*?



Figure 9.—A Second Life virtual tour of Morocco, originally including the line “*don’t forget your fez!*”

The actor and Swarthmore College Theater Professor Lee Devin notes that Second Life can be viewed as simultaneously watching and acting in a movie. Many of us find watching a movie deeply engaging; why would it be any less engaging to watch a movie in which one of the characters was your chosen metaphor for yourself, and in which the actions of this character are at least partly controlled by you? The script may not be Shakespeare, the acting may not be Olivier, but they are still yours.

Performing is a widespread American addiction, as we can now see in a spate of TV shows, of which the biggest example is American Idol. In the words of Professor Arjun Appadurai, “*Here Democracy meets Horatio Alger and the range of Survivor reality TV shows meets Warhol’s 15 minute allocation of fame for everyone. Increasingly, show business is now about me, or about a possible me, rather than about ‘stars’, ‘celebrities’, or various distant others. This trend builds on the confessional worlds of the daytime talk shows (such as Montel, Oprah, etc., and the everyday dramas of Jerry Springer). American Idol brings these elements together by pushing and promoting the principle that ‘anyone can be anything that he or she chooses.’*” This may be a driving principle behind all successful social network websites, but it is a particularly strong motivator for virtual reality websites like gaming sites and Second Life. Performing in World of Warcraft allows for differences in skill and status, and devotees (or addicts) often claim that the friendships that they have made are as compelling as many they have made here in *meatspace*.

The performance aspect of Second Life can be seen in figure 10, as two avatars dance, dance together, and actually remain synchronized with each other quite effectively. Figure 11 illustrates avatar lust, with Melodious Source and Marquez III. The first shot was captioned simply “*Our little avs just wouldn’t quit staring at each other.*” In the next shot she is resting. The final shot shows Marquez himself, not his avatar; one wonders if his abs are quite as ripped under the yellow shirt as they appear to be in the first shot of the sequence.

For a sympathetic treatment of one Second Life resident’s experience, you may wish to examine the blog of Natalia Zelmanov (<http://slnatalia.blogspot.com/>). You can see the pool of photos posted by Second Lifers on Flickr (<http://www.flickr.com/groups/secondlife/pool/>). Or you can

go to Second Life itself (<http://secondlife.com/>), become a member, and join any of the 6.6 million registered residents, of whom 35,000 were online as I typed this.



Figure 10.—Two avatars dancing together in Second Life.



Figure 11.—Avatar lust in Second Life.

10. Some Social Networking Websites Clearly Do Work

Some social networking websites clearly do work, in the sense that they attract significant traffic, and users become dedicated and loyal, working with or playing with the website frequently, and even forming lasting friendships with other users. Clearly Second Life, with its millions of registered users, must be included in the list. Flickr allows its users to post millions of photographs, which can be viewed by anyone, and on which any registered users can post comments and suggestions (<http://www.flickr.com/press.gne>). Ratebeer is a website for beer lovers (<http://ratebeer.com/>), on which tens of thousands of reviewers have posted millions of reviews on thousands of beers. The website can be used to find posted information, of course, but also has a private email system that allows members to swap information, arrange meetings, and swap beers. By now MySpace (<http://myspace.com/>) and Facebook (<http://www.facebook.com/>)

require no introduction. Even Kraft, manufacturer of the most mainstream and prosaic of consumer products, has gotten into this space. Its own Community website allows users to post their impressions and respond to the postings of others, on topics as varied as their attitudes towards cooking (“*This queen won’t cook!*”; see message thread <http://kraft.liveworld.com/thread.jspa?forumID=57&threadID=1700000607&messageID=170004744#1700004744>) to, of course, a discussion of favorite recipes for macaroni and cheese (<http://kraft.liveworld.com/thread.jspa?threadID=1700000834&tstart=0&mod=1179311390105>). Posters to the “*This queen won’t cook!*” thread will be relieved to know that Kim Ber’s recent absence is easily explained, as she writes on the site, “*I haven’t been around much because I have started my own business! I now own a laser hair removal salon! As you might expect, it’s really stressful to start something like this up and I am really, really busy, but i hope that it’ll be a rewarding career for years to come. I will try and connect with my friends here when I can, though.*”

I will admit that these websites do not make much sense to me, nor do they need to. We all communicate differently. When my daughter was quite young I always called home from wherever I was, whatever the time differences, and spoke to my wife and young daughter as members of my human family; in contrast, I have colleagues with young children who when they travel always make time to log on to World of Warcraft at the end of the day in order to share a troll-killing quest with their kids (<http://www.worldofwarcraft.com/index.xml>).

In an environment of hyperdifferentiation (everything is possible) and resonance marketing (I’ll do it only if it really works for *me*), I would expect that most people would have found websites that appealed to themselves, and not to an academic observer [Clemons, Gao and Hitt, 2006; Clemons and Spitler, 2004]. Thus, even if my daughter would rather learn what I did that day in Tokyo, other kids would rather log on with Dad, go on a quest, and kill some trolls. Even if they don’t make sense to me, these websites apparently do make sense to their frequent users. It would be useful, when trying to predict what it takes to attract a following to a social networking website, to observe what these websites have in common.

