

Analytical Framework for Consumer Web Based Business Models

Title:	Analytical Framework for Consumer Web Based Business Models	
Date:	06 / 09 / 2012	
Thesis author:	Christian Duncan	
Civil registration number:	-	
Supervisor:	Jonas Hedman, Department of IT Management	
MSoc.Sc. programme:	OIE: Organizational Innovation and Entrepreneurship	
Number of pages and characters (STUs):	80 pages / 179.127 STUs	<ul style="list-style-type: none">- Incl. 4 unique figures, 6 unique tables.- Excl. references in footnotes
Thesis author:	Christian Duncan	

Please note that the thesis first chapter 'introduction' also functions as a summary of the thesis main wondering, hypothesis, research questions and purpose.

1. Introduction

Through the history of the web there have been many great dot-com success stories of companies growing from nothing to multimillion, even multibillion, dollar companies in just few years. These companies have many times created their own markets as first or second movers and later on become respected in the “proven and traditional” business world as valuable businesses creating desirable products or services.

But sometimes these dot-com successes become dot-com disasters and lose close to everything, for what seems overnight. Some recent examples are Yahoo.com, Netflix.com, Friendster.com, and most recently MySpace.com.

The thesis main interest is to investigate this phenomenon through the following hypothesis:

- *‘That only the right combination and alignment of both web and business model components will generate or sustain success’.*

Literature on the concept of ‘business models’ and ‘the web as a phenomenon’ is found to have little emphasis on the combined implications of the two as a unified tool of analysis. Consequently, this thesis takes a closer look at both ‘business model theory’ and the academic portrayals of the ‘web as a phenomenon’. The result and purpose is to propose an ‘Analytical Framework’ that, when applied to empirical data, can be utilized to understand one (or both) of the two:

1. *Why a particular web business failed? and / or*
2. *How a particular web business can/could prevent failure?*

Those, point one and two, are the practical implications of the proposed ‘Analytical Framework’. Further, in relation to the ‘concept of business models’, the ‘Analytical Framework’ contributes to existing theory by offering an extended business model framework, dedicated to the purpose of analyzing consumer web based companies. To argue for the proposed framework’s theoretical validity, the thesis draw to the basic and most fundamental theoretical understanding of the business model as a framework of interlinked components as first proposed by R. Normann in 1977. Based on literature review, this thesis argues that Normann’s concept, in its most basic form, is shared by most scholars who propose a business model framework. Those investigated by the thesis include: M. Morris et al. (2005); S. M. Shafer et al. (2005); J. Hedman et al. (2002); M. W. Johnson et al. (2008); A. Osterwalder et al. (2005).

In order to develop the ‘Analytical Framework’ the thesis aims to investigate and address the following essential sub research questions:

- *What are the main factors that make or break a successful business model?*
- *What are the main considerations when designing a business model?*
- *What components and phenomenon’s make up a successful consumer web service?*

This hypothesis and proposed 'Analytical Framework' is investigated and tested by analyzing a case study of MySpace – a former well known startup who made 'online social networking' into a multimillion dollar industry. At its prime MySpace was the most popular and fastest growing web company ever to have existed due to innovative product offerings and excellent viral growth effect among societies lead users such as pop- and rock stars. As a result, MySpace was quickly acquired by media tycoon Robert Murdoch and his News Corporation, as they wanted to establish a solid and loud presence on the web. The acquisition, with its \$580 million for a two year old company, was one of the more spectacular ever seen. Furthermore, besides the sites nature of featuring pop icons, rock stars and music fans alike and rapidly becoming center of attention in the music business, the charismatic founders and Murdoch himself were highly active in the business press, boldly promoting MySpace as soon becoming a billion dollar business. Consequently, the story of MySpace has been well covered by most prominent news media bureaus leading to many insights to how MySpace initially were so successful and how they eventually failed to sustain and build upon its success.

Consequently, the thesis hypothesis and proposed 'Analytical Framework' is tested and applied through the following main research question:

- ***Why did MySpace fail, as a business, while being the most popular online web service?***

In sum, the thesis main wondering, hypothesis, research questions and purpose is sought to be investigated and addressed through; (1) the main factors that make or break a successful business model, and what to consider when designing a business model; (2) the main components that constitute a successful modern web service; (3) a proposed merger of step 1 and 2 to create an analytical business model framework designed to analyze consumer based web services/businesses; (4) to conduct a case study on MySpace to serve as the thesis empirical data; (5) to address the main research question and test the thesis hypothesis through applying the proposed 'Analytical Framework' in an analysis and discussion of how, why, when and where MySpace both succeeded and failed as a business.

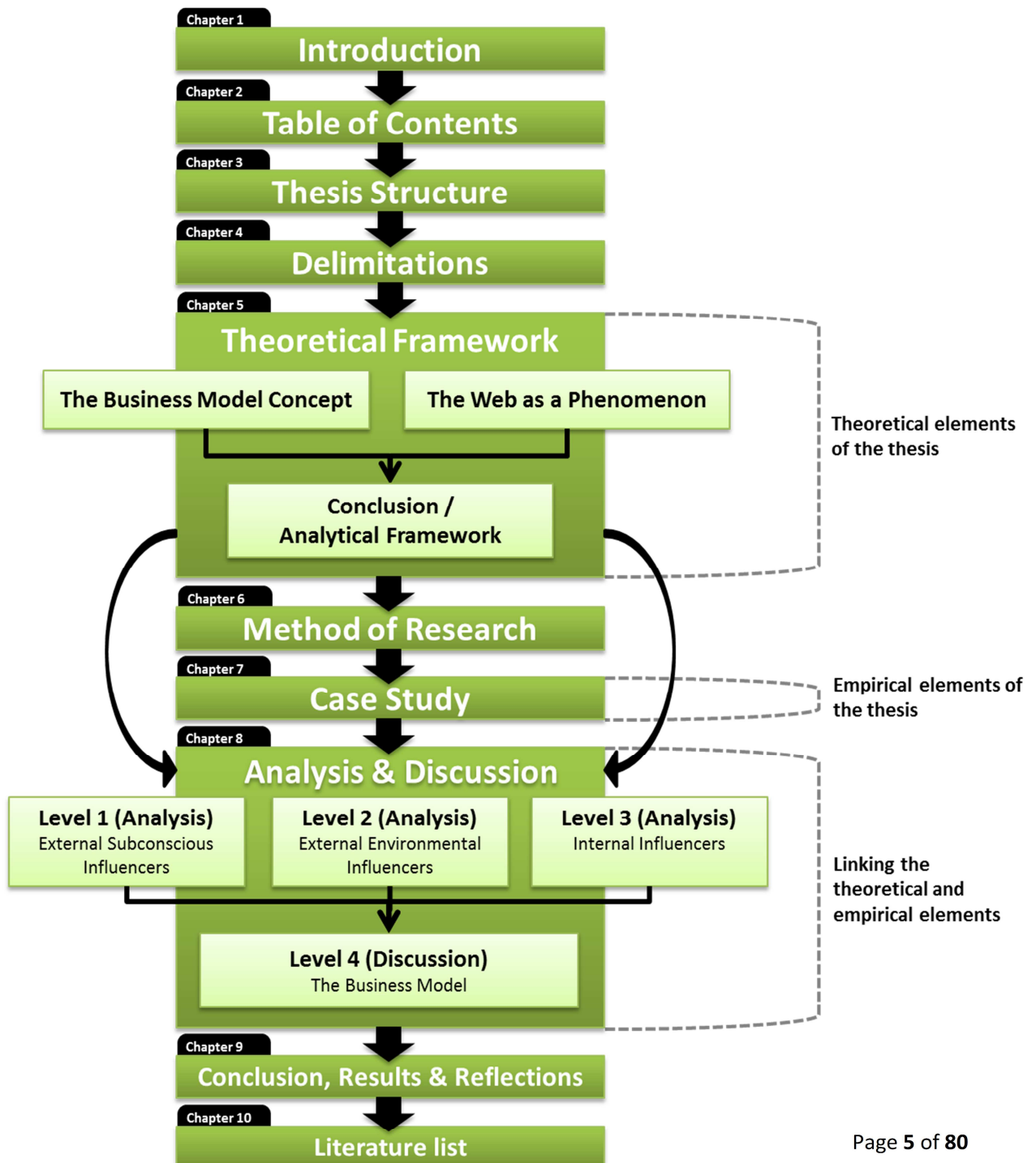
2. Table of Contents

1. Introduction.....	2
2. Table of Contents.....	4
3. Thesis Structure	5
4. Delimitations.....	7
5. Theoretical Framework.....	9
5.1 The Business Model Concept	9
5.2 The Web as a Phenomenon	21
5.3 Conclusion	30
6. Method of Research.....	35
6.1 Research Design	35
6.2 Research Method	36
7. Case Study.....	39
7.1 The Beginning	40
7.2 The Acquisition	41
7.3 Success and Growth	41
7.4 The Fall	43
7.5 The End.....	51
8. Analysis & Discussion.....	53
8.1 Analysis	53
8.2 Discussion	64
9. Conclusion, Results and Reflections.....	76
9.1 Conclusion & Results	76
9.2 Reflections and Further Research.....	78
10. Literature List.....	79

3. Thesis Structure

This chapter serves as an introduction to the overall structure and chapters of the thesis. First, all chapters of the thesis are introduced in a visual guide to give the reader a quick and complete overview of the overall structure. Second, each chapter is further presented with a short introduction of contents and purpose. Third, this section also introduces the reader to definitions used throughout the thesis.

3.1.1 Visual introduction to the thesis



Chapter / Section summary

Please note, that at the end of some chapters and sub sections, this box offers a short summary. The summary box is not used consequently throughout the thesis – but only where it's believed to be necessary to create a better understanding and overall transitional reading experience between sections and chapters.

3.1.2 Further introduction to the thesis chapters

This section introduces the main chapters, their content, and how their connected. The purpose is to explain the structure and “red thread” that define the thesis.

Chapter 5: Theoretical framework

This chapter takes point of departure in the fact, that existing literature on the concept of ‘business models’ and ‘the web as a phenomenon’ have little emphasis on the combined implications of the two as a unified analytical tool – a tool that potentially could serve to test the thesis main hypothesis through the investigation of the main and sub research questions. Consequently, in order to investigate the main and sub research questions, this chapter aims to review, apply and merge the two concepts of (1) ‘The business model concept’ and (2) ‘The web as a phenomenon’.

First, the chapter introduces the two concepts by conducting a ‘high-level’ literature review and examination of the fundamental background and main drivers. The objective is not to make a thorough literature review, where multiple descriptions and meanings of the concepts are deeply investigated, but to understand the main drivers of the concepts.

Second, and finally, the chapter concludes on the above by answering the thesis sub research questions. The result then leads to, justify and motivate to merge the two concepts into a combined business model framework. The proposed framework shall serve as a tool of analysis, and is referred to as the ‘Analytical Framework’ – which later will be utilized to investigate the thesis main research question.

Chapter 6: Method of research

This chapter presents the ‘research design’ and ‘research method’ and argues for the chosen methodical and research procedural considerations that have been chosen for the thesis investigation. The chapter elaborates on the methodical considerations of utilizing the proposed ‘Analytical Framework’ to test the thesis main hypothesis through investigating the main research question. Further, the chapter also justifies the choice of empirical data that will be subject to analysis and discussion through applying the proposed ‘Analytical Framework’.

Concurrently, throughout this chapter, the aim is also to expose the overall research method in an understandable matter, so that others are able to “replicate” the approach and overall study.

Chapter 7: Case study

To test the applicability of the proposed ‘Analytical Framework’, and to investigate the thesis main research question – the chapter draws on a number of qualitative journalistic interviews as data. The

aim of this chapter is to present a compiled view of key events that led to the successes and failures of MySpace from 2003 up until late 2010.

Chapter 8: Analysis & Discussion

To finally test the applicability of the proposed 'Analytical Framework', and to investigate the main research question, this chapter applies the framework to initiate a discussion between the case study data and the chosen theoretical framework. Ultimately the chapter analyses and discusses MySpace's successes and failures to align its business model with the value network it was part of.

Chapter 9: Results, Conclusion, Reflections

This chapter sums up the main results, findings and conclusions. Further, the author reflects on the research process, and implications for possible further research.

3.1.3 Definitions relevant for the thesis

Web

The term 'web' deserves an introduction as it's used repeatedly throughout the thesis. The term embodies several major phenomenon's of today's digital world – these include: mobile applications, tablet applications, desktop applications and web applications. Their common denominator is that they all utilize the internet as part of their core design to create value for its users and customers.

Web based business

The term 'web based businesses' refer to companies that utilize the web as their primary source of creating value for customers. The term is not limited to any specific business operating with a specific business model or revenue model.

4. Delimitations

This chapter gives an overview of peripheral knowledge and data that has been delimited from the thesis. The delimited data and knowledge is relevant and defining to the individual sections they represent, but the overall aim is not to elaborate individually on these terms, but instead to focus on the overall concept that embraces them all into a unifying tool of analysis.

Business Model Concept

The business model concept is basically a summary of how a company does business. Therefore it, more or less, draws upon the main trunk of "business theory" which implicitly branches out into various sub theoretical categories such as: accounting, supply chain, administration, economics, entrepreneurship, finance, information systems, marketing, organizational behavior, public relations, human resource management, and strategy. Depending on the specific business case and business model, they all have more or less influence on the management and execution of the model.

In particular the theoretical concept of 'strategy' has a substantial influence on the actual formation of the business model. It has influence as it specifies the organization's mission, vision and objectives while developing policies and plans designed to achieve these objectives.

Even though this thesis mentions and draws upon many of the above mentioned areas of general business theory – it does not go into detail with any of the above. Instead, the thesis focuses on the joint power of the business model concept which draws upon them all collectively.

The web as a phenomenon

The concept of the web as a phenomenon, likewise, draws upon many individual phenomenon's and elements that collectively makeup what we know and identify as the web. Similarly to the thesis part on the concept of business models, the thesis here likewise focuses on the overall collective power of all elements that are relevant for a business to apply to maneuver successfully on the market for the consumer web business. Consequently, this thesis focuses on the main elements and phenomenon's of the web and delimits any further discussion of specific terms or technologies that might have influence on a specific phenomenon.

The case study and data generation

The case of MySpace and its dramatic "rise and fall" as the world's most popular web service and social network of its time have been well covered in the business and tech press around the world. As a result, the involved parties, (founders, owners, managers and other key employees), have been interviewed elaborately many times over by respectable medias such as Reuters, The Financial Times, Forbes, Bloomberg and Techcrunch. To get the full story and most truthful representation of the MySpace collapse, it's important to hear the case from all stakeholders. Consequently, this thesis considers the elaborate journalistic material as best suited for that matter and delimits the use of primary research in the form of qualitative first person interviews.

5. Theoretical Framework

As mentioned in the introduction to the thesis, existing literature on the concept of ‘business models’ and ‘the web as a phenomenon’ have little emphasis on the combined implications of the two as a unified analytical tool – a tool that potentially could serve to test the thesis main hypothesis through the investigation of the main and sub research questions.

In order to investigate the main and sub research questions, this thesis aims to review, apply and merge the two concepts of (1) ‘The business model concept’ and (2) ‘The web as a phenomenon’.

First, the chapter introduces the two concepts by conducting a ‘high-level’ literature review and examination of the fundamental background and main drivers. The objective is not to make a thorough literature review, where multiple descriptions and meanings of the concepts are deeply investigated, but to understand the main drivers of the concepts.

Second, and finally, the chapter concludes on the above by proposing to merge the two concepts into a combined business model framework. The proposed business model framework shall serve as a tool of analysis, and is referred to as the ‘Analytical Framework’ in this thesis.

5.1 The Business Model Concept

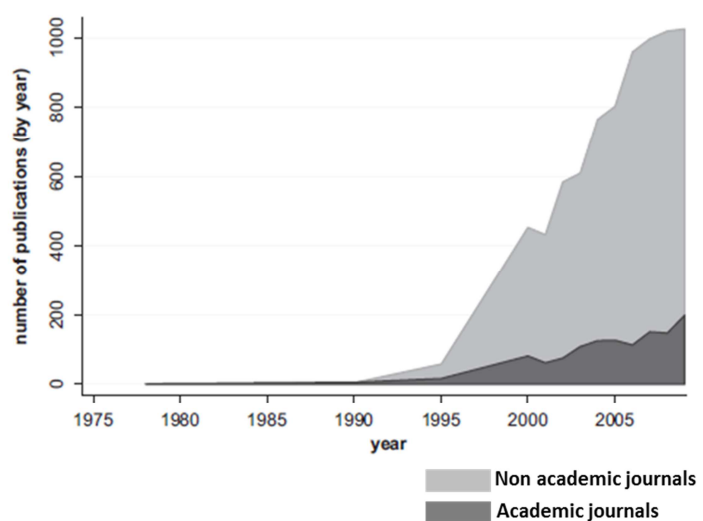
This section aims to point out the joint understandings on the subject of business models in order to finally single out a pragmatic (best practice) approach to business model analysis and/or design. In order to do so, this thesis reviews some of the most cited academic papers on business model theory – to gain a sound understanding on the fundamental definitions, elements and theories relevant to the subject.

First, the section reviews the business model concept’s fundamental background, second it elaborates on the basic understanding, and third a literature review of the concept is conducted.

5.1.1 Background

The business model concept is relatively young and one of the least researched areas of business economic theory. The term is believed to have been first used in academic literature in the 70’s and has from then on gotten gradually more attention from both scholars and business practitioners alike. Though, in the mid 90’s the phenomenon experienced an “explosion” in numbers of academic and non-academic publications. This is shown by figure 1, which feature how many times the term ‘business model’ had been included in

Figure 1: Business Model Articles (academic/non-academic)



academic and journalistic material from 1975 until 2009. The growth was clearly led by non-academic journals.¹

Some logic explanation to why the business model concept enjoyed so much attention, for what seems overnight, is suggested by various scholars to be caused by: the dawn of the Internet, rapid growth in emerging markets, and the expanding industries dependent on postindustrial technologies.²

One reason why academic research lacks behind could be that the business model concept draws from a variety of academic disciplines, without calming excellence in any.³ Also, traditional economic textbook theory assumes: fully developed markets, optimal arbitrage, protected product rights, costless transfer of information, no innovation, producers will supply if prices are above costs, and customers will buy if the price is less than the cost of self-producing or getting it elsewhere. As will be explained in this chapter, business models takes a much more open approach to creating value, consequently, the fundamentals of traditional economic theory dismisses the need for the business model concept.⁴

Furthermore, as the concept is often seen as a great “pragmatic tool” for business management, it might have been neglected and ignored by some scholars as a unique contributor to business economic theory.⁵

Nonetheless, as the concept of business models is still relatively young, it suffers from a lack of a common denominator and definition of the concept. This definitional un-clarity denotes a probable source of disorientation and has barricaded a cumulative research progress on business models.⁶ Another causal effect of influence, could be, that both academic and non-academic journals are created from a verity of perspectives, (such as e-business, strategy, technology, and information systems) – where each author would manufacture their paper according to different industries and world views.⁷ It’s argued that the business model concept needs more theoretical refinement and could potentially benefit from a broader use of strategy theory.⁸

All in all, it is properly safe to say that the business model concept is here to stay. Even thou it might, more so, originate from e-business, and there is a present lack of common denominator and definition – the fundamental idea of a business model is similar, as will be further elaborated in the coming sections of this chapter.

5.1.2 Basic understanding

In literature, there is great emphasis on explaining where business models “fit in” among business theory and business practice. As will be elaborated in this chapter, most scullers agree on the overall definition of what a business model is- what it does- and how it can be applied. In its most basic form, the business model concept generally refers to the way a company does business.

