

B V C A P I T A L

Web 2.0 Business Models

Web 2.0 Expo Berlin
November 2007


Agenda

Follow the traffic (and then worry about the money)

- Social Networks and Communities
 - Traffic, Advertising, Examples
- Video
 - Traffic, Sustainability, Monetization, Examples
- Local
 - Market, Monetization, Examples

Social Networks and Communities

- 1 Yahoo!
- 2 Google
- 3 YouTube
- 4 MSN
- 5 Windows Live
- 6 MySpace
- 7 Facebook
- 8 Wikipedia
- 9 Hi5
- 10 Orkut
- 11 Rapidshare.com
- 12 Blogger
- 13 Baidu
- 14 Megaupload
- 15 Friendster
- 16 Yahoo Japan
- 17 QQ (China)
- 18 Microsoft
- 19 Fotolog
- 20 EBay

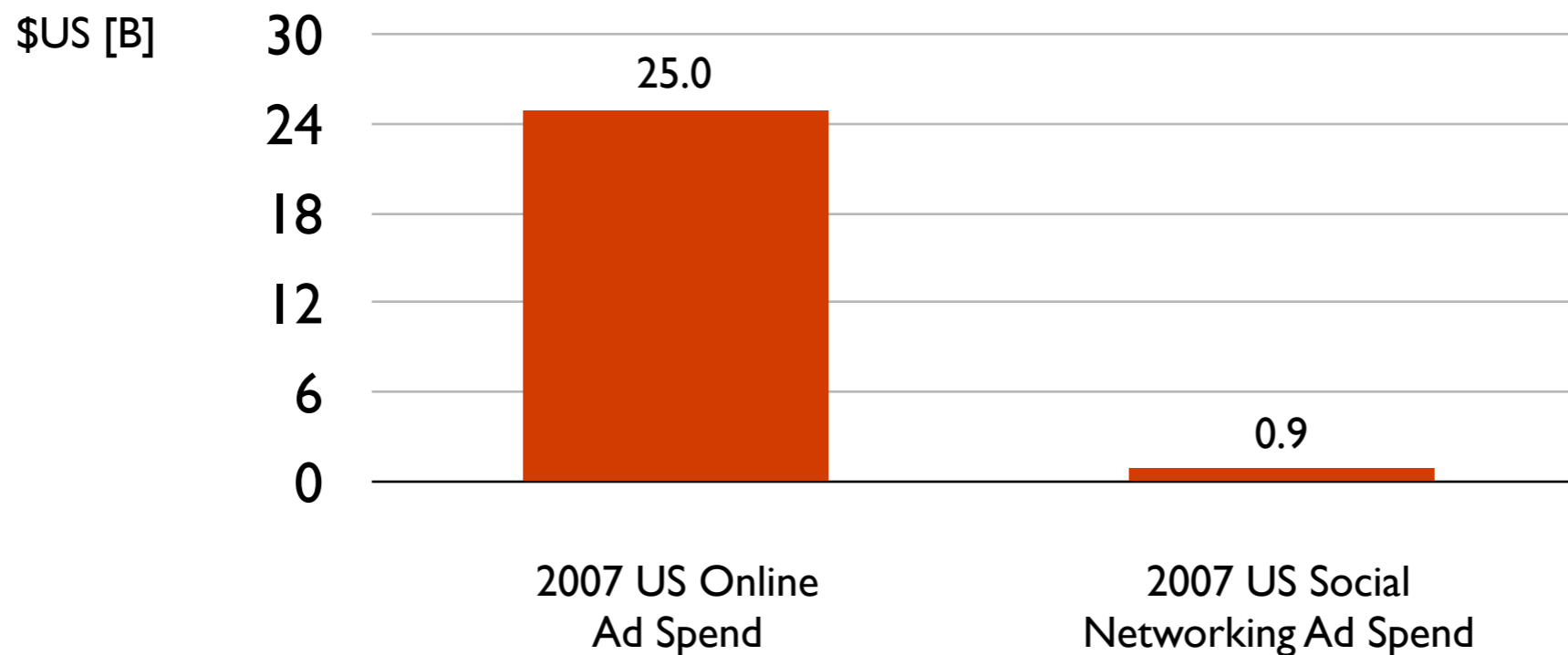


Over the last 2-3 years, social networks and communities have emerged as massive traffic drivers.

