Online Social Networks Can Increase Ad Revenue by Stimulating Content

To increase revenue, social networking sites need to give their most active users reason to post more information and make more friends, according to Harikesh Nair of the Graduate School of Business and his co-researchers by Marguerite Rigoglioso | Apr 20, 2011

Social networking sites, such as Facebook and MySpace, make their money through advertising revenue generated as users click on specific pages or featured ads. So what’s the smartest strategy for network owners? Should they work to get more users and stimulate clicks?

Do users with lots of friends tend to post more content, or do users who post more content tend to attract more friends? If both are true, social networks are subject to a "network effect" arising from content generation: Adding more friends generates more content, which, in turn, generates more friends for users, and so on, leading to a self-reinforcing virtuous cycle beneficial to the network site.

Overall, the research suggests, networking sites seeking to increase their income need to stimulate the creation of user pages and other content. The solution is to give the most active users incentives to continue making friends, which keeps the entire network robust, growing, and opening pages for visitors.

Stanford researchers took on the challenge of understanding this process in an effort to describe how social networks can improve their business model and increase revenues. While the key to clicks is generating lots of content on the site, a network owner shouldn't try to increase content artificially. If a network tries to pay users to post content or to fill a site with fluff, participants soon detect the ruse and are turned off.

The researchers say site owners can instead do things to stimulate users themselves to post more information: Give users incentives to increase the number of online "friends" they connect with through the site and consider targeting advertisers to post ads on the Web pages of the most prolific users.

The work by Harikesh Nair, associate professor of marketing at the Stanford Graduate School of Business; Scott Shriver, a doctoral student at the business school; and Reto Hofstetter of the University of St. Gallen in Switzerland studied the site Soulrider.com — an online sport-based community devoted mainly to windsurfers in Switzerland. Researchers assembled the complete history of content creation and online activity among users, plus their demographics.

Users who clicked on Soulrider found valuable information — among other things current wind-speeds at various Swiss windsurfing locations. The researchers obtained detailed data on wind-speeds at every surfing place in Switzerland from the Swiss meteorological office. Combining the two datasets, they found that when wind speeds increased, online posts spiked. In addition, requests for new friendship links also spiked when new information was posted. And, said the researchers, the number of “friends” users were linked to had a positive effect on how much content they posted. The more content they generated, the more networks grew as these prolific users attracted more friends.

'It was clear that the two factors — content and networking — combined to create a virtuous cycle. In short, people who had more friends posted more content, and people who posted more content generated more friends,” said Nair.

The authors found, however, that 80% of the content was generated by only 10% of users. "This means that some are more valuable to the social network than others," said Nair. The finding showed that hosting firms could benefit by targeting advertisers to focus their efforts on particular users' Web pages. "You want to place ads where the maximum number of users will click onto a page and are also, therefore, more likely to click on an ad," he said. More page clicks where ads appear spell more revenue to the host.

"In the case of Soulrider.com for example, the site might stimulate users to network by providing them with a list of suggested friends with similar tastes, or by informing them when certain friends are going to particular lakes to windsurf, thereby encouraging them to coordinate their trips and socialize," Nair suggests.
Overall, the research suggests, networking sites need to encourage and support both content creation and attracting new friends. In the case of Soulrider, the network should be willing to invest seven Swiss francs per user on such marketing interventions. However, they cautioned, the network should analyze its own data to keep focused on subsets of active users who will respond to targeting. Looking at Soulrider, they found that if the site owners tried to stimulate networking too broadly, they would overspend their marketing efforts by 10 to 15%.

While networking may prove to be less relevant for some online sites, overall, concludes Nair, for most what will matter is "the density of the links." Such research may inspire hosting firms to continue to develop ever more creative ways to instigate their users to post and click.

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