¹ C. Zott, R. Amit, L. Massa, 2011, p.1022-1023

² C. Zott, R. Amit, L. Massa, 2011, p.1022-1023

³ H. Chesbrough, R. S. Rosenbloom, 2002, p.533

⁴ D. J. Teece, 2010, p.175

⁵ H. Chesbrough, R. S. Rosenbloom, 2002, p.533

⁶ C. Zott, R. Amit, L. Massa, 2011, p.1022-1023

⁷ S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p. 200

⁸ J. Hedman, T. Kalling, 2002, p.52

To explain its purpose and place among general business theory, one can imagine the automobile as the “business model” – how you build it as “strategy” – and the way you drive it as “tactics”. Different car designs serve different purposes and create different values for drivers. A particular automobile places constraints on what the driver can do and determines which “tactics” the driver can use. E.g. a low-powered, but small, car would create more value for the driver who wants to maneuver through the narrow streets as opposed to a large SUV, in which the task would be impossible. Imagine that the driver could adjust the components of the car: shape, power, brakes, fuel consumption, etc. Such modifications would be “strategic” as they entail changing the machine, or the “business model”, itself.⁹

Also, it’s important to note that the business model as a “vehicle” a tool for its driver to reach a destination – meaning, the vehicle is only as good as its driver – meaning, a business model cannot be successful per se. A model can be more or less logical, rational and intelligent but it still needs implementation. A “good” business model can be managed badly and fail, just as a “bad” business model may succeed because of strong management and implementation skills.¹⁰

5.1.2.1 How a company does business

Synthesizing some of the most citrated¹¹ definitions related to the concept of business models (see table 1) – it can be argued that the concept generally refers to the way a company does business while generating revenues and being economically sustainable.¹² It therefore refers to the ‘logic of a company’ and explains how it operates, creates, captures and commercializes value for stakeholders (allies, suppliers, customers) in a competitive marketplace.¹³

Table 1: Business Model Definitions

Scholars:	Definitions:
P. Timmers, 1998	An architecture of the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the sources of revenues. ¹⁴
R. Amit & C. Zott, 2001	A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities. ¹⁵
M. Morris, M. Schindehutte, J. Allen, 2005	A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets. ¹⁶

⁹ R. C. Masanell, J. E. Ricart , 2011, p.107

¹⁰ A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 13

¹¹ C. Zott, R. Amit, L. Massa, 2011, 1024

¹² H. Chesbrough and R. S. Rosenbloom, 2002, p.533; A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 15

¹³ R. C. Masanell, J. E. Ricart , 2011, p.107; D. J. Teece, 2010, p.173; A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 12; S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p. 202

¹⁴ P. Timmers, 1998, p.4

¹⁵ R. Amit & C. Zott, 2001, p.511

¹⁶ M. Morris, M. Schindehutte, J. Allen, 2005, p.727

A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005	A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams. ¹⁷
--	---

Further, In terms of operation, the business model covers which activities a firm performs, how it performs them, and when it performs them. Furthermore, it addresses how it provides customers and end-users with products and services.¹⁸

The business model consists of several components bound in a relationship with each other – forming a structure of transactions with governance designed to create value from business opportunities. It furthermore specifies how those relationships create value for customers and with which financial consequences.¹⁹

The business model also specifies where the company is positioned in the value chain²⁰, and reflect the strategic choices made for creating and capturing value by the company within the value network as a whole.²¹

5.1.2.2 Creating value from innovations

The business model settles between technological development as input, and economic value creation as output. Or in other words, it explains how technology inputs are converted through customers and markets to economic outputs.²² Oftentimes, those ‘technology inputs’ are what is known as innovations, which creates two main challenges in the form of bringing discoveries to market and to satisfy customer needs that aren’t fully understood. And since it’s a well-known fact in business, that technological innovation by itself does not guarantee business or economic success,²³ managers must expand their perspectives to find the right business model in order to capture value from that innovation.²⁴ As a result, business model design is also about capturing value from innovation by defining its rightful place within its value chain.²⁵

In some cases, markets may not even exist – requiring entrepreneurs and managers to build organizations or business units for situations only imagined or anticipated to deliver customer value not

¹⁷ A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 17

¹⁸ C. Zott, R. Amit, 2009, p. 5; D. J. Teece, 2010, p.179

¹⁹ A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 5; C. Zott, R. Amit, 2009, p.2, p. 5

²⁰ H. Chesbrough and R. S. Rosenbloom, 2002, p.533

²¹ S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p. 202

²² C. Zott, R. Amit, 2009, p. 5; H. Chesbrough and R. S. Rosenbloom, 2002, p.532

²³ T. F. Chen, 2009, p.170; D. J. Teece, 2010, p.176, 183

²⁴ H. Chesbrough and R. S. Rosenbloom, 2002, p.530

²⁵ D. J. Teece, 2010, p.183

yet known to them. Accordingly, entrepreneurs and managers must sometimes design business models to execute transactions which, actually, cannot yet be performed in the market.²⁶

5.1.2.3 A unit of analysis

A central function of the business model is to operate as a unit of analysis²⁷ by outlining the architecture of revenues, costs, and profits associated with the company delivering value.²⁸ It functions as a tool that allows designing and realizing the business structure and systems that form the company's operational and physical shape.²⁹

The business model focuses attention on how all the components of the system fit into a working whole. As a result, it improves manager's ability to better manage or change the business logic of a firm by forcing managers to think thoroughly about their businesses.³⁰ Business models, as an analytical tool, therefore advocates design improvements while also eliminating what needs to change to achieve improvements.³¹

This is also true for early stage ventures where the business model is also used as a planning tool, although it is more correct to say that among entrepreneurial ventures it functions more as a framework for conducting predictive "what-if scenario analysis".³²

All in all, a business model is a theoretical model of a business that makes unspoken assumptions about customers, the behavior of revenues and costs.³³ Business modeling is about starting with a hypothesis, testing it in action before revising it when or if necessary.³⁴

5.1.3 Theory

As proposed by A. Osterwalder et al. 2005 – the business model can be viewed as a conceptual link between strategy, business organization, and systems/technology. This conceptual link forms a metaphorical business triangle – represented by figure 2.

²⁶ D. J. Teece, 2010, p.175

²⁷ R. Amit & C. Zott, 2001, p.511

²⁸ D. J. Teece, 2010, p.173

²⁹ A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 4; J. Magretta, 2002, p. 6

³⁰ J. Magretta, 2002, p. 6

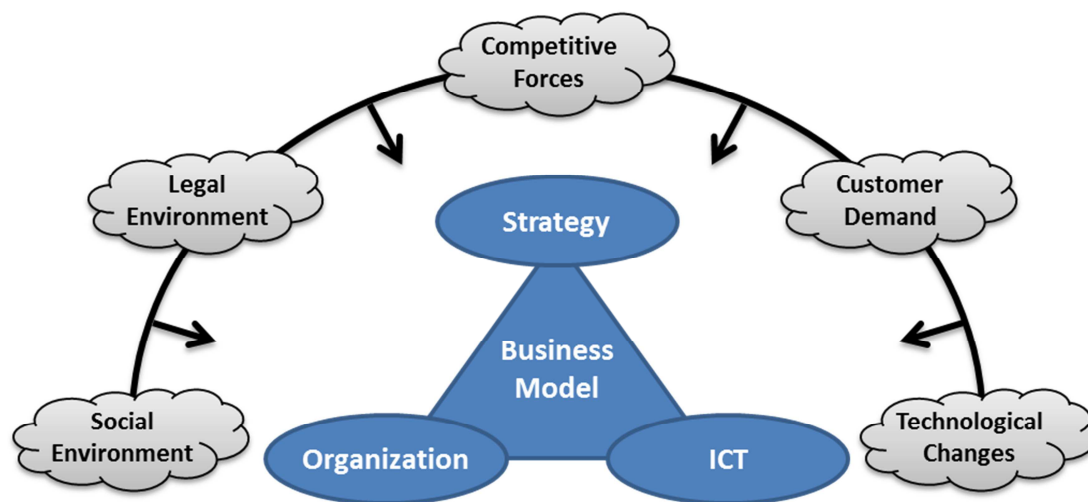
³¹ A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 22

³² M. Morris, M. Schindehutte, J. Allen, 2005, p. 733

³³ D. J. Teece, 2010, p.173

³⁴ J. Magretta, 2002, p. 5

Figure 2: The Business Triangle



The 'business triangle' (and business model) is subject to external forces such as competition, social change, technological change, customer opinion and the legal environment.³⁵ Consequently, the business model has to be managed and developed over time, as the surrounding influencers to the business system is under constant change and evolution.³⁶ As proposed by M. Morris et al. 2005, its appropriate to imagine a business model 'life cycle' involving periods of specification, refinement, adaptation, revision, and reformulation.³⁷ As also agreed upon by other scullers³⁸, one can imagine an initial period during which the model is fairly informal. This phase is followed by a course of trial and error, where core decisions are made, which in turn delimit the directions in which a company can develop. Finally, a rather conclusive model is in place where only narrow adjustments and tests can be performed.

From a managerial perspective, business models are effective at analyzing and communicating strategic choices to stakeholders such as employees, stock holders and business partners.³⁹ Furthermore and perhaps most importantly, it's an effective tool for aligning the strategy, organization and the technology it utilizes.⁴⁰

The business model can be viewed as a "hybrid" between core managerial concepts containing key elements from business planning and strategy. It contains key elements of a business plan, although there are start-up and operational issues that exceed its scope. It includes key elements from strategy, but isn't considered to be one (as elaborated further in a coming section of this chapter). Furthermore, it promotes activity-sets to support each element of a model, but it's neither considered to be an actual activity-set.⁴¹ This "hybrid" serves more so as an initial hypothesis for how to deliver value to the

³⁵ A. Ostenwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 14, 17

³⁶ J. Hedman and T. Kalling, 2002, p.54; A. Ostenwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 17; D. J. Teece, 2010, p.177; M. Morris, M. Schindehutte, J. Allen, 2005, p. 732

³⁷ M. Morris, M. Schindehutte, J. Allen, 2005, p. 733; B. W. Wirtz, O. Schilke, S. Ullrich, 2010, p.273

³⁸ J. Magretta, 2002, p. 5; D. J. Teece, 2010, p.176, 189

³⁹ S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p. 204

⁴⁰ A. Ostenwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 22

⁴¹ M. Morris, M. Schindehutte, J. Allen, 2005, p.727

customer, than it's a fully elaborated and definite plan of action. Its purpose is to 'make sense of' the adaptation to new information and possibilities – rather than making carefully calculated choices from a diverse array of well-understood alternatives.⁴²

Business models are often considered the “weapon” of choice when having to make sense of environments characterized by high complexity and uncertainty. It excels in creating contextual rationality and thereby reduces uncertainty, confusion and makes complex choices give meaning to everyone involved. Although, this “simplification” comes at a cost, as the choice of business model always restricts other choices, filtering out certain possibilities.⁴³

The business model originates from a number of concepts from the field of strategic management. Most directly, it builds upon the value chain concept (Porter, 1985) and the extended concepts of value systems and strategic positioning by performing activities better than competitors (Porter, 1996). It also embodies competitive advantage and therefore draws on resource-based theory (Barney, 2001). Within the value network it relates to strategic network theory (Jarillo, 1995) and cooperative strategies (Dyer and Singh, 1998). Further, it incorporates both vertical and horizontal integration (Barney, 1999) and relates to transaction cost economics (Williamson, 1981).⁴⁴

The business model then organizes these core components and activities into a number of key decision areas – making it, as mentioned, into a tool of sense making by simplifying complex choices.⁴⁵

5.1.3.1 The mechanism

“The business model spells out how a company makes money by specifying where it is positioned in the value chain” (M. Rappa, 2000).⁴⁶ Furthermore, a business model doesn't trail a product from manufacturer to sale – it rather explains what is done within a company to complete transactions.⁴⁷ As a result, the deeper “mechanism” of the business model is to capture value from its design, structure and control of transactions within its value network.⁴⁸

As mentioned, the concept of business models draws upon network theory – hereby meaning unique combinations of cooperative arrangements such as strategic alliances, coopetition or joint ventures⁴⁹ – involving (but not limited to) suppliers, partners, distribution channels, and even its end customers. The purpose is to extend the company's own resources and the role a firm chooses to play within its value network is an important element of its business model.⁵⁰

Positive alignment with the value network can leverage the value generated from a business model immensely – and vice versa, failure can potentially result in complete failure of the model.⁵¹ ‘Alignment’

⁴² H. Chesbrough and R. S. Rosenbloom, 2002, p.550

⁴³ H. Chesbrough and R. S. Rosenbloom, 2002, p.535

⁴⁴ M. Morris, M. Schindehutte, J. Allen, 2005, p. 728

⁴⁵ M. Morris, M. Schindehutte, J. Allen, 2005, p. 733

⁴⁶ H. Chesbrough and R. S. Rosenbloom, 2002, p.533

⁴⁷ R. Amit & C. Zott, 2001, p.513

⁴⁸ R. Amit & C. Zott, 2001, p.494-495

⁴⁹ R. Amit & C. Zott, 2001, p.513; J. Hedman and T. Kalling, 2002, p.53

⁵⁰ S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p. 202

⁵¹ H. Chesbrough and R. S. Rosenbloom, 2002, p.535

ultimately has to do with ‘transactions’ within the value network, and represent the activity between all interdependent actors of the business model – such as partners, customers, vendors and resources (such as human, physical and capital).⁵²

Transactions and governance hereof, refers to the ways in which information, resources, and goods are controlled by the involved actors. It also refers to the capabilities that are required by the actors to enable the exchange and how these actors are interlinked. It furthermore determines the order and sequencing in which exchanges takes place. The choice and selection of transaction arrangements impacts the flexibility and scalability of a company.⁵³ E.g. one of the most common success criteria of a web business is scalability – meaning that the transaction structure of its business model requires to be designed accordingly.

5.1.3.2 Strategy

When reviewing literature on the business model concept, it stands clear that most scholars⁵⁴ see the concept as closely linked to general business theory. Although, it’s also clearly stated that there are several critical distinctions between the two that suggest them not to be perceived as one and the same. As mentioned, business models describe how the pieces of a business fit together, how a business works as a system and how it creates and delivers value to the customer. Further, business models don’t generally factor in performance, competition execution and implementation – whereas this takes center stage in business strategy theory.⁵⁵ Also, the emphasis upon value capture and sustainability is much stronger in the domain of strategy, where analysis of competitive threats and strategy of its elimination have first priority.⁵⁶ As a result, strategy is leveraged to create a unique and valuable position in a given marketplace, utilizing a distinctive set of activities and resources.⁵⁷

Strategy also emphasizes strongly on creating value for the business and shareholder, furthermore it also deals with the issue of financing. Although business models also, to some extent, touches upon value creating for the business through its revenue model – the financing dimension of a business are left out of the picture. The model is assumed to be financed out of internal corporate resources or in the case of startups – to be financed through early stage venture/angel capital.⁵⁸

Selecting and designing a business strategy is a more comprehensive exercise than designing a business model. Strategy design requires segmenting the market, forming a value proposition for each segment, designing the structure to deliver that value. Finally it further constitutes various mechanisms that can be used to hinder the strategy from being imitated by competitors.⁵⁹

⁵² C. Zott, R. Amit, 2009, p. 3

⁵³ R. Amit & C. Zott, 2001, p.511

⁵⁴ D. J. Teece, 2010, p.179-180; A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p.13; R. C. Masanell, J. E. Ricart , 2011, p.107; J. Hedman, T. Kalling, 2002, p.49-50; C. Zott, R. Amit, L. Massa, 2011, p.1031-1032; M. Morris, M. Schindehutte, J. Allen, 2005, p.733; S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p.203; H. Chesbrough and R. S. Rosenbloom, 2002, p.536; J. Magretta, 2002, p.6

⁵⁵ J. Magretta, 2002, p. 6; A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 13

⁵⁶ H. Chesbrough and R. S. Rosenbloom, 2002, p.535

⁵⁷ R. C. Masanell, J. E. Ricart , 2011, p.107

⁵⁸ H. Chesbrough and R. S. Rosenbloom, 2002, p.535

⁵⁹ D. J. Teece, 2010, p.180

All in all, strategy is about making choices and the system of choices and consequences is a reflection of the strategy. Business models reflect these choices and their “plans of action” by facilitating the analysis, testing, and validation of the ‘cause and effect’ relationship caused by the strategic choices that have been made.⁶⁰ As a result, in the case of business models and its relationship with business strategy, strategy refers to the choice of model and the design of a competitively sustainable model.⁶¹

Pairing strategy formulation with business model analysis is essential for protecting the competitive advantage of any newly implemented business model.⁶² Although, once a business model is successfully established it is guaranteed to meet competition from either changing technology or regular imitation.⁶³ One way of dealing with this best possible is through the value embedded in the model as a result of bundled resources and capabilities. These are tacit values that become more difficult to imitate, less transferable, less substitutable, more complementary, and more productive with use.⁶⁴ To further strengthen the position, sustainable advantage ultimately depends on the ability of the company to apply unique approaches to either one or more components of the business model.⁶⁵

5.1.3.3 Components

As described by Normann in 1977, a business idea consists of three major components that are systematically interlinked: (1) the external environment, its needs and what it values; (2) the offering of the company; (3) internal factors such as organization structure, culture and resources. In other words – a company’s relation to the external environment depends on its offering, which in turn is dependent upon firm-internal factors.⁶⁶

As mentioned, the business model consists of several components bound in a relationship with each other – forming a structure of transactions and governance. These relations are fundamental and define the effectiveness of any given model. In order to create value it requires effective configuration and execution both internal and external elements, hence, internal organizational matters and external value chain activities.⁶⁷

A successful model therefore requires the internal and external elements to “fit” by configuration of key activities within and outside the firm. External fit is concerned with conditions in the external environment and require the model to change accordingly. To meet this demand for adaptability, models may require loosely fitting components that allow for experimentation and introduction of new components that will change the dynamics among existing components.⁶⁸

⁶⁰ S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p. 203; R. C. Masanell, J. E. Ricart, 2011, p.107

⁶¹ D. J. Teece, 2010, p.180

⁶² D. J. Teece, 2010, p.180

⁶³ D. J. Teece, 2010, p.189

⁶⁴ R. Amit & C. Zott, 2001, p.513

⁶⁵ M. Morris, M. Schindehutte, J. Allen, 2005, p. 731

⁶⁶ J. Hedman and T. Kalling, 2002, p.51

⁶⁷ J. Hedman and T. Kalling, 2002, p.53

⁶⁸ M. Morris, M. Schindehutte, J. Allen, 2005, p. 732

Ultimately, each component affects and is affected by the other components – and as a result, the components of a business model must be designed with reference to each other while also taking into consideration the current state of the business ecosystem and how it might evolve.⁶⁹

Proposed business model components

A number of scholars have described and proposed what elements and specific components a business model consists of. Some have created their own proposals while others have compiled and built upon what others have stated over the years. The following subsection gives a summary of five different approaches.

In literature on business models, M. Morris et al. (2005) found that many elements overlap, such as customer relationships, the firm's partner network, the firm's revenue sources, products, and value offering. As a result, 24 different items were identified as possible components with 15 receiving multiple mentions. The most frequently cited were: (1) the firm's value offering; (2) economic model; (3) customer interface and relationship; (4) partner network and roles; (5) internal infrastructure and connected activities; and (6) target markets.⁷⁰

S. M. Shafer et al. (2005) likewise clustered their findings from literature on business models. Their approach was first to identify similar elements that were mentioned in two or more academic papers. Next to develop overall categories representing major defining components and their individual sub components. They found the following main- and sub components: (1) Strategic Choices – represented by the sub components; customer, value proposition, competencies, revenue, competitors, output, strategy, branding, differentiation, mission; (2) Create value – represented by the sub components; resources, assets, processes, activities; (3) Value Network – represented by the sub components; suppliers, customer information, customer relationships, information flows, product and service flow; and (4) Capture Value – represented by the sub components; cost, financial aspects, profit.⁷¹

J. Hedman et al. (2002) proposes a generic business model that includes the following causally related components, starting at the product market level: (1) customers; (2) competitors; (3) offering; (4) activities and organization; (5) resources; (6) supply and production inputs; and (7) a longitudinal process component to cover the dynamics of the business model over time and the cognitive and cultural constraints that managers have to cope with.⁷²

M. W. Johnson et al. (2008) proposes the following main- and sub components: (1) Customer Value Proposition – represented by the sub components; target customer, job to be done, offering; (2) Profit formula – represented by the sub components; revenue model, cost structure, margin model, resource velocity; (3) Key Resources – represented by the sub components; people, technology, equipment, information, channels, partnerships, brand; and (4) Key Processes – represented by the sub components; processes, rules and metrics, norms.⁷³

⁶⁹ D. J. Teece, 2010, p.188-189

⁷⁰ M. Morris, M. Schindehutte, J. Allen, 2005, p.727

⁷¹ S. M. Shafer, H. J. Smith, J. C. Linder, 2005, p. 200-202

⁷² J. Hedman and T. Kalling, 2002, p.53

⁷³ M. W. Johnson, C. M. Christensen, H. Kagermann, 2008, p. 61-62

A. Osterwalder et al. (2005), like other scholars, identified the most mentioned components in business models literature. As a result nine building blocks were identified covering most business model components mentioned by at least two authors. Although the authors excluded all elements related to competition and to business model implementation, which they believe is related to the business model, but not as an internal part of it. Their findings represent the following main- and sub components: (1) Product – represented by the sub component; value proposition; (2) Customer Interface – represented by the sub components; target customer, distribution channel, relationship; (3) Infrastructure Management – represented by the sub components; value configuration, core competency, partner network; (4) Financial Aspects – represented by the sub components; cost structure, revenue model.⁷⁴

The relationship between components of a business model and what makes them succeed aren't always immediate. Therefore pragmatic approaches of "modeling" business models often help identify and understand the relevant elements and the relationships among them.⁷⁵ The above mentioned approach by A. Osterwalder et al. (2005) was later developed into a pragmatic analytical tool, 'The Business Model Canvas' (2009), which is widely used and popular among many companies.

This leads us to the next section on business model design.

5.1.3.4 Design questions

Literature on business models not only describes the theoretical concept – it often also gives relatively pragmatic suggestions on what to consider when designing and/or analyzing a business model. This section gives a summary of exactly that based on suggestions mentioned by various scholars.