Source: Alexa World Top 100 Sites, Nov 4th, 2007

Social Networks and Communities

- MySpace *alone* \geq 6% of US online visits
- <4% of US online advertising spent across *all* US Social Networks



Source: Goldman Sachs 10/07, eMarketer 05/07, Piper Jaffray 02/07

- Alternative to ads: Virtual items.
(Cyworld Korea: \$100M++ revenue, \$7 ARPU/year)

Social Networks and Communities

So if advertising is tough, how can Social Networks be a viable business ?

- If they are viral - extremely low customer acquisition cost
- Critical mass of users in each geography required
(Revenue per click in the US > UK > Europe > ROW)
- Scale, scale, scale



Example: www.fotolog.com

\$12M invested

12M+ accounts

<\$1 invested per account*

The screenshot shows the Fotolog website interface. At the top, it displays the same summary statistics as the figure above: 12,400,413 Fotolog Accounts, 340,266,763 Total Photos, and 678,315 New Photos Added Today. Below this is a world map with various regions highlighted and labeled: Europe, N. America, S. America, Africa, Asia, and Oceania. Each region has a small thumbnail of a photo. To the left of the map is a login section for 'Fotolog Members Log In' with fields for 'Username:' and 'Password:' and a 'Login' button. Below the login section is a section for 'THE DAILY F'LOG' featuring a photo of two people and the text 'Grand Kids Friends, forever.' To the right of the map is a 'Member Search' section with a 'Username:' field and a 'Search' button. At the bottom of the map area, there are links for 'Fotolog Directories' (Countries, Groups, Gold Camera Members) and 'Random Fotolog'.

*Note that this is capital invested per account, not customer acquisition cost.
BV Capital is an investor in Fotolog. Data as of Nov 4th, 2007 (Source: fotolog.com).

Social Networks and Communities

Why is advertising on Social Networks “difficult”?

- Internet advertising today works most efficiently driving *transactions*.
Need to know *what* the customer wants *now*.
(→ Search text ads)
- On Social Networks, people are not in buying mode.
However, high repeat site usage helps transport *branding messages*.

Need to know *who* the user is to build brand affinity for a *future* purchase.

Social Networks and Communities

How do the leading Social Networks increase ad revenue?

- Large players launching their own ad marketplace
 - MySpace “SelfServe”, Facebook “Pandemic”(?) launching today
 - Targeted at display advertising (banners etc.)
- What role will application platforms play?
 - Facebook developer platform very successful, but few ways to monetize - will Facebook provide a monetization engine?
 - OpenSocial, Google’s open counterpart, looks like well-crafted defensive move - will Google leverage its advertiser relationships here?



Scale audiences becoming their own ad networks, but maybe syndication/participation opportunity for smaller publishers

Example: Glam Media

- Model
 - Sells advertising for women-focused brands
 - Publishes ads on “mid-tail” content partner (communities, blogs...) sites with female audiences
- Why it makes sense
 - Small sites can get targeted brand advertising without their own ad sales force
 - Not a new model (ad network), but specific audience & content focus is new
- But: Questions whether audience is as targeted as claimed

Glam Media Publisher Login Glam.com

HOME ABOUT GLAM ADVERTISERS PUBLISHERS PARTNERS CONTACT US

THE POWER OF DISTRIBUTED MEDIA

WHERE DISTINCTIVE VOICES AND BRAND ADVERTISERS UNITE

Advertise → Find out how to reach more women through Glam Media. See how top brands have uniquely engaged with their audience.

Join Our Network → Join the Glam Publisher Network and benefit from great premium brand advertising on your site.

Syndicate → Add Glam's unique and compelling content to your site—subscribe to RSS and more.