It appears that all social networking websites that attract the following offer at least two of the following **Four Ps** in common:

- **Personal** — They are personally relevant. They resonate with a real interest of their participants. Whether the interest group is all newly admitted freshman of the University of Chicago, or all serious students of beer, or those interested in learning how to deal with a new divorce or how to cope with a newly diagnosed disease, or those interested in learning how to plan a wedding, community websites must provide resonance for their viewers and users.
- **Participatory** — Ultimately, the best social networking websites allow participation. The audience at a play is not a social network. A theater club, that goes to plays and then meets to discuss them and plan their next outing is a social network. But an acting troupe that selects its plays, understudies and improvises for each other, and then performs is most definitely a strongly interactive social network. Similarly, people who read The New York Times online each morning or go to First Wives World for information on how to protect their kids during a divorce (<http://www.firstwivesworld.com/>) do not yet form a social network. As networks encourage users to post and ultimately to participate, like MySpace, Facebook Flickr, World of Warcraft, or Second Life they become more functionally equivalent to social networks.

- **Physical** — Many social networking websites appear to offer the possibility of a transition to physical meetings in *meatspace*. Obviously that is central to the mission of all dating websites. But websites as diverse as Ratebeer, Flickr, and World of Warcraft seem to offer their participants opportunities to meet outside the cyberspace confines of the websites.
- **Plausible** — The artificial worlds of Second Life and World of Warcraft offer physical constraints and limitations different from those we experience on earth. Participation and performance require at least some rules, to make them sufficiently plausible to allow users to function.

In a subsequent posting I will examine a larger sampling of websites that appear to have succeeded in becoming virtual communities and in attracting a significant number of loyal users, that is, repeat visitors who return regularly. I will attempt to determine the extent to which significant usage is related to the Four Ps listed above, Personal, Participatory, Physical, and Plausible. And I will attempt to assess which of these virtual communities have achieved some measure of financial success, through usage fees, advertising, or other revenue sources.

11. Conclusions ... Such as They Are ...

11.1 Forces at Work

Any attempt to predict the future of advertising must understand both consumer behaviors with regard to shopping and their behaviors in their use of the Internet:

- Consumers use the net to see what they want and do what they want, when they want it. The net will not support entrapment, and consumers who are escaping ads through TiVo are unlikely to become attracted to full time advertisement programming or become captive viewers of any form of online advertising.
- The modern consumer views the net as transparent, and naturally occurring community postings and the recommendations of known friends will outweigh paid placements and paid reviews. Placements of products in movies or in video games are likely to be ignored; the presence of advertisements directly into movies or video games will be resented.

Virtual reality websites simply are not ideal for encouraging online consumption or for encouraging consumption in physical space:

- It's meaningless to drink a beer online, and pointless to attempt to influence my selection of a beer by drinking one online with me. I can't taste anything online, and I know that you can't either.
- It's impossible to convince me to fly your airline by allowing me to fly it in a virtual world; why would I waste time in a virtual world when I can move instantly?
- You can probably get me to listen to music in a virtual reality setting, and I might even buy it afterwards; if you get me to view a movie online in virtual reality, I probably no longer need to buy it or to see it again.
- If a truly stunning avatar were to be seen carrying a great new product, or wearing a bold new style, that might indeed influence styles in the *meatspace* world, but only if it were a style that was plausible and functional in this world.

11.2. Predictions

Some phenomena are too complex to predict right now. Consumer media viewing behavior, consumption behavior, receptivity to advertising, and use of information in purchases are all changing. The changes are profound, and they interact in complex ways that confound easy analysis. The most tempting response among advertisers and among their agencies is to assume that the most significant changes are in media choices and viewing behavior, which requires the smallest response — change the venue in which ads appear, and change their format as dictated by the new media. While we do not yet know enough to determine if a change in advertising venue will be sufficient to restore the power of advertising, we suspect that it will not be, and that the high valuations placed on early social networking websites may be irrationally high, even as hedging bets.

We believe that consumer-generated content, of the kind seen on YouTube and Ratebeer, will become more widespread and its impact on consumer purchasing behaviors will come to dominate the role played by advertising. Authors as varied as Eric von Hippel writing about user-generated technical innovation and Lawrence Lessig writing about user-generated artistic contributions to popular culture are quite convincing about this. When consumers can check on *anything*, any product or service, in any category, from any vendor, the role of traditional advertising will be greatly diminished. Procter & Gamble, Johnson & Johnson, Anheuser-Busch and their peers can all construct websites, but they cannot control them. Ratebeer.com and TripAdvisor.com and their successors may play a much larger role, but corporations will discover that they cannot control these websites either.

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ⁱ This short note is based on a longer paper written with Steve Barnett and Arjun Appadurai, “The Future of Advertising and the Value of Social Network Websites: Some Preliminary Examinations”, *Proceedings, Ninth International Conference on Electronic Commerce, The Wireless World of Electronic Commerce (forthcoming, 2007)*.