Before any analysis, strategy planning, customer segmentation, business planning or business modeling – it's important to realize, that success starts by focusing on the opportunity to satisfy a real customer who needs a job done.⁷⁶ In other words, the entrepreneur or manager needs to think hard about what problem he/she solves for the customer. It's not uncommon to see entrepreneurs getting excited by new possibilities that new technology offers⁷⁷, but one have to validate and asses the true value of that possibility and if the market is ready for a new invention solving a problem they might not yet even be familiar with.

Having chosen to go ahead and bring a new invention, product or service to market – design of the business model is a key task for any entrepreneur or manager.⁷⁸ Overall, the design process answers main questions such as: Who is the customer? What does the customer value? How do we make money in this business? What is the underlying economic logic that explains how we deliver value to the

⁷⁴ A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 17

⁷⁵ A. Osterwalder, Y. Pigneur, and C.L. Tucci, 2005, p. 20

⁷⁶ M. W. Johnson, C. M. Christensen, H. Kagermann, 2008, p. 60

⁷⁷ D. J. Teece, 2010, p.175

⁷⁸ C. Zott, R. Amit, 2009, p. 2

customer at an appropriate cost?⁷⁹ Below bullet points represents a compilation of analytical design questions from five papers⁸⁰ on business model theory.

- Customer:
 - What is the “deep truth” about what customers really value?
 - For whom will the firm create value?
 - How does the firm fulfill that that value?
 - How is the product offering likely to be used by the customer?
 - What is the customer value proposition?
- Market:
 - Where is the industry in its evolution? Has a ‘dominant design’ emerged?
 - How large is the market?
 - How will the firm position itself in the marketplace?
 - Are there alternative offerings already in the market?
 - Will the new business model disrupt competitors?
 - How is the offering superior to them?
 - How can imitators be held at bay?
- Value:
 - How will the firm create value?
 - What might the customer pay for receiving this value?
 - What are the revenue generation mechanism(s)?
 - What will it cost to provide the value?
- Resources:
 - What is the firm’s internal source of advantage?
 - What components are needed to combine the activities that must be performed to deliver value to the consumer?
 - Define the structure of the value chain within the firm required to create and distribute the offering.

To answer such questions requires both technology and market insight, and a good deal of customer, competitor and supplier information and intelligence. Much of this knowledge and information can often be expected to be tacit and requires the researcher to be creative in the process of unveiling the needed tacit knowledge, hidden to actors not active in the market space.⁸¹

Consequently, chance of successful business model design becomes grater the deeper the understanding of information related to the above mentioned design questions. Having a solid foundation of data and market information will influence the designer’s ability to consider multiple

⁷⁹ J. Magretta, 2002, p. 4

⁸⁰ M. Morris, M. Schindehutte, J. Allen, 2005, p. 729-730; M. W. Johnson, C. M. Christensen, H. Kagermann, 2008, p. 65; D. J. Teece, 2010, p.188-189; H. Chesbrough and R. S. Rosenbloom, 2002, p.533; R. C. Masanell, J. E. Ricart , 2011, p.102

⁸¹ H. Chesbrough and R. S. Rosenbloom, 2002, p.550; D. J. Teece, 2010, p.187

alternatives, analyze the value chain thoroughly, and adopt an objective perspective on outsourcing decisions.⁸²

When designing a model it's recommended to "look at the forest, not the trees" – and get the overall design right, rather than optimizing details. Managers should use systemic and "all-inclusive" rational as opposed to isolated specific choices such as the "make or buy" decision about a particular product or the outsourcing of a particular activity.⁸³

An efficient approach to designing business models can be based on value chain de-construction and re-construction. It works by identifying value chain elements and possible ways of changing existing procedures or integrating new along the chain.⁸⁴

As a final remark to this section it should be noted that designing a business model is a highly experimental phase where learning is likely to be required - but entrepreneurs/managers who are well positioned, who have a good (but not perfect business model template) but who can learn and adjust, are those more likely to succeed.⁸⁵

Section summary

In this section on 'The business model concept', the background, fundamental understanding and theoretical aspects of the business model concept were reviewed. The next section of this chapter 'The web as phenomenon' provides an introduction and examination of the elements, phenomenon's and technologies that constitutes the web as we know it.

5.2 The Web as a Phenomenon

In a similar fashion to the previous section on business models, this section aims to point out the joint understandings of the elements, phenomenon's and technologies that constitute the web as we know it. In order to do so, this section reviews some of the most cited academic papers on the topic of the internet. The aim is to gain a sound understanding on the fundamental definitions, elements and theories relevant to the subject.

First, the section reviews the fundamental background and common understanding of the web, second it elaborates on the key elements, phenomenon's and technologies according to academic literature.

5.2.1 Background

The collapse of the dot-com bubble in 2001 manifest a new era for the web, and allowed only the strong web concepts and companies to survive. People who still believed in the new technology argued, that the web was far from "crashed", but merely just experiencing a natural "cleansing process" (like many new technologies have done throughout history)⁸⁶. The technology had many true believers and

⁸² D. J. Teece, 2010, p.190

⁸³ C. Zott, R. Amit, 2009, p. 9, 10

⁸⁴ P. Timmers, 1998, p.4; J. Hedman and T. Kalling, 2002, p.50

⁸⁵ D. J. Teece, 2010, p.187

⁸⁶ T. Funk, 2008, p.XV-XVII

companies were still pupping up regardless of the crash. During web conference held before the bubble, Dale Dougherty (web pioneer) and O'Reilly (VP of O'Reilly Media) argued that the dot-com collapse meant a turning point for the web – moving from 'Web 1.0' to 'Web 2.0'.⁸⁷

The term "Web 2.0" has since been widely accepted by many, and refers to a second generation of web development and design. The new web would better facilitate communication, information sharing, and collaboration. This led to a major evolution in communities and hosted services – which then led to applications such as social-networking sites, video-sharing sites, wikis, blogs, and tagging⁸⁸. Although, the term might give the impression of a new back end technology – it was actually not the immediate subject to any technical updates, but rather a fresh way of utilizing the technology to create something of meaning full value to its users.⁸⁹

The modern web is about viewing it as a 'platform' and going on the notion of it being just another piece of software that comes with a service package (software as a service). The web is about building applications that improve the more people use them, exploiting the 'network effects'. The web is about learning from users and building on their contributions. YouTube, Facebook, Google, Amazon, Wikipedia, eBay, and many other iconic web businesses created value through software, but was co-created by and for the community of connected users – leading to the statement that the web is all about exploiting 'Collective Intelligence' or utilizing the principles of 'Crowd Sourcing'. Applications leveraging crowd sourcing and collective intelligence to create value depend on managing, understanding, and responding to massive amounts of user-generated data in real time – resulting in technical backend infrastructures that are increasingly designed to handle 'big data' solutions.⁹⁰

Data increasingly represents the core value of most web services, and since the smartphone revolution has moved the web to our pockets – collective intelligence, crowd sourcing and data gathering, is no longer limited to humans typing on keyboards, but also includes all reporting sensors in our smartphones (camera, microphone, gyro sensor, compass, GPS, light sensor, etc.). Data is being collected, presented, and acted upon in real time – and with more users and sensors feeding more applications and platforms, the industry is seeing mobile, tablet and web applications grow exponentially in numbers as developers are now able to solve more real-world problems.⁹¹

"1990–2004 was the match being struck; 2005–2009 was the fuse; and 2010 will be the explosion."
– (Tim O'Reilly and John Battelle, 2009).

5.2.2 Elements, technologies and phenomenon's of the web

This section presents the major trends, technologies and phenomenon's that the modern web has to offer. Since the birth of the web, these "web elements" have been combined in countless ways to create more or less revolutionary services and applications that today form our online digital world.

⁸⁷ O'Reilly, 2005, p1

⁸⁸ T. F. Chen, 2009, p.169

⁸⁹ P. Isaias, P. Miranda, S. Pífano, 2009, pp. 355

⁹⁰ P. Anderson, 2007, p.4-6

⁹¹ O'Reilly, 2005, p4

As elaborated, the web is growing up to become a more mature and intelligent platform that will allow for even more revolutionary and amazing solutions that will again change our world to something we can't even imagine today. The web is therefore still a young technology with plenty of opportunity for disruption of the old ways – and entrepreneurs are the ones to lead the way.

New successful web service is said to offer a compelling value proposition that is driven by a specialized service offering that solves a specific problem better than anyone else's. The main hypothesis being, those users prefer services that focus on just one subject and do one thing extremely well over doing many things just ok.⁹²

This section seeks to highlight and get a better understanding of the major trends, technologies and phenomenon's that are accessible on the web today. As many scholars, bloggers and industry commentators alike, this thesis also recognizes O'Reilly's (2005) approach to giving a coherent overall topic definition of the main elements that constitute the modern web, or "WEB 2.0".

5.2.2.1 The Web as a Platform

Before the famous dot-com crash in 2001, businesses most commonly treated the web as an application – much like a software application. This largely meant that web businesses decided what data the web user was offered to consume – much like the still current situation with television and printed media who both feature one way communication channels where all distributed content is decided for the user. Ultimately, it turned out that the web wasn't suited to be another one way communications 'application' and today the perception of the web has changed to the web as a 'platform' facilitating two way communication.⁹³

As a metaphorical comparison to another media that evidently also only works as a two way communications platform is the telecom industry. Here the platform is presented as the GSM network and the application as a cellphone. Here, it is obvious to all that neither the GSM network nor the cellphones attempt to control the conversation one might be having. As we have witnessed the same applies to the web industry.⁹⁴ The more mature web 2.0 is therefore now a platform that facilitates the creation and existence of applications that allow for two way communication and interaction.⁹⁵

As good examples, companies that understood the concept of the web as a platform include among others: Amazon, eBay and Napster. Conversely, an application like Netscape tried to dominate via content and standards, and therefore cannot be regarded as a web 2.0 implementer.⁹⁶

5.2.2.2 Network Effect

As users add new content to the web in the form of video, blog posts, music, etc. others find it, consume it and recommends the content to more users through interfaces such as social network sites. As a collective result of activity from all web users, connections grow organically – much like well-known snowball effect that become larger through repetition of each turn. This concept is commonly known as

⁹² T. F. Chen, 2009, p.172

⁹³ O'Reilly, 2005, p.1-2; T. Funk, 2008, p.33-34

⁹⁴ M. Levy, 2007, p.122

⁹⁵ O'Reilly, 2005, p.1; P. Anderson, 2007, p.27

⁹⁶ O'Reilly, 2005, p.1

‘hyperlinking’ and is one of the ground pillars of the web.⁹⁷ Most successful services on the web benefit from this effect and only become better and stronger the more people who commit to the service. E.g. file sharing services, building on the so called ‘BitTorrent technology’, become better the more people share fragments of the same file. These applications work by facilitating the possibility for web users to use their PC, mobile or tablet as a temporary mini servers. The more users of the application the stronger the collective power of the ‘virtual server’. Another example is eBay who grows organically and become bigger, better and stronger through the collective activity of all its users. Others, like Amazon, who has built a concept based on user engagement (in their case user reviews of products) used to create better organic search results.⁹⁸

This is known as the term ‘network effect’, another ground pillar of the web, and is used to describe the increase in value to a service that thrives on the interaction between its users. The more users it has, the greater the value of its service to all users. The term is generally known as ‘Metcalfe's law’ and has long been used to describe the telecom infrastructure, where each time a new telecom user joins, the more users are connected.⁹⁹ As the web, technically, is a telecommunications network, the same principal is true for the majority of successful web services that are based around users and user’s contribution of content in the form of text, audio and video. Also services like Facebook and LinkedIn are obvious examples of web services that only thrive on the principal of network effects. However in some situations, this can also lead to a situation where users become locked-in to a particular service or product. One of the best known examples of such a situation is Microsoft Office that became the de facto standard for the entire commercial world.¹⁰⁰

In the business of web services, success often relies on the network effect – where everything is dependent on the users adoption of a service and later willingness to ‘spread the word’ to other users. If a service then proves to become popular with its users, companies often see a rapid growth in user numbers due to the network effect.¹⁰¹

5.2.2.3 Crowd Sourcing

Web users in numbers act as a collective filter or ‘page rank’ system that it able to determine the true value of any web content. The term ‘crowd sourcing’ (by Wired journalist Jeff Howe) builds upon the notion that the collective knowledge of the crowds are more likely to come up with “the right answer” compared to any single individual. In practice, one person suggests an initial idea that is then “voted” on by the crowds. Over time the idea gets refined until it reaches a state where the crowd sees it as correct and the development of the idea eventually stagnates.¹⁰²

Crowd sourcing is in the DNA of many successful web companies and is a highly integrated part of the product and customer experience. The concept is most visible within web based multimedia businesses

⁹⁷ O'Reilly, 2005, p.2

⁹⁸ O'Reilly, 2005, p.2

⁹⁹ P. Isaias, P. Miranda, S. Pifano, 2009, pp. 355-357; T. Funk, 2008, p.37

¹⁰⁰ M. Levy, 2007, p.122-123

¹⁰¹ P. Anderson, 2007, p.20-24

¹⁰² O'Reilly, 2005, p3

(such as Flickr, RedIt and YouTube) where users decide what user generated content is worth other web user's time.¹⁰³

One of the core characteristics and phenomenon's of the web, is that software is delivered as a service as opposed to a product. As an example, Microsoft's core business model is to sell software as a product, being reliant on their customers to update for a better version every 2-3 years. Google, on the other hand, with their Business Solutions sells software as a service where customers pay a monthly fee – always having access to the latest and best version of the product. Depending on the service and resource available to a web service, updates may occur weekly, daily or even hourly – and everything happen online, seamlessly and often with no requirement for the user to perform manual updates.¹⁰⁴

Companies like Google, who sells software as a service, are getting tremendous value from treating their users as co-developers. Using customers as co-developers is possible because products are mostly reliant on full or semi online usage. This has led to a situation where companies utilize the phenomenon of crowd sourcing as a deeply integrated part of contentious development, improvement and adjustment of its core products and services. In the 'terms of use', users can sometimes agree to share use patterns and statistics to help developers make the product better. In other cases web companies might launch a product in alpha or beta version, which means that the service or product is being developed in the "open" with the users.¹⁰⁵ In essence this means that users agree to be part of a development process and that the service provider is monitoring use patterns to perfect its offerings. Through real time monitoring of user behavior, developers then able to determine immediate effects of new features and changes in the service – and if something doesn't work for the better, it is simply just taken down, often without the majority of users knowing about the change.

Best practice is to let users be co-creators and contributors by utilizing software as a service for direct user driven product development¹⁰⁶.

5.2.2.4 User Generated Content

'User generated content' (UGC) is another ground pillar of the web and is most often contextualized in the form of social profiles, text, sound and video. E.g. the widespread adoption of cheap digital cameras has contributed to a rise in the number of photo and video sharing services. And in combination with blogging, content spread virally on the web dependent on the relevancy of the content. Experts agree that the main motivation for this vast amount of UGC is due to our culture, where exposure and getting noticed is everything. These amateur content producers are often satisfied with no or just little compensation for their work, more so wanting the recognition of the crowds through linking and commenting.¹⁰⁷

The combination of UGC and crowd sourcing is powerful for creating valuable data. Some web services core competence is to enable the optimal environment for users to create and interact with each other's

¹⁰³ P. Anderson, 2007, p.16-18

¹⁰⁴ M. Levy, 2007, p.122

¹⁰⁵ P. Isaías, P. Miranda, S. Pífano, 2009, pp. 356-357

¹⁰⁶ T. F. Chen, 2009, p.174

¹⁰⁷ O'Reilly, 2005, p.3-4; P. Anderson, 2007, p.13-14

content.¹⁰⁸ As mentioned before, these types of services get better the more people that use them. Although it is evident that users create value it is also proved, that only a small percentage go through the trouble of creating content, just for the sake of making content unless there is a clear purpose of doing so.

There are also other methods of creating content that is not necessarily build upon the 'open source' philosophy and that is by paying people to create it, as demonstrated by Yahoo. Although this is considered a more secure and consistent way of creating content, it is often not really what the crowds want and it is difficult to scale exponentially as you are limited to the resources (man power) you've got. Also if the crowds crave a certain type of content, it somehow finds its way through an open channel on the web anyway.¹⁰⁹ So again this leads back to the core of UGC and crowd sourcing – the most valuable thing a web service can do, is to architecture its systems for user participation within a given topic.

5.2.2.5 Data

In a time where software infrastructures are becoming a cheap commodity product, built on open-source platforms, data is now the most valuable part of any web enabled business. Web services are increasingly data driven and the winners are the once that generate and own a unique dataset on their customers and users that is difficult for competing services to imitate. Data that has been created via unique network effects or data that has been created as a result of large investments are valuable to other third party companies. Distinctive and specialized databases have often been the foundation of the majority of flourishing web services such as: Yahoo's early web directory, Amazon's and eBay's database of products and sellers, Facebook's and LinkedIn's database of connections, and Google's web crawl and maps. Those are all examples of services that thrived on aggregating a unique set of data through dedicated investments enabling available technologies and phenomenon's of the web to create new value. These companies monetize on making their unique data available to others who might see a business opportunity in combining the data (with for instance) hardware. E.g. NavTeq invested \$750 million to build a database of street addresses and directions – selling that data on to hardware manufactures producing and selling car navigation equipment. In most cases, where costs of producing data is high, the bigger the opportunity and the winners are the once that reaches critical mass via user aggregation, and turns that aggregated data into a new product.¹¹⁰

Valuable data is also generated on contentious "every day usage" of web services like Google, Amazon and Ebay – who are learning about their users and customers the more they use their services. By combining use patterns and actual purchases or 'click' actions, companies are then able to compare to millions of other similar use cases / patterns to recommend what is likely the best choice for the individual user. This phenomenon is also what is called 'long tail' aggregation – tapping consumer wisdom collectively by watching and analyzing what millions do. Furthermore this data is often made available for third party developers to build new applications upon – also known as a 'mash-up' (which is

¹⁰⁸ B. W. Wirtz, O. Schilke, S. Ullrich, 2010, 2010, p.278

¹⁰⁹ P. Isaías, P. Miranda, S. Pífano, 2009, pp. 358-359

¹¹⁰ O'Reilly, 2005, p.3-5; M. Levy, 2007, p.123

covered in one of the coming sections). These kinds of mash-ups are facilitated by what are known as ‘open APIs’—Application Programming Interfaces.¹¹¹

As data becomes the most valuable element for web businesses there has been an increasing interest in defining who owns data as a result of user interaction e.g. in the form of text, video and sound. The question is whether the users should have full control, or, if facilitators like YouTube should be allowed to have a say in how that data could be used. For example, Amazon request to possess any reviews submitted to the site by its users, but caused by a lack of enforcement users may repost the same review elsewhere. However, as firms are recognizing that data ownership and control is their main source of value and competitive advantage, more firms pursue to own and control data as far as law enforcement and users will allow. Some people debate that a central key component of the web is about liberating data through methods like open APIs and mash-ups. Even more extreme viewpoints suggest that all data should be owned by the creator (user) and only hosted by the facilitator. This means that a YouTube user, wanting to move all his or her video clips to another facilitator, should be able to do while moving all private video content to the new facilitator.¹¹²

5.2.2.6 The Long Tail

The term ‘Long Tail’ (by Chris Anderson from Wired Magazine, 2005) is designed to explain a trend in economy and culture, where niche markets are beginning to represent as much value as mass markets. Before the commerce revolution enabled by the web regular markets (brick and mortar stores) we operating by the 80/20 Rule i.e. 20 percent of products account for 80 percent of sale).¹¹³

Figure 3: The Long Tail



The Long Tail can be illustrated by the graph showed in figure 3 and represents a simple $1/n$ rule which is known as the ‘power law’ – used to explain (value, size, strength) of e.g. a given market and the strength of popular vs. less popular products. Looking at the graph, the left side represents the popular products that are sold in major brick and mortar retail stores. These stores are subject to limited physical shelf space that are often bound to high running costs (rent, staff, etc.) and are therefore bound to sell the “blockbuster” of products that are most likely to sell.¹¹⁴

The right side of the graph, on the other hand, shows the so called Long Tail – representing all the less popular “non hit” items. With the arrival of the web these items have now found a viable distribution channel that isn’t limited to physical shelf space and isn’t subject to the same high running costs of regular physical stores. As a result the ‘Long Tail’ is designed to demonstrate the power of the web as a place of infinite inventory, and a platform for distribution without borders. Web companies leveraging the

¹¹¹ P. Anderson, 2007, p.18-19

¹¹² P. Anderson, 2007, p.18-19; O’Reilly, 2005, p.3

¹¹³ C. Anderson, sep-08-2005; M. Levy, 2007, p.122

¹¹⁴ O’Reilly, 2005, p5

principal of the long tail can potentially gain significant profit out of selling small volumes of rare items that aren't accessible in regular brick and mortar stores (who only sell popular items). The total sale of "non hit items" is known as the Long Tail.¹¹⁵

As it can be seen from the graph both sides represent the same size and web retailers (e.g. Amazon) have managed to leverage this potential with enormous success.