Featured Publishers

What's Hot

Senior FIM Executive Joins Glam Media as Sales EVP
October 19, 2007

Conde Nast Veteran Joins Glam
October 17, 2007

San Francisco Business Journal - Glam Rocks with Women
September 28, 2007

» All Glam News & Press
Join us at Forbes MEET

MEET

GLAM MEDIA US UNIQUES
22,486,124

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Example: Peanut Labs

- Model
 - Aggregates “Gen Y” surveys from market research firms
 - Builds a panel from partner social networking or gaming sites
 - Users get rewarded with virtual currency or premium features on partner site
- Why it makes sense
 - Many social network users don’t pay, but don’t mind spending time on a survey as much
 - Works for social networks and to monetize Facebook apps

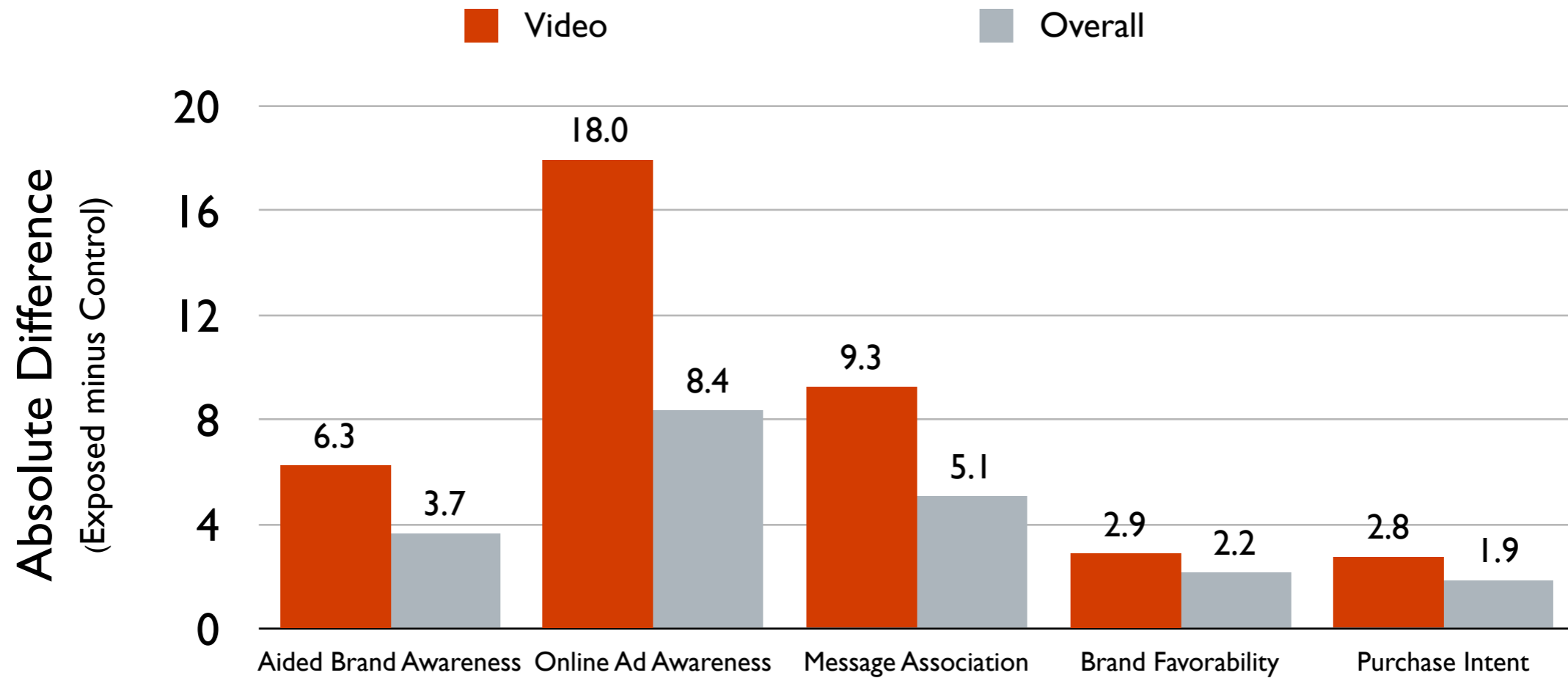
The screenshot shows the Peanut Labs website. At the top, there is a navigation bar with the logo and links for home, publishers, market researchers, faq, and about us. Below the navigation bar is a flow diagram with three steps: 1. You incentivize your users to engage with our researchers and advertisers (represented by a peanut icon). 2. Your users spend 10 mins taking an online survey or an offer, integrated into your site (represented by an alarm clock icon). 3. You get paid cash for each research survey or offer finished by your user. (represented by a stack of cash icon). Below the flow diagram, there is a section titled "60 sites + 10 million people" with the subtitle "in the world's highest quality Gen Y research network." This section lists logos for LiveJournal, xUoacm, K2 Network, Link2Me.com, Fotki, and FUGLY.com. Below the logos are links for "Take a test survey", "Publishers, learn more", "Market researchers, learn more", and "Interested in Partnering?, contact us". To the right of the logos is a section titled "publishers" with a description of how Peanut Labs helps publishers increase revenue and a "learn more" link. Below that is a section titled "market research" with a description of how Peanut Labs provides data for market researchers and a "learn more" link. At the bottom of the page, there is a footer with links for "Privacy Policy", "FAQ", and "Contact Us", and a copyright notice for 2007.