In regard to content, web services often go by the same principal as they commonly provide services or content that is not commonly found on mainstream markets of media. Successful web services offer specialized content, typically based on a market or area not explored by marketers in the past.

5.2.2.7 Mash-Ups

Most of the web's technical infrastructure (Linux, Apache, MySQL, Perl, PHP) is built on the principal of 'open source' peer production methods. Open source projects are for anyone to create, download and alter for new projects – and the main focus is to make it easy for others to reuse and build upon. In many ways, the web is designed and engineered to expand and improve by means of "cutting and pasting" existing elements together to create something new and better. Some of the most successful web services have embraced this philosophy and made their services and data available for third party programmers to "hack" and reuse for purposes unimagined by them themselves. One of the first examples of a web service, "cutting and pasting" different services to form a new product, were housingmaps.com – which combines Google Maps with Craigslist apartment rental and home purchase data to create an interactive housing search tool.¹¹⁶

This phenomenon is known as 'mash-ups' and is today one of the most widely used tools to create new and highly interlinked web services. In more general terms, this phenomenon is also described as 'innovation in assembly' – which occurs when commodity components are so plentiful that value can be created by assembling them in novel and effective ways. A good example of this can be given from the PC revolution, where Dell combined the best knowledge from hardware components, assembly and distribution to create a service that proved to out-compete PC manufacturers reliant on product innovation.

Going from web 1.0 to web 2.0, Google were one of the major influencers – changed the game in many ways. This was also true related to the phenomenon of mash-ups – the next generation of web services, building their services as a combination of many different existing services. Google kick started the mash-up revolution with its 'Google Maps' services, who left its data for the taking – leading to exciting new services such as the before described housingmaps.com.

Mash-ups are built utilizing a Application Programming Interface (API). An API provides a mechanism for programmers to make use of the functionality of a set of modules without having access to the source code. API's that doesn't require the programmer to license or pay royalties is often described as open.¹¹⁷

¹¹⁵ O'Reilly, 2005, p5

¹¹⁶ O'Reilly, 2005, p3-5; P. Anderson, 2007, p.19-20, 31

¹¹⁷ T. Funk, 2008, p.35-36

5.2.2.8 Cross Devices

It has been evident for some time now, that the PC is no longer the only web enabled device. Mobile phones and now tablets are contentiously becoming our preferred devices for web consumption. One of the great examples of this trend is seen with the iPhone (as the hand held front end device) and iTunes as the massive web back-end, with the PC and Cloud acting as a local cache and control station. This system functions seamlessly and was the first major commercial success combining a handheld device with a PC.¹¹⁸

Some data also indicate that the PC is becoming obsolete in some cases. A great example of a native web service (born as a product for PC) that is now rapidly more so becoming a native mobile web service is Facebook. According to (comScore may-7-2012), Facebook is now being accessed via mobile more frequently than PC.

Mobile has long been said to be the next “big thing” – and it took its time to finally prove to be so. The web is truly becoming mobile and some of the greatest changes to how we use technology and the web are being expressed through the latest handheld devices. According to (comScore nov-28-2011) global smartphone penetration was at 27% (North America 63%, EU 51%, Asia-Pacific 19%). As the penetration of smartphones continue to rise we can only imagine what services will become a soon reality. E.g. in a situation where smartphones not just consume data but also reports it we can expect services like real time traffic monitoring (currently developing fast as part of Google maps), as one current live example.¹¹⁹

5.2.2.9 Rich Internet Applications

Allowing for customization and personalization can greatly improve the perceived value of the service or product offered¹²⁰. Modern web applications use technologies which ease the creation and manipulation of internet content, for example, API's, AJAX, Ruby on Rails, My SQL, Java script, SOAP and XML. Web browser technology has become so advanced and web services leveraging technologies in the right way develop what is known as Rich Internet Applications (RIA's). Currently the main technology for delivering RIAs is Ajax, which has become a key component of the web used by all major web services. Ajax is a combination of several technologies, each with its own unique features that collectively make a powerful “new” technology. Although, the next big thing is expected to be HTML 5 – a standard which will enable web applications to function even more seamlessly across devices and allow for even more advanced features. Browser based technology, leveraging RIA, has long (and increasingly) been replacing the need for local PC based applications. This trend is expected to continue as developers are now able to build web applications as rich (or richer) than local PC-based applications.¹²¹

¹¹⁸ O'Reilly, 2005, p4

¹¹⁹ T. Funk, 2008, p.43-44

¹²⁰ B. W. Wirtz, O. Schilke, S. Ullrich, 2010, p.284, 285, 286

¹²¹ P. Anderson, 2007, p.27; O'Reilly, 2005, p5; P. Isaías, P. Miranda, S. Pifano, 2009, pp. 359

Section summary

In this section on 'The web as a phenomenon', the background, fundamental understanding, elements, phenomenon's and technologies of the web were reviewed. The next and final section of this chapter 'Conclusion' summarizes and concludes on the learning's of the chapter 'Theoretical framework' by proposing an 'Analytical Framework' designed to analyze web based business models. The proposed framework, integrates the previous two theoretical sections (1) 'The web as a phenomenon' and (2) 'The Business Model Concept'.

5.3 Conclusion

This chapter, the 'Theoretical framework', performed a 'high-level' literature review of (1) the 'The Business model concept' and (2) 'The Web as a phenomenon'. The aim was to understand the fundamental background and main drivers of the two concepts in order to investigate the thesis sub research questions and further to propose a merged and combined business model framework as a tool of analysis – referred to as the 'Analytical Framework'.

This final section concludes on the above by answering the thesis sub research questions. The result then leads to, justify and motivate the choices made for proposing the 'Analytical Framework' – which later will be utilized to investigate the thesis main research question.

5.3.1 The business model concept

The thesis sub research questions that are related to the topic of the business model concept are (1) 'What are the main factors that make or break a successful business model?' (2) 'What are the main considerations when designing a business model?' In the quest to investigate, understand and possibly answer the research questions the following is proposed as the thesis response.

As elaborated, the business model concept generally refers to the way a company does business. It's a result of how the "business system" fit together as a whole within the value network. As a result, the "mechanism" of the business model is to capture value from its design, structure and governance of transactions within its value network.

Positive alignment with the value network can leverage the value generated from a business model immensely – and vice versa, failure can potentially result in complete collapse of the model. 'Alignment' ultimately has to do with 'transactions' within the value network, and represent the activity between all interdependent actors of the business model.

In order to create value it requires effective configuration and execution both internal and external elements, hence, internal organizational matters and external value chain activities.

A successful model therefore requires the internal and external elements to "fit" by configuration of key activities within and outside the firm. External fit is concerned with conditions in the external environment and require the model to change accordingly.

Ultimately, each component affects and is affected by the other components – and as a result, the components of a business model must be designed with reference to each other while also taking into consideration the current state of the business ecosystem and how it might evolve.

Based on the above, this thesis recognizes ‘The Business Triangle’ by A. Osterwalder et al. (2005) as the chosen basis for proposing an analytical framework. The model was also used in this chapter as introduction to the section on ‘theory’. As indicated in figure 2, the business triangle consists of: (1) External influencers represented by, social environment, legal environment, competitive forces, customer demand, and technological changes; (2) Internal influencers represented by, business strategy, ICT, and business organization; and (3) the business model itself.

Figure 2: The Business Triangle



5.3.2 The web as a phenomenon

The thesis sub research question related to the topic of the web as a phenomenon is: ‘What components and phenomenon’s make up a successful consumer web service?’ In the quest to investigate, understand, and respond to the research question, a review of relevant academic literature on the topic was conducted. It was found that many scholars, bloggers and industry commentators alike, recognizes O’Reilly’s (2005) approach to giving a coherent overall topic definition of the main elements that constitute the modern web, or “WEB 2.0”. Consequently, the research question is answered by the “entirety” of the section ‘The web as a phenomenon’ – where its sub headings, (Network effect, Crowd sourcing, User generated content, Data, The long tail, Mash-ups, Cross devices, and Rich internet applications), take center stage.

5.3.3 Proposed analytical framework

As before stated the thesis proposes an analytical framework designed to analyze web based business models. It does so by merging concepts from ‘The web as a phenomenon’ and ‘The Business Model Concept’. To complete this chapter, and the proposed ‘Analytical Framework’, the section proposes to extend ‘the business triangle’ with a fourth dimension that embodies elements from ‘the web as a phenomenon’. Furthermore, the section also elaborates on how the proposed ‘Analytical Framework’ should be interpreted as a tool of analysis.

5.3.3.1 The proposed analytical framework

As indicated by figure 4, the 'Analytical Framework' consists of four major categories / levels, where each comprises several sub-topics. These sub-topics will be further elaborated in the coming chapter 8 where they are subject to analysis and discussion of the thesis case study and empirical data. But first, this section focuses on the overall 'business system' / 'value network' represented by the four levels that constitute the proposed 'Analytical Framework'.

Figure 4: Proposed 'Analytical Framework'



Looking at figure 4, the arrows (blue and green) represent the necessity to align the business model throughout the value network. For a company to be successful in a market – it needs to align the internal elements with the external to “fit” within the ‘value network’ as a whole. In other words, what a company says and plans to do is one thing – what actually happens could be another. The whole point of

using this framework as an analytical tool is to identify possible misalignments between how a company plans to compete in a given market – and how it actually chooses to execute. Now, let's take a closer look at the four levels of the proposed 'Analytical Framework'.

Level 1: External subconscious influencers – is based on the previous theoretical chapter on 'The web as a phenomenon' – the first level of the proposed 'Analytical Framework' represents the most critical web phenomenon's and technologies that are of deep "subconscious" influence to any business with a strong web presence. All elements are 'external elements' and, for the most part, non-interchangeable factors.

Level 2: "External environmental influencers" – represent everything that influences a particular market a company chooses to compete within. For the most part, factors are fixed / non interchangeable and constitute "the rules of the game" that any company will have to play by. Although there are exceptions, companies that bring true innovation to a market often define or redefine what influences a given market for others to compete within.

Level 3: "Internal influencers" – represent how a company chooses to "play the game". It explains how a company chooses to create its business to win market share on a given market. As opposed to the external, often non interchangeable elements, the internal elements can be changed and molded without any restrictions.

Level 4: "The business model" – mirrors how successful a company has been at aligning its internal elements with the external. It is the core of which picture the truth about how well a company is utilizing its resources to play the game, or in other words, how well the fit is between level 1, 2 and 3. If there are one or more misalignments within the business system, it will figure as negative influences on how the business model components are constructed.

5.3.3.2 Implications and contributions of the proposed analytical framework

This section explains and justifies why the 'Analytical Framework' is useful in practice, and how it contributes to existing theory on the concept of business models.

The practical implications of the proposed 'Analytical Framework' are, that it can be utilized to understand one (or both) of the two: (1) why a particular web business failed? And / or (2) how a particular web business can/could prevent failure? In relation to the 'concept of business models', the 'Analytical Framework' contributes to existing theory by offering an extended business model framework, dedicated to the purpose of analyzing consumer web based services / companies.

According to theory, the thesis argues for the validity of the proposed 'Analytical Framework' as it is an 'extension' of an existing business model framework 'the business triangle'. This thesis argues that 'the business triangle', along with most others, in its most basic form, more or less circles around and builds upon identical core components. To elaborate further, as shown in this chapter under the section of 'the business model concept', most scholars¹²² proposing a business model framework basically agree on its most basic component structure as first proposed by Normann (1977). Norman argues that there are

¹²² M. Morris et al. (2005); S. M. Shafer et al. (2005); J. Hedman et al. (2002); M. W. Johnson et al. (2008); A. Osterwalder et al. (2005)

three major core components systematically interlinked: (1) the external environment, its needs and what it values; (2) the offering of the company; (3) internal factors such as organization structure, culture and resources.

In sum, based on the literature review of five different scholars, who all propose a business model framework, the thesis believes them to circle around the same core elements in its most basic form. Consequently, the proposed 'Analytical Framework' draws upon the same foundation and is therefore considered to be valid in retrospect of theory within its field.

Chapter summery

In this chapter, the thesis sub research questions were investigated. Further, and as a result, an 'Analytical Framework' was proposed that merged the two previous sections (1) 'The Business model concept' and (2) 'The Web as a phenomenon'. The purpose was to form an analytical framework that can serve as basis for analyzing and discussing the success and failures of a web business. The proposed 'Analytical Framework' will later be utilized in chapter 8 where it will be "fed" with data from the 'case study' to analyze and discuss the successes and failures of MySpace's business model. The next chapter elaborates on the methodical considerations related to how the 'Analytical Framework' is utilized to test the thesis main hypothesis through investigating the main research question. Further it also justifies the choice of empirical data that will be subject for analysis and discussion.

6. Method of Research

The previous chapter presented the terminology, in the form of the 'Analytical Framework', which will serve as basis for further investigation of the thesis main research question and hypothesis. This chapter now elaborates on the methodical considerations related to utilizing this terminology as a framework of analysis and discussion. Further, the chapter also justifies the choice of empirical data that will be subject to the mentioned analysis and discussion.

Concurrently, throughout this chapter, the aim is also to expose the overall research method in an understandable matter, so that others are able to "replicate" the approach and overall study.

The chapter is separated into two parts: (1) the 'research design' and, (2) the 'research method'. The research design is recognized as: a frame for the data collection- and analysis. The research method is recognized as: the way in which the phenomenon is explored and the object of the investigation. The two aspects are closely linked since the selected research design will make certain research methods possible, while making others less applicable and valid.¹²³

6.1 Research Design

This section presents how the thesis chooses an 'explorative' and 'qualitative' research approach – and the 'case study' as method and part of the overall research design.

6.1.1 Explorative and qualitative method

As explained, existing literature on the concept of 'business models' and 'the web as a phenomenon' have little emphasis on the combined implications of the two as a unified analytical tool – a tool that potentially could serve to answer the main and sub research questions of this thesis. Consequently, this makes the nature of our research exploratory as the aim is to investigate a combined phenomenon that has enjoyed little attention by existing theory¹²⁴.

To investigate the field of interest this thesis chooses the qualitative research method. In general, the qualitative method is explorative in nature since it motivates investigation related to 'why' and 'how' and not just what, where and when¹²⁵. Through qualitative research, researchers are able to be closely involved with the research participants, allowing for insights for a deeper understanding of a given matter¹²⁶. Most commonly this in-depth understanding is often gained through the techniques of qualitative interviewing¹²⁷. Qualitative research is based on data generation methods that are flexible, open and allowing for development on a continued basis. Consequently, the qualitative method places more emphasis on generating understanding as opposed to explanation. But even though the qualitative

¹²³ I. Andersen, 2005

¹²⁴ I. Andersen, 2005

¹²⁵ J. Mason, 1996

¹²⁶ I. Andersen, 2005

¹²⁷ J. Mason, 1996

research method is very flexible and explorative in nature, it's important to account for considerations made before and during the project, since it will underline the scope and purpose of the research¹²⁸.

6.1.2 The single case study

The type of research design chosen for this project is the single case study¹²⁹. Characteristics of the single case study are an empirical investigation aimed at exploring a present phenomenon within the frames of "reality". The phenomenon examined can be of different nature e.g. an individual, a group, an organization, organizational changes, a management project, etc.¹³⁰. The single case study is chosen to study and test the proposed analytical tool in practice.

In choosing the case company, an array of selection criteria were set in order to identify the best possible match. As the main academic wondering of this thesis is related to 'why promising dot-com successes sometimes become dot-com disasters' the first criteria was to identify companies that had gone through that experience. Second, for data purposes, it had to be a publicly well-known company who had been well covered by various journalistic media. With these selection criteria in mind a list of prioritized possible case companies were made. After deciding which companies would be interesting to explore, the next step was then to identify which companies were practically "best" covered by professional journalists in order to maximize the access to valid and trustworthy secondary data.

6.2 Research Method

As mentioned, the research method is understood as 'the way in which the phenomenon is explored and the object of the investigation'. Consequently, this section explains the motivation for using the theoretical framework of 'the concept of business models' and 'the web as a phenomenon' – as a combined tool of analysis to collect, identify, analyze, interpret, and discuss the empirical data from the case study.

6.2.1 Theoretical framework for analysis and discussion

The previous chapter 5 'Theoretical framework' is an introduction to, and literature review of (1) 'the business model concept' and (2) 'the web as a phenomenon'.

Via academic papers on 'the business model concept' and 'the web as a phenomenon', (for each separate individual concept), the thesis seeks to identify and present the most unifying theoretical findings research has to offer at this point in time. In the review of 'the business model concept' a number of components that make up a business model have been identified, and, perhaps most importantly, what factors that make those components work together successfully. Similarly, in the review of 'the web as a phenomenon', the core elements have been identified.

From the theoretical literature on 'the business model concept' the thesis identifies and recognizes the 'business triangle' by A. Ostendarfer et al. (2005), as a soothing framework for analyzing the success and failures of business models. As the overall purpose of the thesis is to investigate 'why promising dot-

¹²⁸ J. Mason, 1996

¹²⁹ I. Andersen, 2005

¹³⁰ I. Andersen, 2005

com successes sometimes become dot-com disasters' – the thesis proposes to merge the mentioned 'business triangle' with findings from the literature review on 'the web as a phenomenon'. This is done as a conclusion to chapter 5 'Theoretical framework'. The fused 'Analytical Framework' will then serve as a better and more elaborate tool for analyzing web based business models and will serve as the thesis frame for chapter 8 'analysis and discussion'.

It should of course be noted that the findings related to the mentioned theoretical concepts, is a representation of the thesis authors own interpretation of the matter – others may draw different conclusions. Therefore, in order to clarify and explain the chosen interpretation of the theoretical concepts, it is clearly described how the findings came about by reference to existing literature.

6.2.2 Empirical data

The methodological literature on generating empirical data often distinguishes between qualitative/quantitative, primary/secondary, and stimuli/non-stimuli data¹³¹. The empirical data used for this thesis is based and gathered from five qualitative interviews with representatives from all stakeholders such as founders, owners, managers and other key employees.

The interviews were conducted by various professional journalists represented by various media. Since the data is produced by someone other than the thesis author, the data is considered secondary. The data is furthermore believed to be 'stimuli data', as the respondents most likely were subjected to intentional stimulus in the form of interview questions.

6.2.2.1 Choice of data and sources

In the search for valid secondary data, the selection criteria were the following:

- For the data to be produced in the form of qualitative interviews leading to journalistic articles
- The articles had to be featured by respected and credible news media bureaus
- The articles had to be themed around the complete story of MySpace, and why they failed according to key stake holders
- The articles had to involve key stakeholders from all sides to tell their story about what happened at MySpace
- The data had to present the company as a whole involving more than just one department of the company such as top management or product development

Based on the above selection criteria the identified and chosen secondary qualitative data was sourced from a variety of independent well known news media bureaus. Below is a list representing the chosen data pieces matching the selection criterias:

- Financial Times; December 2009; The rise and fall of MySpace
- Techcrunch; December 2010; Social Networking: The Present
- Reuters; April 2011; How News Corp got lost in Myspace
- Bloomberg Business Week Magazine; June 2011; The Rise and Inglorious Fall of Myspace

¹³¹ I. Andersen, 2005

- Forbes; July 2011; Four Morals From MySpace's Fall

The identified and chosen secondary empirical data is, in chapter 8, subject for analysis and discussion through the proposed 'Analytical Framework'.

Chapter summery

In this chapter, the methodical and research procedural considerations for this thesis were described. The next chapter features MySpace in a case study that aims to present a compiled view of what led to the successes and failures of MySpace's business model up until late 2010.

7. Case Study

To investigate the main research question and wondering of this thesis, (Why did MySpace fail, as a business, while being the most popular online web service?), the thesis draws on a number of qualitative journalistic interviews as data. (See chapter 6 ‘Method of Research’ for details). The aim of this chapter is to present a compiled view of key events that led to the successes and failures of MySpace from 2003 up until late 2010. The compiled data and case study will later serve as input to test the applicability of the proposed ‘Analytical Framework’.

First, as a summary of this chapter, table 2 presents a graphic ‘timetable’ of the key events that shaped MySpace. After, the case study of MySpace is elaborated in further detail.

Table 2: Timeline of Key Events at MySpace

2003	MySpace lunches (2003)
	<ul style="list-style-type: none"> Popular with the music business and fast becoming the world’s largest online music database. Popular user features such as listening to music for free, social image / video sharing (developed through other startups such as YouTube and Photobucket). Strong ‘word of mouth’ effect and MySpace grew quick and exponentially
2005	News Corp’s acquisition (2005)
	<ul style="list-style-type: none"> News Corp’s acquisition made social networking serious business in the “traditional business world
	Moving offices (2005)
	<ul style="list-style-type: none"> MySpace, unwillingly, had to move HQ from San Francisco to Los Angeles.
	Change of technology platform (2005)
2006	<ul style="list-style-type: none"> Having built MySpace on an insufficient platform they had to change in order to keep up with growth. The new choice of platform was a “quick fix” and not favored by programmers.
	Attracting valuable talent (2005-2008)
	<ul style="list-style-type: none"> The immensely successful company became an attractive place for top talent as a work place
	Launched offices around the globe (2006-2007)
	<ul style="list-style-type: none"> MySpace launched offices around the globe with extravagant openings hiring high profile bands
2006	Deal with Google advertising (2006-2010)
	<ul style="list-style-type: none"> MySpace struck a major deal with Google to deliver adds in return for a guarantee of a minimum number of page views
	MySpace – a money making machine (2006-20010)
	<ul style="list-style-type: none"> To reach revenue goals first priority was to reach numbers in terms of user numbers and page views. MySpace became known as a messy place – cluttered with inappropriate ads.
	Attempting to compete with Facebook (2006-2010)

	<ul style="list-style-type: none"> MySpace wanted to sustain its position as the biggest social network on the web and started to compete for the mainstream users that Facebook were focusing on.
2007	Developing all applications in-house (2007-2009) <ul style="list-style-type: none"> News Corp. didn't like that third party developers like YouTube and Photobucket were getting rich off MySpace's back and decided to make strict limitations to outsiders wanting to integrate with MySpace An innovation center was set up to invent the next "YouTube" that then could be integrated with MySpace. Having to keep up with Facebook, who let all outside developers integrate, meant, that MySpace programmers were working extra hard having to invent and make everything themselves. MySpace got known for low quality app's that were often faulty and many resources were put towards correcting mistakes.
2008	MySpace Music (2008 – 2010) <ul style="list-style-type: none"> Realizing that Facebook was winning the mainstream user – MySpace focused extra hard on its foothold in Music.
	Attempted to run its own record label (2008) <ul style="list-style-type: none"> One of the founders that were of big influence to MySpace as a creative platform for musicians started a record label as a side project within MySpace
	The economic recession (2008-2010) <ul style="list-style-type: none"> When the recession hit it ad revenues went down. News Corp dictated that any drop in revenues = drop in budget for innovating new applications for MySpace
2009	Management changes & loss of talent (2009-2010) <ul style="list-style-type: none"> When revenue targets weren't met people got fired, including the founders. Over a period of two years a flood of top management changes had devastating effect on the organization. Corporate bureaucratic systems and culture became the norm Top talent fled from the company.

Next, the below headings represent the fully elaborated case study of MySpace's successes and failures.

7.1 The Beginning

The first major social network Friendster, allowed people to create personal profile pages and connect with friends and strangers. Unfortunately, Friendster was "dead on arrival" due to security related and technical issues. MySpace was launched while Friendster was still live, but with a mission to create a more free and creative environment. When Friendster "crashed", MySpace was quick to learn from their mistakes and provided an alternative and rapidly acquired Friendster's old users.¹³²

MySpace fast became very popular with teenagers and young people in general, who put much effort in designing their own profile pages with digital wallpapers, posting photos and adding friends. Up-coming

¹³² Techcrunch, December 2010, Social Networking: The Present

bands also benefited from the site as a new free marketing platform. By 2004, just a year after its launch, MySpace was adding thousands of users daily and became the place for friends and fans to connect with one another¹³³. MySpace also became more than a social network as it managed to gather the largest online music catalog in the world and, at the time and for a time, it was practically where many edgy young people spent most of their free time.¹³⁴

Chris DeWolfe and Tom Anderson started MySpace in 2003 as a more free and open version of Friendster¹³⁵. As the startup got traction among lead users, the founders wanted the company to get big fast, and so they did whatever in their power to grow with speed. From a previous venture the founders had a list of 20 million e-mails which they initially used to market the site. The site attracted millions of teens with shared interests around favorite bands and movie stars¹³⁶. Adding 70.000 new users a day, MySpace was the leading and fastest growing web 2.0 startup of all time, at its time.¹³⁷

7.2 The Acquisition

Rupert Murdoch's empire, the 'News Corporation', is one of the world's biggest and most powerful media empires in the world, controlling a portfolio of businesses ranging from The Sun newspaper to the movie studio 20th Century Fox. Having spent 40 years building a newspaper, film, television and media empire, Murdoch also wanted to get into the web business as yet more young people were taking to the web for entertainment and news¹³⁸. In 2005, Murdoch invested \$2 billion in a new division called 'Fox Interactive Media' with the purpose of winning the web as a media. He then handpicked a team of four young rising stars as executives, those were: Ross Levinsohn, Adam Bain, Travis Katz and Michael Kirby – who became the backbone of Fox Interactive Media. Immediately they identified several upcoming web sites like: business news site 'MarketWatch', 'MySpace', 'Career Search', games network 'IGN' and tech news site 'CNET'. MySpace turned out to be the most interesting and News Corp. bought the already very popular social network, and its parent company Intermix, in 2005 for \$580 million.¹³⁹

Many big media companies before News Corp. had unsuccessfully attempted to win the internet as their media platform, but News Corp. was the first to try something so new and as different as "hyped" popular social network. While the MySpace deal was relatively small (in economic terms) for an empire like News Corp., it nonetheless changed industry perceptions. News Corp. came to be seen as a company of the future, and social media (and the web) was suddenly considered a serious business opportunity.¹⁴⁰

7.3 Success and Growth

For a time, MySpace was blessed with the sort of "random luck" that seems to grace all successful startups. One of the site's first breakthroughs, for example, came shortly after launching in August 2003.

¹³³ Reuters, April 2011, How News Corp got lost in Myspace

¹³⁴ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹³⁵ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹³⁶ Forbes, July 2011, Four Morals From MySpace's Fall

¹³⁷ Financial Times, December 2009, The rise and fall of MySpace

¹³⁸ Financial Times, December 2009, The rise and fall of MySpace

¹³⁹ Reuters, April 2011, How News Corp got lost in Myspace

¹⁴⁰ Reuters, April 2011, How News Corp got lost in Myspace

Developers had by accident made it possible for users to insert web code, allowing for advanced customization of profile pages. This incident ended up becoming very popular with MySpace's lead users who begged MySpace to change it back once they corrected what was seen as a mistake. Eventually MySpace did as their users requested and the highly customizable profile page (usually with lots of colors) became a trademark for MySpace.¹⁴¹

In the beginning MySpace strategically recruited up-coming bands to join MySpace promising them tools to promote their music for free. Initially, you had to be a signed up MySpace user to view other profile pages such as likeminded users or musicians pages for listening to music. MySpace eventually dropped the sign up requirement and allowed anyone without a profile to navigate through the site. This led to an explosion in page views and MySpace engineers had difficulty keeping up with the growth in user traffic¹⁴². 12 months after the News Corp. acquisition, MySpace continued to see unique visitors grow by 155 percent to +55 million users a month. As a result, engineers still couldn't keep up by building server systems fast enough and MySpace had trouble scaling quick enough.¹⁴³

Besides the positive problem of having to scale quick enough, MySpace was one of the first web successes at its time that was actually able to earn money on its advertisement space. Within 15 months of the acquisition, revenues had increased from approximately \$1 million a month to \$50 million. As advertisers all wanted to target the site's rapidly expanding audience News Corp. and Google were busy selling advertising space, where half came from advertising sold by the new sales team that News Corp., and the other half came from a deal with Google's advertising program.¹⁴⁴

As a result of being part of a big multinational organization, MySpace was able to expand globally very quickly. From 2006 through 2007, MySpace seemed to launch in a new country every month, opening offices throughout Europe and Asia, and websites in nearly every major country.¹⁴⁵

MySpace even made an offer to acquire Facebook. The founders and corporate management from News Corp. met Mark Zuckerberg, (the founder of Facebook), in late 2006 for informal buyout talks. Those discussions never progressed.¹⁴⁶

By now, up-coming bands were becoming popular thanks to MySpace, artists such as Arctic Monkeys and Lily Allen had used MySpace to build their fan scare. MySpace understood that they had to keep its profile high in the music world to keep user traffic coming. In 2008 MySpace Music was created as a joint venture between the major label owners Vivendi's Universal Music Group, Sony Music, Warner Music Group and EMI Music. The joint venture was created strategically to ensure that the company could remain the most influential distribution channel for music on the web – and, that it would help secure continued high user traffic numbers.¹⁴⁷

¹⁴¹ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁴² Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁴³ Reuters, April 2011, How News Corp got lost in Myspace

¹⁴⁴ Financial Times, December 2009, The rise and fall of MySpace

¹⁴⁵ Reuters, April 2011, How News Corp got lost in Myspace

¹⁴⁶ Reuters, April 2011, How News Corp got lost in Myspace

¹⁴⁷ Reuters, April 2011, How News Corp got lost in Myspace

The culture and atmosphere at MySpace was edgy and young. Employees were young Los Angeles “hipster types” who liked going to concerts and discovering new bands. As Facebook, by then, had become a serious competitor to MySpace, a form of “friendly” rivalry among employees representing both companies was created. MySpace staff took pride in the fact that theirs was an edgier site, with a younger demographic.¹⁴⁸

Another critical success factor was timing. MySpace was growing at the exact time as when everyone on the web wanted to publish and share pictures of themselves and friends – due to the arrival of cheap digital cameras and smartphones. Except, MySpace didn’t handle images or video well. Luckily startups such as Photobucket, ImageShack and YouTube did. So users put all their photos on Photobucket & videos on YouTube and shared them with friends through MySpace. Consequently, services like those grew rapidly as a result of the platform MySpace had become.¹⁴⁹

Murdoch wasn’t happy to see other startups getting rich off the back of MySpace. News Corp. felt that MySpace had “made” both YouTube & Photobucket by allowing them to integrate with MySpace. Photobucket had become such an important feature to MySpace that they saw it necessary to acquire it for \$250 million + \$50 million earn out. YouTube was likewise important, but Google was also in the market and won the acquisition of YouTube. MySpace swore not to create anymore million dollar successes off of their backs that they would have to acquire for large sums – or for others like Google to come and swoop-up a success “they” had created.¹⁵⁰

In the attempt to create the “next” YouTube, Fox Interactive set up an internal innovation center called Slingshot Labs. The goal was to create innovations outside of MySpace and then MySpace would acquire them at pre-agreed prices based on how well they performed. According to Mark Suster, (two-time web entrepreneur and venture capitalist), this approach to innovation was long outdated and coined by young entrepreneurs wanting to lure some acquisition money out of big-company executives who didn’t understand innovation. Slingshot Labs was closed within a short period of time.¹⁵¹

7.4 The Fall

From about 2007, two years after the infamous acquisition, things inside MySpace’s “business system” and organization started to go wrong¹⁵². Though, the site’s continued success muted any alarms that the social media network was on an unstable path. As quoted by Shawn Gold, Myspace's former head of marketing and content: “When you're growing at 300,000 users a day it's hard to imagine that you're doing anything wrong”.¹⁵³

But after years of strong numbers, in early 2009, MySpace had begun to see signs of tumbling visitor numbers¹⁵⁴. It had become clear that MySpace’s extravagant global effort to open new offices with

¹⁴⁸ Financial Times, December 2009, The rise and fall of MySpace

¹⁴⁹ Techcrunch, December 2010, Social Networking: The Present

¹⁵⁰ Techcrunch, December 2010, Social Networking: The Present

¹⁵¹ Techcrunch, December 2010, Social Networking: The Present

¹⁵² Reuters, April 2011, How News Corp got lost in Myspace

¹⁵³ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁵⁴ Reuters, April 2011, How News Corp got lost in Myspace

bands like The Smashing Pumpkins as event openers – wasn't working. Facebook was attracting international users at a rapid rate without the expense of opening offices. For MySpace, the fairytale was ending due to a number of reasons.¹⁵⁵

7.4.1 Management

Money wasn't the only thing that persuaded the MySpace founders to go with Murdoch and News Corp. The founders were granted lots of autonomy and promised it wasn't going to be turned into Fox News. In the beginning, management at News Corp. kept their promise, and the founders perceived them to be easy to work with, respecting their opinions and let them run the site as they saw fit. In other words, the new parent company was buying into what MySpace was.¹⁵⁶

Though the founders were given room to call the shots at MySpace they were still reporting to Ross Levinsohn, the CEO of Fox Interactive (the division of News Corp. MySpace was under). Though, in practice the two founders DeWolfe (still CEO of Myspace) and Anderson routinely sidestepped their superiors¹⁵⁷. Levinsohn eventually began to clash with DeWolfe and Anderson who had become accustomed to do what they saw best fit for MySpace. Quote Levinsohn: "I had a vision about what I wanted to do with the company and it -definitely conflicted with what DeWolfe and Anderson wanted to do. I said to Peter and Rupert: 'If you want me to run the company, let me run the company.' I think they felt DeWolfe and Anderson were talent – and that we should have left them alone."¹⁵⁸

Politically, DeWolfe played it very intelligently as he was able to bypass Levinsohn and Peter Chernin and go directly to Murdoch whenever he needed something to his will. This, inevitably created further tension with Levinsohn and Peter Chernin (second-in-command at News Corp.)¹⁵⁹. Quote DeWolfe: "I think any time a startup is acquired, there's always a certain amount of culture clash. There are more meetings during the day with a big company. There are three different levels of finance that you need to go through. There are people that want to meet with you in other divisions, and it's a professional courtesy to see how you can work with them. So from that perspective, you sort of end up taking your eye off the ball."¹⁶⁰

None of these management and leadership problems was a problem while Murdoch remained deeply interested in progress at MySpace. But in 2007, two years after the acquisition of MySpace Murdoch (DeWolfe's greatest ally) put all his attention on a new deal to acquire Dow Jones, the company that owns The Wall Street Journal, for \$5 billion.¹⁶¹

When Murdoch's interest in MySpace faded, so did DeWolfe's "direct" connection to Murdoch. As a result, bureaucracy slowly began to fill the agenda. Furthermore the recession hit and every finance guy

¹⁵⁵ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁵⁶ Financial Times, December 2009, The rise and fall of MySpace / Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁵⁷ Techcrunch, December 2010, Social Networking: The Present / Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁵⁸ Financial Times, December 2009, The rise and fall of MySpace

¹⁵⁹ Reuters, April 2011, How News Corp got lost in Myspace

¹⁶⁰ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁶¹ Financial Times, December 2009, The rise and fall of MySpace

at News Corp. became involved in MySpace's activities. Consequently everyone had to document and explain what they were doing through what seemed like pointless PowerPoint demonstrations.¹⁶²

Peter Chernin, Murdoch's eyes and ears in Hollywood and also trusted second in command at News Corp., became the key filter and connection between the Los Angeles based MySpace and Murdoch. Chernin was able to somewhat mediate between the entrepreneurial and corporate forces at MySpace. Though, in early 2009, News Corp. announced that Chernin was stepping down to pursue entrepreneurial opportunities of his own. Chernin's departure was the beginning of the end for the old MySpace. Over the next year, the company would struggle through several management changes, restructuring and countless layoffs – all this while losing users to Facebook at an exponential rate. The many management changes meant that the company got reexamined many times over as new management reported directly to Murdoch. This situation only worsened the heavy bureaucratic procedures at MySpace.¹⁶³

In 2009 Murdoch hired Jonathan Miller, the former AOL CEO, as News Corp's chief digital officer. His mission was to "fix" MySpace. He immediately recruiting a team to help solve MySpace problems (explained in greater detail in the coming sections of this chapter). But first he had to get rid of the current management team. Three weeks later DeWolfe was out, while Anderson was kept on in a consultant role¹⁶⁴. Miller then recruited Owen Van Natta, former Facebook chief operating officer, as MySpace CEO. Murdoch, Miller and Van Natta then hired two other executives; Jason Hirschhorn, former chief digital officer at MTV Networks, was tasked to restore the site's failing product development situation together with Michael Jones, another former AOL executive, who was assigned chief operating officer. In other words, they hired three of the best executives in the business, at that time.¹⁶⁵

DeWolfe, before he left MySpace, was surprised and is quoted to say: "Ok, so you're going to have three guys to run this company that have really never worked together and have really never been on the site and don't really understand it?" Further he has mentioned: "After we left, the guys that took over were never MySpace users, they didn't have it in their DNA." – In other words DeWolfe thought it was a bad idea.¹⁶⁶

The new management set about its restructuring plans which primarily involved cutting staff to a fifth of its size, which at the time were numbering a total of about 2.000 people.¹⁶⁷

Other than having devastating effect on morale at MySpace, little did it help the infighting that was occurring among top management. By early 2010, Van Natta quit as chief executive and was replaced by Hirschhorn and Jones as co-presidents. Shortly thereafter, Hirschhorn also left and Jones became chief executive. Ultimately, management changes had a devastating effect on productivity and morale at MySpace. Management is said to have spent more than a year not doing anything except talking bad

¹⁶² Financial Times, December 2009, The rise and fall of MySpace

¹⁶³ Reuters, April 2011, How News Corp got lost in Myspace

¹⁶⁴ Reuters, April 2011, How News Corp got lost in Myspace

¹⁶⁵ Financial Times, December 2009, The rise and fall of MySpace / Reuters, April 2011, How News Corp got lost in Myspace

¹⁶⁶ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁶⁷ Reuters, April 2011, How News Corp got lost in Myspace

about their product in front of regular employees. People at MySpace had a difficult time understanding why management didn't focus on productivity and speed to move quickly while they still had the chance to win the market. Consequently, lots of people were discouraged about the dreadful situation.¹⁶⁸

7.4.2 Talent

After the acquisition in 2005, News Corp. immediately moved all MySpace staff from their "hipster digs" in Santa Monica (San Francisco) to Fox Interactive headquarters in Beverly Hills (Los Angeles). This was a disadvantage as the main talent-pool of programmers was mostly situated in San Francisco where they came from¹⁶⁹. Although MySpace did eventually also open an office back in San Francisco – it was already too late to attract top engineers, the sort that were flocking to Facebook, Google, and other new generations of Web 2.0 start-ups¹⁷⁰. Among engineering talent, as time went on, MySpace suffered a reputation of being a trivial entertainment-oriented site, and increasingly also a "cultural ghetto". Facebook initially also suffered from similar image problems, but was eventually able to overcome this by promoting itself as being a place of novel technological development. Talent attracts other talent, and the compounding effects of this eliminated the problem for Facebook who positioned themselves as being among the top companies of technological sophistication and innovation within its field of business. This also affected the culture at Facebook which quickly became the first priority for most top talent working for social networks.¹⁷¹

A further barrier for attracting talent was the lack of a 'start-up incentive system'. Once start-up companies are acquired by big public companies they no longer can offer cheap stock options that could be worth millions and inspire young teams to work 18 hour days. News Corp. unsuccessfully attempted to offer a "phantom stock" for MySpacers but without the desired effect.¹⁷²

Developers at MySpace began to complain about the co-founder Anderson who was responsible for product development and ended up being a bottleneck on getting things done. DeWolfe was being pressured for months to fire Anderson but he stayed loyal to Anderson and didn't react on the requests¹⁷³. Levinsohn also claims that the MySpace management lacked focus, with Anderson, who often instructed software engineers and developers to start work on multiple products and features without proper planning. According to Levinsohn, numerous attempts were done to motivate Anderson and his team. But every time they tried, they failed. Quote Levinsohn: "Every time we tried to professionalize the place they resisted – they properly thought 'They're just a bunch of corporate suits.'"¹⁷⁴

MySpace executives eventually laid off nearly 30 percent of its U.S. staff and 66 percent of its workers internationally. Morale among the remaining was close to non-existent and was only worsened by a changing culture at MySpace. Employees were accustomed to working long hours in a relaxed

¹⁶⁸ Reuters, April 2011, How News Corp got lost in Myspace

¹⁶⁹ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁷⁰ Reuters, April 2011, How News Corp got lost in Myspace

¹⁷¹ Techcrunch, December 2010, Social Networking: The Present

¹⁷² Reuters, April 2011, How News Corp got lost in Myspace

¹⁷³ Reuters, April 2011, How News Corp got lost in Myspace

¹⁷⁴ Financial Times, December 2009, The rise and fall of MySpace

entrepreneurial environment where, for example, food was particle free – a employee “treat” commonly used by many highly successful organizations. In 2009, News Corp. suddenly changed this and began charging regular market prices which only contributed to the already plummeting morale¹⁷⁵. To lighten the atmosphere at the office, MySpace employees bought a slushy machine and instituted Friday happy hours. One day, a famous actor by the name of ‘Pauly Shore’ was at the office and convinced to pose on a picture drinking from the slushy machine. Pretty soon the photo of the famous was bouncing around the offices and getting posted all over MySpace. It felt, for a moment, like old times at MySpace but when HR got informed about the situation happy hour was over, and the staff was forced to remove the slushy machine. It was the final, unglamorous end to a once ripping era at MySpace.¹⁷⁶

7.4.3 Revenue

As mentioned, 15 months after the acquisition, revenues had increased from about \$1 million a month to \$50 million a month¹⁷⁷. As a result, in 2007, Murdoch bravely predicted that MySpace would generate up to a \$1 billion in revenue in the next financial year. That statement and forecast caused panic at MySpace as the management team had no idea Murdoch had set them a new target until he opened his mouth at a press conference – It just came out of thin air. At that moment, MySpace’s experimental entrepreneurial days were over, as it now had to perform exactly as expected.¹⁷⁸

Revenue and visitor numbers were trending in a direction, indication it would be possible – but it was a stretch. After that moment it was basically like everything became about reaching that target and getting anything else done was near impossible.¹⁷⁹