Video

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- Why does Video work online?
 - Lots of content (User generated, Pro-amateurs, Hollywood)
 - People engagement (rating, tagging etc)
 - Huge audience
 - Playback quality increasing (broadband)
 - Multiple monetization opportunities, targeting and analytics
 - Good medium for branding messages

Video



Source: Dynamic Logic Market Norms, Q2 06



Video advertising suitable to increase brand awareness

Video

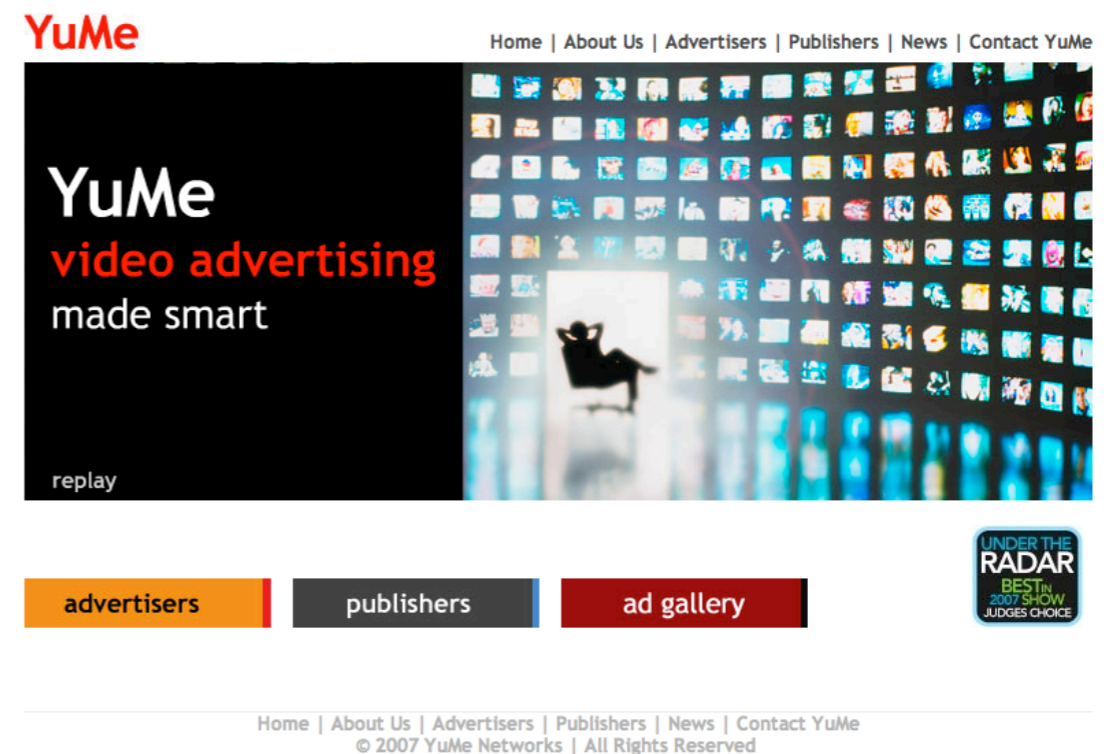
- How do you monetize video?
 - Pre- and post-roll
 - In-video ads
 - Promotional content
 - Sponsorships
 - Search/Display advertising
 - Pay per views