Around this time, MySpace signed a major deal with Google that required a certain number of MySpace page views on a regular basis. If targets were reached, Google were to pay MySpace \$300 million a year for three years. The deal was praised as a major achievement by Chernin and Levinsohn as well as Wall Street and the business press in general. Although it soon became more of a “double-edged sword” as the deal would reduce flexibility as MySpace couldn’t experiment with its own site without compromising revenue. It was a good deal in the short-term but in the long term it ended up being a problem as everyone were focused on keeping page views high to maximize add exposure. MySpace simply just ended up having too many ads plus too many pages, making the site less easy to use than a site like Facebook.¹⁸⁰

Quorate Levinsohn: “Looking back it would have been better to ink a flexible deal similar to one Facebook reached with Microsoft which was based on a revenue sharing agreement rather than revenue guarantees”.¹⁸¹

Quorate DeWolfe: “Part of the challenge was the pressure to monetize the site. While developers at Facebook, Tumblr, and Twitter, (startups backed by venture capital), were more free to design their

¹⁷⁵ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁷⁶ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁷⁷ Financial Times, December 2009, The rise and fall of MySpace

¹⁷⁸ Financial Times, December 2009, The rise and fall of MySpace / Reuters, April 2011, How News Corp got lost in Myspace

¹⁷⁹ Reuters, April 2011, How News Corp got lost in Myspace

¹⁸⁰ Financial Times, December 2009, The rise and fall of MySpace / Reuters, April 2011, How News Corp got lost in Myspace

¹⁸¹ Reuters, April 2011, How News Corp got lost in Myspace

products without the immediate pressure of advertising goals, MySpace managers had to hit quarterly revenue targets.”¹⁸²

In 2009, the ongoing fall in visitor numbers and page views was beginning to create problems with reaching targets required for the deal with Google. MySpace had met the \$300 million target in the first two years of the deal, (2007 and 2008), but it rapidly became clear that was not going to be the case in 2009.¹⁸³

7.4.4 Product

More revenue – less product

MySpace had become too focused on revenue and reaching page view targets of its deal with Google. Over in the other camp – Facebook had a hardcore focus on product development and optimal user experience. Consequently, it soon became apparent that MySpace’s technology fell behind and it needed to offer something new to keep users engaged¹⁸⁴. Ultimately, the emphasis on monetizing MySpace restricted its progression and ability to keep its place as the most popular and best social network. The Google deal meant too many ads – making the user experience cramped. The size, quality, appropriateness, and placement of ads also became an issue between the founders and News Corp.¹⁸⁵

The founders were aware of the negative effect the inappropriate ad situation had on MySpace, and suggested the sales team at Fox Interactive to stop selling the most inappropriate of the bunch, (like rotting teeth ads), even though they had high click-through rates. Quote DeWolfe: “If we were doing \$500 million of revenue, it meant taking a \$20 million haircut. It was the right thing to do from a long-term growth perspective. But it took a lot of work to get through the various different levels at News Corp. We had to jump through hoops.”¹⁸⁶

But there was a lot of pressure to drive revenue. Internally, everyone knew that reducing page views would be more efficient for the user, but hurting the bottom-line simply wasn’t acceptable¹⁸⁷. Any ideas related to making a better user experience that would compromise the number of page views or placement of ads was turned down by bureaucracy where everything had to be approved by finance guys.¹⁸⁸

MySpace executives continually recommended the controlling parent company at Fox Interactive to cut down on page views, but they continued to refuse. Revenue targets were simply much more important to the parent company than cutting compromising with product development to recreate the site for a better user experience. Fox Interactive never understood how bad the site’s interface had become and that it was a major reason for the site’s initial sign of failure.¹⁸⁹

¹⁸² Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁸³ Reuters, April 2011, How News Corp got lost in Myspace

¹⁸⁴ Reuters, April 2011, How News Corp got lost in Myspace

¹⁸⁵ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁸⁶ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁸⁷ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁸⁸ Financial Times, December 2009, The rise and fall of MySpace

¹⁸⁹ Reuters, April 2011, How News Corp got lost in Myspace

Furthermore, the internal power struggle over page views was worsened by the recession as online advertising dropped and the pressure on MySpace from its parent company intensified. Finally, News Corp. wouldn't accept the drop in revenues and decided to counterbalance, dollar for dollar, in budget for product development. Consequently, MySpace became focused on cutting costs and getting more ads – rather than thinking about staying on top and becoming the best social network.¹⁹⁰

Features of success – that MySpace missed out on

MySpace evidently underestimated Facebook and its focus on product development. Facebook was growing fast and continuously releasing new products that would become defining technologies for the web and social networks¹⁹¹. One of the tools that made Facebook so effective was an e-mail address importer that immediately sent invitations to the user's friends to sign up to the site. Anderson's product development team discussed it for six months but Anderson wouldn't focus the team on building it. It wasn't until Facebook had several months of 40 per cent growth that they started working on it. It ended up costing a lot of users that went to Facebook instead of MySpace¹⁹². Another defining invention from Facebook was its news feed, an initially provocative, then soon very popular feature which inspired repeat visits. It would take MySpace 18 months to copy this feature.¹⁹³

Although, the critical distinction in the direction of both companies was that while MySpace was putting up walls to keep outside companies from innovating and making money off their backs, Facebook took the opposite approach. Facebook established itself as a platform, launching its 'open API', where third-party developers could build any app they wanted without and form of taxation fees. Within the next 12 months Facebook users doubled to 200 million while MySpace stayed flat at 100 million. According to Mark Suster, two-time entrepreneur and venture capitalist, the lesson was learned over 30 years in Silicon Valley: "you create ecosystems where third-parties can innovate and thrive and you become the legitimate center of it all and can tax the system later. Just ask Microsoft, Autodesk or Salesforce.com."¹⁹⁴

While Facebook focused on establishing a strong platform that allowed external developers to build new applications, MySpace did everything itself. Quote DeWolfe: "We should have picked 5 to 10 key features that we totally focused on and let other people innovate on everything else"¹⁹⁵. MySpace eventually opened its platform to developers, but the process of doing so dragged out and Facebook had become the de facto and preferred platform amongst developers.¹⁹⁶

No focus and bad execution

Under Anderson's leadership of product development they introduced a vast number of features and applications such as: instant messaging, a classifieds program, a video player, a music player, a virtual karaoke machine, a self-serve advertising platform, profile-editing tools, security systems, privacy filters,

¹⁹⁰ Financial Times, December 2009, The rise and fall of MySpace

¹⁹¹ Reuters, April 2011, How News Corp got lost in Myspace

¹⁹² Techcrunch, December 2010, Social Networking: The Present

¹⁹³ Reuters, April 2011, How News Corp got lost in Myspace

¹⁹⁴ Techcrunch, December 2010, Social Networking: The Present

¹⁹⁵ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁹⁶ Reuters, April 2011, How News Corp got lost in Myspace

MySpace book lists, and much more¹⁹⁷. Anderson has later been criticized for moving into too many product lines swapping between imitating Facebook and Twitter features. Ultimately, MySpace was all over the place and was lacking focus.¹⁹⁸

Some ideas were believed to have had real business opportunities but didn't get enough attention and resources for development. Others, such as karaoke, were niche products that should have been delimited from the in-house development team. As a result, MySpace attempted to grasp over too much while not giving meaning full and true value creating features and applications enough attention.¹⁹⁹

Another repeated problem for the development team at MySpace was a lack of attention to detail. The departments' culture was said to be relatively nonchalant in relation to testing, measuring, and iterating. New products were often buggy, making the site slow and difficult to navigate.²⁰⁰

As mentioned, the trademark of MySpace was customization and the ability to express oneself to an audience. Even though the usability of MySpace required some practice getting used to, some of the earliest users of MySpace felt comfortable with technology and they wanted to configure their pages to reflect their individuality. But most main stream users weren't tech savvy and didn't necessarily fancy the effort required to create advanced profile pages. Facebook, on the other hand, was designing for the masses and had a much more standardized "plug-n-play" look and feel²⁰¹. Facebook's ability to design simple popular features, (while MySpace's platform became overwhelmed and buggy), was favored by many including developers and industry commentators that were able to influence where users should go. Facebook and its founder Mark Zuckerberg were getting all the attention.²⁰²

7.4.5 Technology

When the founders created MySpace, speed to market was essential. Friendster clones were popping up everywhere and MySpace's founders decided to build the site using ColdFusion, a simplistic programming language that, in the engineering world, was thought to be a sort of Mickey Mouse type of technology. It was easy to use and meant that the site could be created very quickly. Consequently, MySpace was quickest to market and became the social network to replace Friendster.²⁰³

By 2005 the site had outgrown ColdFusion, while, at the same time, it was too late to switch over to the open-source-code software otherwise favored by developers. Changing would have stagnated development of the site for a year or two. The easiest "fix" was to go with Microsoft's .NET programming language. Although, the technology platform was hated by the developer community as the flexibility is minimal²⁰⁴. It would take developers, literally, 10 to 15 times longer to build compatible custom code²⁰⁵. Consequently MySpace struggled to keep up with emerging companies such as Facebook who, by contrast, used open source tools. Facebook's platform took much longer to deploy but when threats

¹⁹⁷ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

¹⁹⁸ Financial Times, December 2009, The rise and fall of MySpace

¹⁹⁹ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

²⁰⁰ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

²⁰¹ Forbes, July 2011, Four Morals From MySpace's Fall

²⁰² Reuters, April 2011, How News Corp got lost in Myspace

²⁰³ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

²⁰⁴ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

²⁰⁵ Reuters, April 2011, How News Corp got lost in Myspace

emerged like spam and Identity verification, custom code was much less complex and time consuming to implement. MySpace, on the contrary, was slow to react while Facebook moved with the increasing speed and emerging open-source infrastructure.²⁰⁶

Another technology called Ajax also became an important tool for social networks. Ajax is a technology that allows users to send a message, an e-mail or to post a comment on their friends' pages without having to open a new browser window. While Facebook was quick to implement the technology MySpace hesitated as doing so would reduce page views and therefore also compromised the potential for advertising revenue.²⁰⁷

Threats, such as spam and identity issues, have proven to be particularly sensitive to public perception. In 2006, Connecticut Attorney General Richard Blumenthal announced that he was launching an investigation into minors' exposure to pornography on MySpace. The inevitable media storm established the site's reputation, and other social networks alike, as a portal of perversion. There were real concerns among the public that social networks had become places where sexual offenders easily could access children. Many tech commentators agree that the bad press ended up crippling MySpace – giving it a reputation of being a “dangerous place”. And soon, attorneys general from all over the USA were initiating investigations into MySpace's safety. As a result, MySpace was under huge pressure to develop better technical safety and privacy measures. MySpace even got to a point where they weren't innovating new products as all resources were redirected to address the safety issues. Basically, their development cycle turned into one of crisis management, not one of innovation. Furthermore, to make matters worse, due to MySpace's “clumsy” technology platform, they were also struggling to build an effective spam filter which worsened the public impression that it was a seedy place to be. In the meantime, Zuckerberg's Facebook were capturing users abandoning MySpace by promoting itself as a place for “real-life friends” through a clean interface and a safe environment.²⁰⁸

7.5 The End

MySpace's ad revenues had plummeted by another 40 percent in 2010 to \$288 million, while Facebook, during the same period more than trebled its ad revenue to more than \$5.7 billion.²⁰⁹

MySpace eventually came around to realize and accept that Facebook had won the battle as the social network for main stream users. Instead, management began discussing going back to MySpace's roots and how it could, once again, be the place to go for music and discovery of upcoming bands²¹⁰. The new MySpace strategy was going to be “the place where content gets socialized” and was centered on connecting with people while discovering music, movies and TV shows²¹¹. MySpace eventually launched

²⁰⁶ Forbes, July 2011, Four Morals From MySpace's Fall

²⁰⁷ Financial Times, December 2009, The rise and fall of MySpace

²⁰⁸ Bloomberg Business Week Magazine, June 2011, The Rise and Inglorious Fall of Myspace

²⁰⁹ Reuters, April 2011, How News Corp got lost in Myspace

²¹⁰ Reuters, April 2011, How News Corp got lost in Myspace

²¹¹ Financial Times, December 2009, The rise and fall of MySpace

its “new” vision of a social network in October 2010, but in February 2011, just four months after the re-launch, MySpace’s user traffic dropped by another 30 percent to 38 million.²¹²

Ultimately, in the attempt to win the battle of keeping its position as the most popular social network, MySpace was too confident and maybe even arrogant in its approach. On the contrary Facebook was more humble, focused, adaptable, and open to new phenomenon’s and technology. With a market value that exceeds that of MySpace by thousands Facebook’s approach was the winning model capturing the market of social networks.²¹³

Chapter summery

In this chapter, a case study on the successes and failures of MySpace as a business was conducted. The utilized data was based on a number of journalistic articles considered to be sufficient in the overall purpose of researching the thesis main research question and academic wondering. The next chapter goes into further detail in the actual quest to investigate the main research question and test the hypothesis by utilizing the proposed ‘Analytical Framework’.

²¹² Reuters, April 2011, How News Corp got lost in Myspace

²¹³ Forbes, July 2011, Four Morals From MySpace’s Fall

8. Analysis & Discussion

This chapter analyses and discusses the main research question of this thesis: Why did MySpace fail, as a business, while being the most popular online web service? To do so, the chapter applies the proposed 'Analytical Framework', from chapter 5, with the empirical data from chapter 7, the case study. The chapter is divided into two sections (1) analysis, and (2) discussion.

As described in chapter 5, the 'Analytical Framework' contains a total of four levels – where level 1 and 2 are focused on external influencers to the value network. Level 3 is concerned with internal matters subject to a company's strategic, organizational and technological decisions. Level 4, the business model, mirrors the result of how level 1, 2 and 3 are aligned, connected and utilized by a company. Consequently, level 4 is subject to discussion of how successful a company has leveraged it's opportunities on a given market.

First, applying level 1 of the framework, this section aims to highlight how MySpace utilized the most influential phenomenon's and technologies of the web.

Second, applying level 2 of the framework, this section applies a "macro lens" to identify and single out relevant empirical data from the case study, which was relevant for MySpace and others in the business of social networks. The focus here is to identify what external influencers were given and relevant at the time of MySpace's collapse as a business.

Third, applying level 3 of the framework, zooming in, this section journeys inwards to identify and single out relevant empirical data that represents the choices MySpace made as a business in relation to strategy, organizational and technological matters.

Fourth, applying level 4 of the framework, this final section of the analysis identifies what business activities were actually exercised at MySpace. This section is also subject for discussion, where the findings from level 1, 2 and 3 are compared to determine MySpace's alignment successes and failures.

Figure 4: 'Analytical Framework'

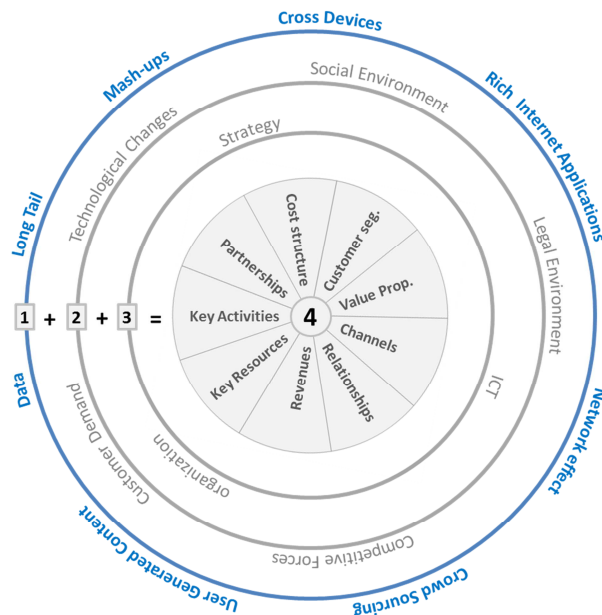


8.1 Analysis

This section of the chapter applies level 1, 2 and 3 of the proposed 'Analytical Framework'. Here, relevant empirical data from the case study will be identified and analyzed for the later purpose of

applying it in level 4 and the discussion of how MySpace succeeded and failed in aligning its business model to the value network as a whole.

8.1.1 Level 1: External subconscious influencers



Level 1 of the framework aims to identify and single out relevant empirical data from the case study, that indicate how MySpace managed as 'a web service' – according to relevant technologies and phenomenon's of the web.

The table below is divided in two sections: 'sub-elements' / 'Analysis'. 'Sub-elements' represent relevant technologies and phenomenon's of the web that are of subject to analysis. The 'Analysis' section represents what has been analyzed and identified as relevant data from the case study, that has influence on the overall business system.

Those identified elements will be considered

and included in the final discussion under 'Level 4'.

Table 3: Analysis Level 1: External subconscious influencers

Level 1. Sub-elements:	Analysis:
Network effect Describe the increase in value to a service that thrives on the interaction between its users. The more users it has, the greater the value of its service to all users. Furthermore it also embodies the phenomenon of 'word of mouth' or 'the viral effect'.	One of the most influential catalysts of the network effect were related to MySpace as, at the time, the most popular and biggest place online to listen to music and discover new bands (for free and legally).
	MySpace was growing at the exact time as when everyone on the web wanted to publish and share pictures of themselves and friends online – due to the arrival of cheap digital cameras and smartphones. By empowering users upload and share video and photos (via third party services) led to an exponential growth in users.
	MySpace's original primary focus on the artistic and creative user had positive effects on the network effect as users were highly engaged and shared their work via MySpace for everyone else's to see. Furthermore users were eager to invite other people in their network (professional or private) to come and experience their work.

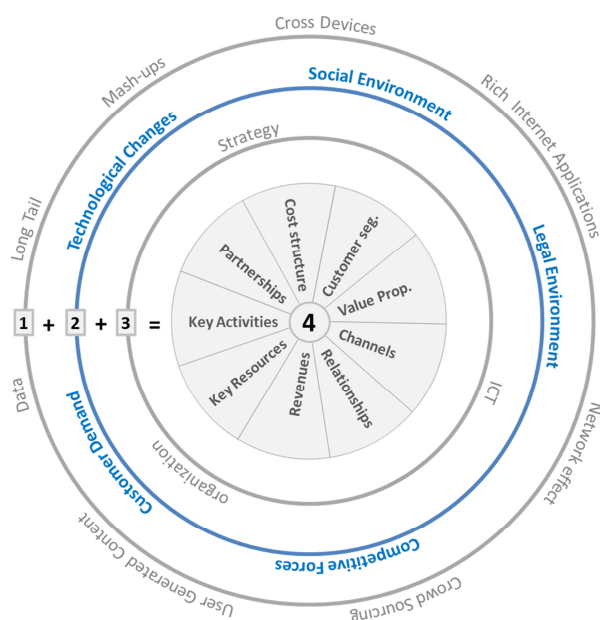
	At the time when MySpace was popular it was relatively uncommon for web services to require the user to sign up and make a profile before being able to use the sites services. When MySpace dropped this requirement and let anyone browse the site without the friction of having to create a profile. Consequently new traffic to MySpace skyrocketed.
	One tool that made Facebook utilize the network effect so effectively was an e-mail address importer that immediately sent invitations to the user's friends to sign up to the site. MySpace didn't believe this feature to be necessary before news came that Facebook had experienced several months of 40 percent growth.
	When optimizing MySpace for maximum advertising output, this began to have a negative and reversible effect on the 'positive' network effect. Because the site got very heavy with many page views and a massive number of ads on each page – users started talking negatively about the site. Consequently a negative network effect was triggered and users started to leave the site in exponential numbers.
Crowd sourcing Represents a phenomenon where web services can utilize its users to e.g. vote for the best product, blog post, photo or video. It builds upon the notion that the collective knowledge of the crowds is more likely to come up with "the right answer" compared to any single individual.	MySpace used crowd sourcing to make new and upcoming bands get discovered. It did so through a voting system where users were able to express their opinion on how good a song or artist was in their view.
	The same was true for videos and photos that were shared and circulated on MySpace. After new content from YouTube was discovered it would gain popularity within MySpace and then hyperlinked from there out to the rest of the world and non-MySpace users.
User generated content Often contextualized in the form of social profiles, text, sound and video. E.g. the widespread adoption of cheap digital cameras has contributed to a rise in the number of photo and video sharing services.	Content at MySpace was created in many different ways and in many different contexts. The most important and influential were the actual user profile pages that were often uniquely designed by the user it represented. The highly customizable interface became very popular with MySpace's core users.
	Because MySpace was embracing the opportunity for users to share and comment on videos (from YouTube) and photos (from Photobucket), MySpace became the place to share interactive media. Consequently, content was generated in the form of 'indexation' of people's uploaded YouTube videos and Photobucket photos. Although, MySpace quickly realized the value of also owning the interactive media data that people uploaded which led to the accusation of Photobucket.

	MySpace's appeal to musicians by allowing them to upload their tracks to their profile pages led to what became a massive music database. First of mostly upcoming independent musicians, but later also for established artists through deals with major record labels and what became 'MySpace Music'.
	MySpace's greatest strength was its appeal to creative's for whom there were plenty of tools to create their own unique profile pages. But MySpace also wanted to concur the 'mainstream' web user who Facebook initially (and still is) designed for. Unfortunately MySpace wasn't designed for this type of user and missed out on features such as Facebook's, now famous, 'news feed which represents large and highly valuable amounts of user generated data.
Data Valuable data that has been created via unique network effects or data that has been created as a result of large investments.	MySpace Music was created as a joint venture between the major music labels such as Vivendi's Universal Music Group, Sony Music, Warner Music Group and EMI Music. MySpace Music was one of its most valuable sources of music data collected globally at the time, which could (if managed correctly), have been an important destination for music discovery globally.
	MySpace's, and any other social networks, greatest value lies within the connection between people (profiles and users). That connection is close to impossible for any other competitor to imitate in the same context.
	MySpace's acquisition of Photobucket ensured them ownership and full control of image sharing on MySpace. This was important as data was fast becoming the most valuable asset for any web service. YouTube was also of great interest to MySpace but they didn't have enough liquidity to acquire the new startup which was bought by Google.
The long tail Represents the value in empowering many small niche markets or groups of users, which in total, potentially can make up a combined large and	The arrival of MySpace and its focus on empowering creative's off all kinds to showcase their work, was its first of its kind that made it relatively easy to establish yourself with a unique web presence. All the tools and possibilities were there and the service reached far out into the deep corners of the web, gathering different kinds of niche groups that were connected through some type of creative sub-culture.

valuable platform.	Besides giving unique niche creative sub-culture groups a place to breath and show their work – MySpace’s music focus in itself was also benefiting from the ‘long tail effect’. Many musicians were small independent upcoming units with in the far reaching sub-categories of the music business. Before MySpace these artists were mostly playing with local people and for a very limited crowd of people that shared their music taste. MySpace proved that there were many more people sharing the same niche taste of music on a global level, and niche musicians suddenly had an audience of thousands.
Mash-ups Also known as ‘innovation in assembly’. Occurs when commodity components are so plentiful that value can be created by assembling them in novel and effective ways.	MySpace more or less intentionally showed the power of letting third party developers create applications that were integrated with MySpace. As MySpace had become the most popular web service with millions of users there were many great opportunities of enhancing the user experience while also monetizing some of those enhancements one way or another.
	As MySpace didn’t handle images or video well – they let other services such as Photobucket, ImageShack and YouTube access to the platform to develop applications that would.
	As those third party services became very large and valuable (because of data ownership) they were also able to attract more advertising dollars than the platform itself (MySpace). Owners of MySpace perceived that as “lost revenue” that the platform itself might as well get all of. Consequently most third party developers were limited (or denied) access to MySpace whom themselves began developing application in-house. Facebook, on the other hand embraced the opportunity for third party developers to create what the users really wanted and they were able to create much more and much better applications than MySpace.
Cross devices Represents how a web service spreads its services to other web enabled devices.	At the time when MySpace was the most popular social network smartphones were just starting to appear among lead tech and gadget users. It wasn’t until 2009 and 2010 (with the arrival of the iPhone who made smartphones mainstream) that it was necessary to consider a cross devices approach. By that time the game was already lost for MySpace.
Rich internet applications Represent all technologies that empower the web to do more things smarter.	By 2005, MySpace had outgrown its technology platform it was built upon (ColdFusion). The easiest and quickest was to switch to the technology platform .NET (a software framework created by Microsoft.) Although the technology platform was hated by the developer community as the flexibility is minimal. It would take developers, literally, 10 to 15 times longer to build compatible custom code.

	At that point it was too late to switch over to the open-source-code software favored by developers. Changing platforms would have delayed the site for a year or two.
	Consequently MySpace struggled to keep up with emerging companies such as Facebook who, by contrast, used open source tools. Facebook's platform took much longer to deploy, but when threats emerged like spam and Identity verification, custom code was much less complex and time consuming to implement. MySpace, on the contrary, was slow to respond. Facebook could move with the speed of the emerging industry, while MySpace could not.
	Another technology called Ajax also became an important tool for social networks. Ajax is a technology that allows users to send a message, an e-mail or to post a comment on their friends' pages without having to open a new browser window. While Facebook was quick to implement the technology MySpace hesitated with implementing Ajax, partly, because to do so would have reduced the number of page views the site generated and therefore its advertising revenue.

8.1.2 Level 2: External market influencers



Level 2 of the framework aims to identify and single out relevant empirical data from the case study, which was relevant for MySpace and others in the business of social networks. The focus here is to identify what external influencers were given and relevant at the time of MySpace's collapse as a business.

As recognized from level 1, the table below is divided in two sections: 'sub-elements' / 'Analysis'.

In this case, 'Sub-elements' represent relevant external market components that was of influence and thereby subject for analysis. The 'Analysis' section represents what has been analyzed and identified as relevant data from

the case study, that has influence on the overall value network. Those identified elements will be considered and included in the final discussion under 'Level 4'.

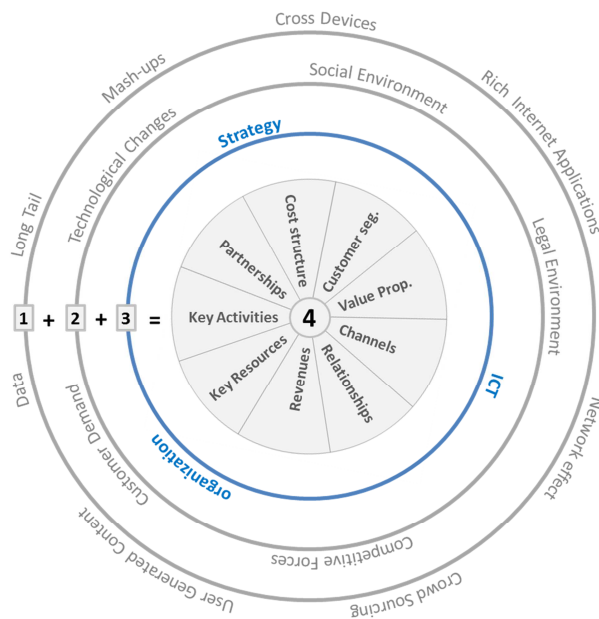
Table 4: Analysis - Level 2: External market influencers

Level 2.**Analysis:****Sub-elements:**

Customer Demand: Represent what general trends are relevant for a particular market according to what customers expect.	Lead users of the web felt comfortable with technology and they wanted to configure their online presence to reflect their individuality. The same was true for the artistic business – bands wanted to appear distinct too.
	Most mainstream users weren't so tech savvy or rock stars, and didn't have the same ability or interest in learning about profile page appearances.
	Web users were getting accustomed to new generations of web services who didn't maximize page views for ad revenues.
	Buggy and clumsy web services were becoming a thing of the past and users were expecting better and better quality services. Services with much spam were also being left by users in favor for other services with a better and cleaner spam policy.
Legal Environment: Represent basic laws and social norms that any web application of service will have to consider. Furthermore it embodies elements related to intellectual property rights (IPR) and general security such as ID and spam filtering.	As MySpace was the largest online music database of its time, a lot of effort was put into securing rights with record labels and stakeholders. MySpace was its first of its kind to bring large amounts of music to the masses legally.
	A minors' exposure to pornography on MySpace triggered a wave of legal investigations into the security of social networks on the web. Consequently everyone in the business had to upgrade their personal identification and security technology.
	In terms of security MySpace didn't focus enough strategic and economic resources on building a solid platform that would make life difficult for spammers, sex offenders and other unwanted elements that would harm the user experience. Consequently, Partly due to MySpace's "clumsy" technology platform, they were struggling to build an effective spam filter and an effective method of catching the "bad apples" (like sex offenders and likewise) who utilized MySpace as a platform for their activities.
Social Environment: Represents public opinions, norms and trends that are of influence to a specific market.	Due to the News Corp. acquisition of MySpace, social media was suddenly considered a serious business opportunity for the business world.
	Due to the arrival of cheap digital cameras and smartphones – everyone on the web wanted to publish and share pictures of themselves and friends.

	Due to the MySpace pornography incident, the majority of web users, at the time, saw the web as a place of “danger” and “filth”. Furthermore, MySpace’s lack of spam filters and large amounts of adds only worsen matters for the site.
	In 2008 the recession hit the online advertising market hard – affecting revenues at MySpace in a large way.
Technology Change: Describes major trends relevant for the market such as a specific technology that is powerful enough to change how a particular market works.	Open API’s, (Mash-up’s), allowing third-party developers to build applications based on data / technology provided by web services, were becoming de-facto for any new generation web startup to either use as part of their product, or for a content and technology owner to offer for others to utilize.
	Open-source-code software was favored by developers and became the de-facto technology platform for any web startup. The open-source-code software had become superior to any other technology on the market as it was faster, more agile and secure.
	Ajax became an important tool for social networks as it allows users to send a message, an e-mail or to post a comment on their friends’ pages without having to open a new browser window.
Competition: Represents the major influencers on the market that have been powerful enough to influence the external environment and market factors.	Facebook introduced an effective “e-mail address importer” that sent invitations to the user’s friends to sign up to the site. This technology became de-facto for many web companies in general.
	Facebook introduced “news feed” – a very popular feature which let friends know all the latest news about each other. This technology became de-facto for all social networks.
	Facebook’s open API platform and strategy for third-party developers was proven to be extremely successful. The strategy and technology became de-facto for all social networks hereafter.

8.1.3 Level 3: Internal influencers



Level 3 of the framework aims to identify and highlight relevant empirical data that represents the choices MySpace made as a business in relation to strategy, organizational and technological matters.

The focus here is to identify how MySpace chose to utilize resources to establish itself as a business and social network.

As recognized from level 1 and 2, the table below is divided in two sections: 'sub-elements' / 'Analysis'.

In this case, 'Sub-elements' represent the three internal components making up the 'business triangle' that is of subject to analysis. The 'Analysis' section represents what has been analyzed and identified as relevant data from the case study, that has influence on the overall value network. Those identified elements will be considered and included in the next section and final discussion under 'Level 4'.

Table 5: Analysis - Level 3: Internal influencers

Level 3.

Internal influencers:

Analysis:

Strategy: Represents the strategy and planning of how a specific company choses to approach the market on the basis of both internal and external influencers.	MySpace launched local sites and offices all in major countries worldwide. Launches were extravagant media PR shows with the intention of attracting users, musicians and advertisers.
	Focused on keeping page views high to maximize add exposure.
	Target to generate up to a \$1 billion in revenue a year in ad revenue.
	An advertising deal was struck with Google to pay \$300.000 a year in guarantee for a minimum number of page views.
	Focus was on reaching targets and numbers related to revenue generation. Innovation and product development had second priority.
	MySpace didn't handle images or video well and partnered with startups such as Photobucket, ImageShack and YouTube.

	Photobucket had become an important feature to MySpace and they acquired it for \$250 million + \$50 million earn out.
	MySpace had “made” both YouTube & Photobucket by allowing them distribution and didn’t see it as fair that they would later have to buy them also. So they limited outside companies from making money off their backs by limiting their ability to integrate with MySpace.
	An internal innovation center was established at Fox Interactive to create innovations for MySpace to acquire at pre-agreed prices based on how well they performed.
	MySpace Music was created as a joint venture between major music labels.
	Due to the recession, and the down turn in ad revenue – MySpace offset, dollar for dollar, cost reductions in development for every dollar lost in revenues.
ICT: Represents the technology a company choses to utilize.	Made it possible for users to highly customize profile pages.
	Struggled to build an effective spam filter.
	First priority was to reach targets related to revenue – that reduced flexibility in terms of experimenting with new technology for a better user interface.
	Took a wide approach and developed many products, many of which were shallow. Some ideas had business opportunities but didn’t get enough manpower.
	Had little culture for testing and created a lot of “buggy” products.
	Went with Microsoft’s technology platform “.NET” which was fast to deploy, but slow to build for.
	Due to choice of technology platform and overall strategy focus, MySpace got to a point where they were using all developing resources on fixing problems.
Organization: Describes everything that has to do with organizational structure, culture, employees, buildings, etc.	The culture and atmosphere at MySpace was edgy and young. It had a cool factor attracting people from the entertainment industry.
	The organization was run by the founders for some years – giving them room to develop what they had invented.

	One founder became a bottle neck for product development, but was kept on the team anyway.
	Moved office from where the main talent-pool of programmers was situated in San Francisco to Fox Interactive in Los Angeles.
	MySpace had trouble attracting top programmers as it was seen as a trivial entertainment-oriented site and, increasingly, as time wore on, a cultural ghetto.
	A further road block for attracting talent was the lack of a typical start-up's incentive system where young programmers can work for equity.
	Management had trouble professionalizing the programmers as they didn't have their respect.
	Management of the parent company eventually clashed with the founders and put in new leadership. The new leadership meant that bureaucracy became more and more common.
	MySpace laid off nearly 30 percent of its U.S. staff and 66 percent of its workers overseas. Morale among those who remained plummeted.
	The company would go through many management changes. Eventually management didn't have MySpace in their DNA as they didn't have much passion for the service.
	Culture at MySpace became negative as management was negative about most products.
	Employees were eventually treated as regular corporate workers with no more free meals, no room for fun at the office and no room for the entrepreneurial spirit.
	Target to generate up to a \$1 billion in revenue a year caused panic at MySpace management team.

Section summary

In this section of the chapter, level 1, 2 and 3 of the proposed 'Analytical Framework' was applied to analyze the empirical data from the case study. The aim was to identify relevant situations from the case study that was of influence to successful or failed input to MySpace's business model. The outcome of the above section (level 1, 2 and 3) will now serve as input to level 4, the next section of the chapter, and the discussion related to how, (well or bad), MySpace aligned its business model with the value network as a whole.

8.2 Discussion

This section of the chapter aims to apply the identified relevant empirical data from level 1, 2 and 3 that was of influence to successful or failed input to MySpace's business model. This is done through level 4 of the framework, the business model, which will serve as platform for the discussion related to how, (well or bad), MySpace aligned its business model with the value network as a whole.

8.2.1 Level 4: the business model



Level 4 of the framework aims to label MySpace's business model based on the identified empirical data from level 1, 2 and 3. Further, the section also highlights how MySpace, in practice, chose to utilize and align elements from all three levels in the value network to compete and drive its business as a social network. Finally, the section discusses what actions, strategic decisions, and activities were of positive and negative influence to the alignment of the business model with the value network.

Level 4 of the framework utilizes the 'Business Model Canvas' by A. Osterwalder (2009) as platform. As previously presented in chapter 5

'Theoretical Framework', the canvas constitute of nine components: (1) customer segment, (2) value proposition, (3) Channels, (4) customer relationships, (5) revenue streams, (6) key resources, (7) key activities, (8) key partnerships, (9) cost structure.

Before initiating the discussion that elaborates on specific actions that were of influence to various alignment successes and failures of MySpace's business model, table 6 below represent a summery and compiled view of what will be subject for discussion.

For the table below and the sections to come, a 'color code' is implemented to better explain and identify the various implications different actions is considered to have had on MySpace's business model:

- (Green) Positive alignments
- (Orange) Unsuccessful positive alignments
- (Red) Negative alignments
- (Blue) Potential positive alignments – that wasn't considered

Table 6: MySpace Business Model

<u>Key Partnerships</u> Upcoming musicians, established bands and music labels Initial allowance of third party services Google to deliver ad campaigns Deal with Google to guarantee a minimum of page views Limiting / excluding third party developer access to MySpace Acquiring innovation from parent company's innovation center	<u>Key Activities</u> Attract upcoming musicians, established bands and labels Image sharing Creating applications in-house Little focus on quality Focus on page views and revenues via ads Corporate bureaucracy Crises programming to avoid spam and unwanted users <u>Key Resources</u> News Corp. acquisition made social media serious business Talent with passion for the artistic Founders in charge for some time Not first priority for top programmers and developers Moving offices Bureaucratic corporate culture No work for equity incentives for employees Too many management changes The technology platform Proven successful approaches to running young tech companies (Google, Sales Force, Oracle)	<u>Value Proposition</u> World's largest music catalog A social entertainment hub around shared music interests Connect with fans and customers through self-promotion A place to share pictures and video with friends A place for mainstream users to interact A safe place with no spam or offenders Focus on feature-simplicity Balance between ads and page views	<u>Consumer Relationship</u> Too many page views Too cluttered with ads Fault and clumsy applications Making security and spam filtering an active part of the business model <u>Consumer Channels</u> Word of mouth Launch of local offices around the world Development of all applications in-house Invite friends via email Establish a local presence in local music markets	<u>Consumer Segment</u> Musicians Music fans Creative people Mainstream users Becoming the best place for music
<u>Cost Structure</u> Programming and development Music royalties and licenses Choice of technology platform Creating all applications in-house Drop in revenues = drop in budget for innovating Acquiring third party applications relevant for MySpace's users		<u>Revenue Streams</u> Attempted to run its own record label Hardcore focus on advertising Google deal of guaranteeing a minimum of page views Becoming more within the music business		

Next, a discussion is initiated that goes into further detail with each component of the business model canvas, where the specific alignment successes and failures are discussed in further detail.

8.2.1.1 Customer Segment

To best serve customers, it's beneficial to group them into segments with common needs and behaviors. A business model can define and focus on several customer segments, but must also take deliberate decisions on which to ignore. When a customer segment is chosen, the business model should primarily be aligned to serve that specific segment. This section discusses the various actions MySpace took to pursue its customer segments. The discussion is based on how those actions were aligned with the value network as a whole.

Discussion

MySpace had a strong vision of becoming the biggest and best platform for **upcoming and established musicians** who wanted to get discovered. Simultaneously, MySpace was also thought to be the best platform for **music fans** to meet and find new music through the structure of a social network. The site was initially highly successful and executed well on becoming that – attracting many music fans and musicians alike. Consequently, MySpace initially also made it a favorable place for **creative people** to express their thoughts, products or services – leading to a group of lead users that were highly motivated in using the various customization tools made available.

From a theoretical perspective this was a successful alignment of the value network considering elements from: (level 1, 2 and 3). (Level 1) The long tail, where focusing on unique creative's (users and artists) and their need for self-expression proved to be a large 'long tail' of niche markets. (Level 2) Lead users proved more than willing to utilize and learn the profile customization tools. (Level 3) Strategically the customer segment was in scope and the technology provided by MySpace was developed to meet this strategy and lead user demand.

Although, MySpace had more than musicians and creative users as their target segment – they likewise, with equal weight, wanted to make the site into a place where "late adopters" or **mainstream users** would connect with new and existing friends. (Level 3) This strategy was well aligned with general tendencies featured in most elements from (level 2) in regards to consumer demand, competition and the social environment. Although the misalignment can be identified under (level 3) where the choice of technology platform, user interface and choice of applications made available weren't in tune with all other mentioned points. As a result, MySpace never gained traction among the mainstream users.

From a theoretical perspective there are many indications that MySpace would have benefitted from keeping its "eye on the ball" and focused on **becoming the best place for music** and not the best social network for the masses. (Level 1) more or less suggest that to be successful, one needs a specific focus and develop a long tail platform of users, data and interaction patterns that are valuable and difficult to imitate. (Level 2) consumers, copyright holders, the social environment, technology and competition had already accepted MySpace at the greatest music platform to have existed; (level 3) The same goes for MySpace's internal strategy, technology and organizational choices. In sum, theoretically, everything was beautifully aligned and MySpace could have established itself as the center of the music industry.

8.2.1.2 Value Proposition:

The value proposition represents the selected bundle of products and services that fulfill the customer segment's needs. This section discusses the various actions MySpace took to create its value proposition to its customer segments. The discussion is based on how those actions were aligned with the value network as a whole.

Discussion

The value propositions for users and professionals were many. For the user, the perhaps most important value proposition was related to MySpace as **the world's largest free online music catalog**.

Furthermore, the aspect of being a **social entertainment hub around shared music interests** also appealed to users, as **social networking** was becoming trendy. Social networking also meant **sharing pictures and video** with friends and strangers, which MySpace successfully facilitated through integrating with third party external developers such as YouTube and Photobucket. For professionals in the creative industries, MySpace was the first place online that facilitated the **opportunity to connect with potential fans and customers**. Users and professionals alike were given the ability to promote themselves as they saw fit.

Musicians and enthusiastic music fans saw great value in using the site. Other users alike, especially those with a craving for creative expression also found the service satisfactory. As a result most, if not all, value propositions related to MySpace as an entertainment hub for musicians and music fans was well aligned throughout (level 1, 2 and 3). (Level 1) In terms of rich internet applications, user generated content and data. (level 2) It gave the users the ability to do what they wished for. (level 3) Strategically and technologically MySpace embraced this situation and ensured positive alignment throughout the value network.

Further, as mentioned above, mainstream users did not have the interest, motivation or ability to create advanced profile pages. MySpace's unsuccessful pursue to become a place for mainstream users could be, that MySpace utilized the same user interface engineered for creative lead users. This was a misalignment between (level 1) rich internet applications, (level 2) consumer demand, and (level 3) choice of technology. Further, as proved by Facebook, mainstream users preferred **easy and safe "plug-n-play" solutions**. MySpace was perceived as an unsafe place with a lot of spam and offenders. Consequently, this inevitably created a misalignment between most elements from (level 2) and the strategy (level 3). Furthermore in (level 3), the utilized technological platform to run MySpace was incomprehensive in offering the users a safe and spam free environment. To sum up, strategically MySpace didn't focus on security and spam problems before issues actually occurred – constantly being two steps behind.