- Works best with long-form, differentiated content
- Mass UGC harder to monetize than semi-professional and pro content
- Environment and content need to be brand-safe
- 3s instead of 30s ads
- High CPMs of \$20++ but still small budgets, large brand advertisers

Example: Yume Networks

- Model
 - Acquires pre- and post roll advertising from brands
 - Distributes videos with targeting and analytics (geo, environment etc) to partner sites
- Why it makes sense
 - Even smaller video sites can start monetizing content
 - Targeting allows brands to make sure their video appears in right context



Local Advertising

- Many communities/services trying to crack local ad market
- Huge Market
 - US Offline Yellow Pages & Classifieds Market: \$37B
 - Online share of this market: \$5B today and growing fast
- Presenting ads in local context skyrockets ad prices

| Keyword | Price for Top Position | Keyword | Price for Top Position | Keyword | Price for Top Position |
|---------------------------|-------------------------------|-----------------------|-------------------------------|--------------------------|-------------------------------|
| <i>General term</i> | | <i>General term</i> | | <i>General term</i> | |
| Restaurants | 0.11 US\$ | dentist | 0.31 US\$ | Contractor | 0.52 US\$ |
| <i>Local term</i> | | <i>Local term</i> | | <i>Local term</i> | |
| Boston restaurants | 0.30 US\$ | San Francisco dentist | 1.02 US\$ | Boston contractor | 0.51 US\$ |
| Los Angeles restaurants | 0.30 US\$ | Chicago dentist | 1.39 US\$ | San Francisco contractor | 2.12 US\$ |
| Chicago restaurants | 0.32 US\$ | New York dentist | 3.69 US\$ | Los Angeles contractor | 2.01 US\$ |
| San Francisco restaurants | 0.51 US\$ | Boston dentist | 4.01 US\$ | New York contractor | 1.91 US\$ |
| New York restaurants | 0.51 US\$ | Los Angeles dentist | 5.00 US\$ | Chicago contractor | 5.01 US\$ |

3x - 10x price uplift by adding local context

Source: Piper Jaffray, 02/2007

Local Advertising

If there is lots of money in local ads, why is it so hard to get to ?

Issues

- High cost of advertising sales
 - SMBs often unfamiliar with online ad strategies and metrics
- Critical mass of inventory required
 - Need scale for different categories
 - Rebuild scale in each new market
- Lookup traffic
 - SEO leads to phone number lookup traffic by businesses' existing customers

Solutions

- Syndicate ads (Google) → margin hit
- Partner w/ someone else's salesforce
- Sell someone else's ads to increase ASP
- Charge for premium content

Example: Angie's List

- Model
 - Provide highly detailed reviews of local contractors and related services
 - Charge consumers a subscription for access to content
 - Additionally, sell ads to very positively reviewed businesses
- Why it makes sense
 - Consumer subscription business model not relying on selling local ads

The screenshot shows the Angie's List website homepage. At the top, the logo "Angie's list" is displayed in a stylized font. To the right of the logo is a navigation menu with links: "Quick Tour", "About The List", "Praise", "Press", "Tips", "FAQ", "Join", "How It Works", "Top Ten Perks", "Magazine", "Locations", "Contact Us", and "Login". Below the navigation menu, there is a search box for ZIP codes with a "Go" button. To the right of the search box is a large graphic featuring a hand holding a clipboard that says "Welcome!" and a yellow envelope. Next to this graphic is the text "Home service companies reviewed and rated by real homeowners like you..." and two buttons: "Take a quick tour" and "Read more". Below the search box is a "Locations" section with a list of metro areas: Akron, OH; Albany, NY; Albuquerque, NM; Allentown, PA; Asheville, NC; Atlanta, GA; Auburn, ME; Augusta, GA; Austin, TX; Bakersfield, CA; Baltimore, MD; and Baton Rouge, LA. To the right of the locations list is a section titled "More than 600,000 Homeowners in 124 major cities use Angie's List for ratings and reviews on:" followed by a list of services: Plumbers, Landscapers, Remodeling, Handymen, Roofers, Decks & Porches, Painting, and HVAC. Below this list are links for "Browse limited information" and "Get unlimited access". At the bottom right, there is a small advertisement for "50 WAYS TO IMPROVE YOUR LIFE IN 2007" from U.S. News, with the headline "First, Call Angie's List" and a byline "By Thomas K. Grose, Sunday, December 17, 2006". At the very bottom of the page, there is a copyright notice: "© Copyright 1995-2007, Angie's List. All Rights Reserved." and several links: "Contact Us", "Company Preview Directory", "Angie Hicks", "Angie's List Message Board", and "CompanyConnect".

Example: ReachLocal

- Model
 - Help SMBs advertise on Google, Yahoo...
 - Focus on easy-to-understand ad success metrics & reports
- Why it makes sense
 - No need to create content - piggyback on existing search traffic
 - Lower margins offset by no content cost

The screenshot shows the ReachLocal website interface. At the top right, there is a sign-in form with fields for Username and Password, and a 'Sign In' button. Below the sign-in form are navigation links: 'What We Do', 'How It Works', and 'Become a Partner'. The main content area features a search bar with the text 'Day Spa in Miami' and a 'Find out more' button. To the right of the search bar is a vertical list of service categories, with 'Day Spa' highlighted in orange. Below the search bar, there is a promotional message: '57 coupon downloads for her' and 'That's how she pampered 30 new clients last month. Relax.' At the bottom of the page, there are three promotional boxes: 'The Local Customer is Online', 'Local Search Ads Bring Results', and 'Watch the ReachLocal Video'. Each box contains a small image and a 'Get more', 'Learn More', or 'Watch It' button.

Conclusions

Social Networking + Communities + Blogs + Video

- Enormous inventory for ads
- All these environments will be primarily monetized by brand advertising. Watch the US players roll out their platforms.
- As with any new, fast growing category the advertising models have to still develop.
Remember search ca. 1999?

Local

- Some companies successful with very specific approach/model
- Mass local ad \$\$ still hard to reach for most online properties
- Yet, as SMB buyers understand online, this sector will grow fast

Thank you!

Questions?

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Usage Stats

Statistics Summary - August 2007



| | myspace.com a place for friends | | facebook | |
|------------------------|------------------------------------|---------------|----------------|---------------|
| | Volume | Chg from July | Volume | Chg from July |
| Unique Visitors | 69,296,915 | 1% | 26,224,486 | 10% |
| Visits | 1,234,726,456 | -5% | 354,758,790 | 7% |
| Pageviews | 67,730,267,976 | -20% | 15,717,433,083 | 5% |
| Average Stay (in mins) | 26:18 | -3% | 14:08 | 2% |
| Pageviews/Visit | 55 | -16% | 44 | -2% |
| Visits/Unique Visitor | 18 | -6% | 14 | 1% |
| Attention | 10.79% | -10% | 1.67% | 6% |

U.S. Visitors

<http://blog.compete.com/2007/09/11/facebook-third-biggest-site-page-views-myspace-down/>

Top 10 Video Competitors

(Ranked by Visits, September 2007)



| September, 2007 | People | Visits | Market Share | Change from August |
|---------------------|------------|-------------|--------------|--------------------|
| Google/YouTube | 49,628,210 | 211,078,392 | 50.3% | -5.8% |
| Yahoo | 23,328,651 | 46,139,295 | 11.0% | -2.0% |
| MySpace | 16,534,474 | 40,290,900 | 9.6% | -18.4% |
| AOL | 14,906,904 | 33,494,256 | 8.0% | -7.0% |
| MSN | 17,545,358 | 28,148,896 | 6.7% | -7.5% |
| Heavy.com | 6,693,528 | 13,756,152 | 3.3% | -4.5% |
| ManiaTV.com | 4,352,312 | 8,147,743 | 1.9% | -38.0% |
| Break.com | 3,121,062 | 6,616,945 | 1.6% | -3.4% |
| Pure Video Networks | 3,618,520 | 5,937,348 | 1.4% | -2.3% |
| Metacafe.com | 3,412,962 | 5,182,585 | 1.2% | 4.1% |

<http://seekingalpha.com/article/51685-youtube-leads-internet-video-market-facebook-emerges-myspace-stumbles?source=feed>