In addition, considering (level 3), the fact that MySpace's greatest focus became centered on page views and ad exposure had a devastating effect on the overall user experience (level 1 and 2), and, as will be further explained, also on the customer relationship to MySpace. A much sharper **focus on feature-simplicity**, and a better **balance between ads and page views** would have benefited the pursuit of mainstream users.

8.2.1.3 Channels

Channels represent how a company “interfaces” with its customers in form of sales, distribution, communication, and support. In other words, it represents how a company delivers its value proposition. This section discusses the various actions MySpace took establishing its channels strategy and how those actions were aligned with the value network as a whole.

Discussion

MySpace highly benefited from **word of mouth**, in fact, this was MySpace’s only successful marketing “strategy”. Strategy in “quotations” means that it wasn’t so much a well-planned strategy but more so a mere consequence of the ‘network effect’, enjoyed as a natural consequence of being a successful web service. According to theory (level 1) the network effect and organic growth of an entrepreneurial web service is mandatory for proof of concept. To achieve organic growth and the full network effect, (level 1 and 2) are naturally aligned. According to (level 2) consumer demand and the social environment, users and bands were recommending MySpace to each other and fully accepting its services. According to (level 3), organic growth was, of course, accepted. Consequently all levels (1, 2 and 3) were aligned.

In terms of local presence, both Facebook and MySpace launched “local sites” supporting local languages which was a proven and successful strategy exercised by many others before them. MySpace furthermore chose to **launch local offices around the world** in major markets which, in theory, was an interesting and different approach (depending on the intention of doing so). Data from the case study indicates, that the immediate purpose of the extravagant office openings were to attract media attention and through that generate more users. Unfortunately this approach was unsuccessful as proven by Facebook who were generating more users in the same countries without spending any resources on doing so. Theoretically, nothing from (level 1 or 2) suggests that MySpace’s strategy (level 3) would benefit from this to generate more users. If anything, it can be regarded as an expensive onetime PR event. Opening local offices possibly would have made good alignment throughout the value network, if the purpose had been to **establish a local presence in local music markets**. This could possibly have led to: (level 1) better content and the organization thereof through crowd sourcing and user generated content among local musicians. (level 2) Increased consumer demand and increased understanding of the legal environment, where a local presence would have made it possible for lobbying and being approachable for local musicians. (level 3) An integrated local music presence would also have been a great organizational fit, taking into consideration that the culture at MySpace was very much about music, fame and concerts.

Keeping users engaged and entertained was important to keep them coming back. One way of doing so was through continuous development and introductions of new applications and features. Facebook’s introduction of an open API – inviting third party developer’s access to integrate and get exposed to all Facebook users turned out to be a very successful strategy on many levels. Considering this section of the business model ‘Channels’ it proved valuable in the sense that Facebook allowed for ‘open innovation’ letting the world’s best developers create applications that made Facebook better by the day. Ultimately, users wanted to utilize all the great features that Facebook had to offer and the network effect was again triggered every time a new fun or great application arrived (e.g. Farmville). MySpace had a similar strategy, but made a deliberate choice of principal not to let third party

developers get rich off their backs and chose to **develop all applications in-house**. This turned out to be a misalignment between (level 1) and the clear tendency that 'mash-ups' were creating value. (Level 2) Consumers demanding better and better quality applications and services that only highly specialized third party developers were able to create. Also the technological changes in relation to the acceptance of open source coding made it difficult to hinder third party developer's access to hack and make some form of "illegal" mash-up anyway. (Level 3) The deliberate strategic choice to ignore the "natural forces" and develop everything in-house.

As mentioned, successful web services like Facebook and MySpace were enjoying unstoppable network effect and word of mouth. Although at MySpace it was taken for granted and not fully embraced strategically and technologically. As learned from the empirical data, Facebook, for example, developed an email tool capable of **identifying friends from your email address book** that weren't already on Facebook. This led to a notable boost to the network effect among users. MySpace didn't see it necessary and focused on other matters.

8.2.1.4 Customer Relationships

Represent how the company interacts with the customer once a purchase has been made, or in the case of MySpace, when a person has become a user. It is important for a company to decide how much, and what kinds, of efforts that will benefit the customer company relationship. This section discusses the various actions MySpace took at customer relationships for the purpose of retaining already acquired users. The discussion looks at how those actions were aligned with the value network as a whole.

Discussion

Unfortunately for MySpace, its value proposition wasn't enough to balance one of MySpace's greatest "crimes" against its own users – the issue of **too many page views** who were **too cluttered with ads**. From a theoretical alignment perspective it stands clear that: (level 1) The principal of 'rich internet applications' trended towards more clean, practical and "to the point" user interfaces. (level 2) Consumer demand, the social environment and technology all trended towards the same – that users in particular were becoming more and more accustomed to services with more balanced revenue models that not only were based on advertising revenues. (Level 3) Strategically and technologically MySpace became designed to maximize for ad revenue creating the value network misalignment.

As mentioned, theory and data suggest that users were becoming increasingly conscious about using quality web services that did a specific job very well. MySpace strategy to build all applications in-house pressured the organization to build fast keeping up with competition. This led to **faulty and clumsy applications** that users simply ended up abandoning in favor of something better elsewhere. Again, from a theoretical alignment viewpoint, this was a misalignment between what was factual in (level 1 and 2) – and the laid strategy from (level 3).

Also, (level 3) MySpace's down prioritization of safety and spam filtering went straight against what was factual in (level 1 and 2), where users and society simply did no longer tolerate web services that were breeding ground for spammers and offenders of various types. Therefore it seems apparent that

MySpace could have benefited from **making security and spam filtering an active part of the business model** for better alignment with the value network.

8.2.1.5 Revenue Streams

A company has to discover what the value proposition is worth to its customer segments. And revenue can come in many forms and from many different sources, especially when dealing with web businesses. This section discusses how MySpace chose to monetize its business and the various actions it took to do so. The discussion takes a look at how those actions were aligned with the value network as a whole.

Discussion

With a **hardcore focus on advertising** as the primary source of revenue, it was strategically decided to optimize for maximal page views and ad exposure. As already discussed in the previous section 'customer relationship', this was a devastating misalignment throughout the value network that heavily affected the usability of MySpace in a negative direction. To worsen the matter – the **Google deal of guaranteeing a minimum of page views** increased the pressure on MySpace even more, causing even deeper misalignments throughout the value network. Further, not long after the deal was struck with Google, the recession came in 2008 and left the online advertising market (more or less) quiet for several years.

MySpace didn't succeed with other revenue models other than the proved advertising model. Although there were attempts of other revenue models, such as running a **record label** specializing in unknown up-coming musicians. According to the empirical data, the attempt was successful but exercised as a side project by one of the founders and never got approved as a valid revenue model by its corporate parent company. The 'side project' could have been a well aligned revenue model, **becoming more within the music business**. From a theoretical perspective, as mentioned earlier under the section 'customer segment', MySpace would have benefitted from keeping its "eye on the ball" and focused on **becoming the best place for music** and not the best social network for the masses. One can imagine MySpace going into the business of selling concert tickets, (like Eventbrite does very successfully today), selling music like Apple or Amazon, or establishing itself as what Spotify is today. Theoretically, integrating the revenue model with the actual product and customer experience is arguably possible and would be a natural alignment of the value network through (level 1, 2 and 3).

8.2.1.6 Key Resources

Key resources represent what a company needs to make its business work. Key Resources basically enable the company to offer its value proposition, reach customers, nurse its relationship with customers and monetize on it all collectively. Key resources can be physical, financial, intellectual, or human – which can be owned, leased or purchased from key partners. This section discusses how MySpace managed and focused its key resources and the various actions it took to do so. The discussion takes a look at how those actions were aligned with the value network as a whole.

Discussion

Even though the web, at the time, was increasingly becoming recognized as a place of doing business, it was still seen as an emerging unproven market and wasn't taken seriously by the "traditional" business

world. But News Corp's. acquisition of MySpace changed the game and more business people took the web seriously out of respect for News Corp's. decision (who, at the time, were highly respected by the traditional business world). This had a positive impact on (level 2) of the value network, as more opportunities were created within advertising and music label deals. In sum, News Corp's **acquisition of MySpace escalated its business opportunities** and made it more likely to succeed with aligning the business system according to strategy (level 3).

After the acquisition, the **founders were given permission to run the site** as they saw fit for some time. (Level 3) in terms of strategy, this continued the development of MySpace's original vision and ensured that the organizations entrepreneurial spirit had room to continue. Seen from a theoretical viewpoint, this resonated positively to the alignment throughout the value network. Consequently, in the initial years, MySpace enjoyed a hype of being a **cool place to work**. Consequently, MySpace was, initially, able to attract both top engineering and artistic talent. Obviously both talent pools were required (level 3) to successfully align all levels throughout the business system. (Level 1) good engineers were needed to harness the power of web technologies. (Level 2) people from within the creative industry were needed to harness the market relevant phenomenon's for musicians and users alike. Though, as time went by MySpace's image as a hot place to work started to fade among programming talent for a number of reasons. Respected programmers began to see MySpace as the '**second best place to work**', a consequence of many misalignments between (level 3) strategy in relation to revenue before product development, organization in relation to management issues; And (Level 1), phenomenon's and technologies of the web that simply weren't utilized as well as a place like Facebook did.

Moving offices from San Francisco, (the capital of programming talent), to LA made it difficult for MySpace to attract the much needed technical talent and was a negative alignment of (level 3) and the organization. Furthermore, **bureaucratic corporate culture** became an issue. Running MySpace as a another corporate media division within the News Corp. umbrella created a lot of resistance among employees that initially had signed up to be part of an entrepreneurial venture. Also there were **no incentives for employees** to 'work for equity' – which is a commonly known and proven method of attracting top programming talent to startups. This likewise had a negative influence of the alignment of (level 3) the organization with the rest of the value network – like (level 2) competitive forces where Facebook was offering a 'work for equity' option to motivate entrepreneurial spirit. And finally, internal power struggles led to a flood of **management changes**, strengthening bureaucracy and hurting morale at MySpace.

The **technology platform** utilized by MySpace wasn't geared for running a social network. As a result, a key resource that MySpace neglected and failed to adopt and integrate within (level 3) was the open-source-programming platform. Instead, the web service was built on a simpler platform that was initially easier to work with, but more difficult to extend and mold. As a result, this was a misalignment of both (level 1 and 2), where the ability to live up to customer demands, technological changes and the expectations from the social environment were all dependent on a sound technological platform. As mentioned in the case study, this also affected MySpace's ability to attract top programming talent.

It seems evident that MySpace's biggest problem in regards to 'Key Resources' was the misalignment and mistreatment of (level 3) organization. From a practical perspective – there are many good examples of tech-companies that were in similar situations – going from small startups to large organizations. One can only imagine that already **proven success stories could have inspired News Corp.** to make better decisions on how to align its organization with the value network.

8.2.1.7 Key Activities

Describes the most important actions a company must take to make its business model work. Together with key resources, they enable to offer a value proposition, reach customers, maintain customer relationships, and earn revenues. Different business models call for different activities, e.g. software Company's key activity is software development, and hardware manufacturers include supply chain management. This section discusses how MySpace focused its key activities and the various actions it took to do so. The discussion takes a look at how those actions were aligned with the value network as a whole.

Discussion

All levels of the business system were well aligned to **attract upcoming musicians, established bands and labels**. (Level 3) Strategically it was initially one of the main areas of focus, culturally the organization had a passion for the music business and in terms of technology the site was built to support online music and freedom of expression. (Level 2) Music fans praised MySpace and the ability to discover and share new music with their friends. (Level 3) The web, its technology and phenomenon's were all pointing in the direction of music listening, discovery and sharing. Technologies were emerging that made it easier to do much more with music online.

As mentioned, MySpace was never really designed for the masses and the mainstream user in particular. Although in the beginning, MySpace was the best alternative to any present social network. This was partly due to the option of letting users **share pictures and video**. As MySpace recognized this as a main driver they acquired the image sharing service Photobucket, which had become the most popular on MySpace. Letting YouTube integrate with MySpace and acquiring Photobucket was a well aligned strategy (level 3) and that had a positive effect on aligning the business to become a social network for the mainstream user.

As YouTube had become an extremely valuable business, News Corp. felt that their success was due to MySpace. Consequently, it was strategically decided not to let other third party services get rich off their backs. This decision also meant that MySpace would have to live up to user demand by **creating applications in-house**. This strategy was in direct misalignment with external tendencies from (level 1 and 2) who clearly suggested to "opening up" and continuing on the path they had been with services like YouTube in the beginning. As a result of having to develop everything in-house, with too little resources, resulted in faulty applications and ultimately a bad user experience.

"Crisis programming" became another key activity of negative influence. Due to the consequence of a less than optimal technological platform (as explained in 'key resources') meant that a 'key activity' became to perform crisis programming in order to stop major spam campaigns and ensure that there

wouldn't be another sex scandal on MySpace. From a theoretical standpoint, the cause of misalignment was to be identified in (Level 3) where the combination of the technical platform and a strategic down prioritized secondary focus on spam and security required the company to spend too much time correcting mistakes after they had already taken effect.

Optimizing for page views to increase revenues also became one of the most, if not the most, influential misalignment with the value network. Within (level 3), and the strategic decisions to prioritize revenues before anything else, meant that most attention and resources were directed at **optimizing for revenues as opposed to innovation**, which, as mentioned throughout the chapter, restricted all levels of the value network and had a negative effect throughout.

As mentioned in 'key resources', **corporate bureaucracy** became part of the daily management at MySpace. Data even suggests that it became a 'key activity' where everyone had to spend much of their work time explaining and documenting what they were doing – instead of just creating great products for users. From a theoretical standpoint, this was another misalignment caused by (level 3) and the organizational structure chosen to run the young start up.

8.2.1.8 Key Partnerships

Represents the most important external partnerships that is required in excess of a company's own key resources. These partnerships include: strategic alliances between non-competitors; strategic partnerships between competitors (coopetition); to develop new businesses (Joint ventures); and buyer-supplier relationships to assure reliable supplies. This section discusses how MySpace utilized key partnerships and the various actions it took to do so. The discussion takes a look at how those actions were aligned with the value network as a whole.

Discussion

As mentioned, MySpace's initial focus on the music business and attracting **upcoming musicians, established bands and labels** was a healthy and positive alignment with the value network. It was a win for all parties involved as MySpace was the first to play by the copyright rules (level 2), while still managing to leverage the current trends, and phenomenon's of the web (level 1) through its technology infrastructure (level 3). Consequently, they were successful to create 'key partnerships' with both upcoming and established bands and their music labels which no other web service had succeeded in doing before.

As elaborated in the above section 'key resources', MySpace's **initial allowance of third party services** to provide integrated applications, were a success when considering the alignment of the value network. As mentioned, services like YouTube and Photobucket made MySpace interesting for the mainstream users, and in return MySpace made the third party services become valuable sources of data. As before mentioned, MySpace eventually restricted external developer's access to its platform. Instead, as a substituted solution, MySpace's parent company chose to create an **innovation center** with the purpose of creating the next YouTube that MySpace could then integrate when it had become successful. It was thought as an alternative to buying expensive third party 'mash-up' services. This strategy (level 3) was misaligned with (level 1) where 'mash-up' and third party programmers had been proven to be the best

way to gain access to new technology, products or services, that did one specific thing very well. As mentioned, the consequence was seen in (level 2) where the customer would experience “halfhearted / half done” applications that were nowhere near the quality of what highly specialized third party programmers could create independently.

The partnership with **Google to deliver ad campaigns** can be considered positive in alignment with the value network. Both (Level 1, 2 and 3) require companies to focus on delivering a unique product / service, so “out-licensing” the function of selling advertising was positive as resources could be freed to direct attention elsewhere. Unfortunately the new parent company perceived MySpace as a ‘money making machine’ and signed a deal with Google to **guarantee a number of page views**. As before mentioned, this strategic decision (level 3) affected the how MySpace operated throughout the value network creating a negative approach to most elements in (Level 1, 2 and 3). In fact, most of the presented negative alignment influencers in this chapter is either a direct or indirect consequence hereof.

8.2.1.9 Cost Structure

Describes all costs required to enable all before mentioned elements of a company’s business model. This section discusses MySpace’s cost structure and how they were aligned with the value network as a whole.

Discussion

MySpace’s biggest expense, like any other web service, was primarily related to **coding and continuing development** of the platform. This is any web service business core function and a natural part of running the business. Furthermore, **licenses to musicians and record labels** were also a fixed part of keeping valuable content available on MySpace for its users to enjoy.

As mentioned, MySpace’s decision to **create applications in-house** had a negative effect on the value network for several reasons. To elaborate further on the matter, another of the contributing factors to the negative alignment was related to the cost compared to sharing “a piece of the pie” with third party developers, who would create applications of much higher quality. That cost could have been put to use elsewhere to ensure a better focus on **providing the platform and not the applications**. As learned from theory, it’s better to do one thing and be the best. This has also been proven many times over in the web business, and is widely accepted as one of the best ways to “innovate” and offer new products. MySpace were initially on the right track with giving services like YouTube and Photobucket access, and also with the later acquisition of Photobucket. Facebook recently did something very similar acquiring Instagram.

As mentioned, MySpace made a bad **choice of technology platform** which meant it was much more time consuming to create new code that opposed to using tools building on open-source-code. Consequently the firm spent too much time and resources when needing to correct filter issues with spam and unwanted users.

To make matters worse MySpace’s parent company decided, that if revenue targets weren’t met – the equivalent **revenue loss would be subtracted in the development budget**. This was another obvious

misalignment that rippled throughout the value network with devastating effect. Basically all elements from (level 2) require a company to stay on top of what happens in regards to all relevant elements from (level 1). If a company is to leverage the potential of (level 1 and 2) then it needs a strategic focus on development that isn't influenced by a short term advertising goal. (Level 3) and the technology infrastructure suffered from this decision and consequently had to further down prioritize development as ad sales weren't met.

Chapter summery

This chapter 'Analysis & Discussion' analyzed and discussed MySpace's successes and failures to align its business model with the value network as a whole. This was done as a discussion between empirical data from the case study and theory, (referred to as 'the proposed analytical framework'). The next chapter will present the most interesting results and findings that came from investigating the main and sub research questions of this thesis.

9. Conclusion, Results and Reflections

First, this chapter presents the thesis main conclusions and results in the pursuit of testing the thesis main hypothesis, that: ‘only the right combination and alignment of both web and business model components will generate or sustain success’, and further, to investigate the main research question: ‘Why did MySpace fail, as a business, while being the most popular online web service?’

Second and finally, the chapter includes a section on the authors reflections related to the research process, and implications for possible further research.

9.1 Conclusion & Results

The thesis main wondering was dedicated to the fact that sometimes, highly successful web services, such as Yahoo.com, Netflix.com, Friendster.com, and most recently MySpace.com, suddenly lost close to everything for what seems “overnight”.

The thesis main interest was to investigate this phenomenon through the following hypothesis:

- *‘That only the right combination and alignment of both web and business model components will generate or sustain success’.*

Through literature review on the concept of ‘business models’ and ‘the web as a phenomenon’, it was found to have little emphasis on the combined implications of the two as a unified tool of analysis. As a result, the thesis developed and proposed an ‘Analytical Framework’ that could fill this “gap” and serve as a tool to analyze consumer web based business models. The ‘Analytical Framework’ was constructed as a merger of components from the field of ‘business model theory’ and the academic portrayals of the ‘web as a phenomenon’. In order to develop the framework the following essential questions had to be addressed:

- *What are the main factors that make or break a successful business model?*
- *What are the main considerations when designing a business model?*
- *What components and phenomenon’s make up a successful consumer web service?*

These essential questions therefore served as the thesis sub research questions and were necessary to create the “missing” tool of analysis. The proposed ‘Analytical Framework’ was then tested by analyzing a case study of MySpace – a former well known startup who made ‘online social networking’ into a multimillion dollar industry. Consequently, the thesis hypothesis and proposed ‘Analytical Framework’ was tested and applied through the following main research question:

- ***Why did MySpace fail, as a business, while being the most popular online web service?***

As a result, the proposed “tool of analysis”, referred to as the ‘Analytical Framework’, took center stage in this thesis and therefore also figures as the thesis main result and “finding” of possible interest to others desiring to analyze a consumer web based business model. To be more specific, the thesis

demonstrated how the proposed 'Analytical Framework' could be utilized to understand one (or both) of the two:

1. *Why a particular web business failed, and / or*
2. *How a particular web business can/could prevent failure*

Besides demonstrating the practical implications of the 'Analytical Framework', the thesis claim that the proposed framework contributes to the concept of business models by proposing an extended business model framework, dedicated to the purpose of analyzing consumer web based companies.

Further, the proposed framework's theoretical validity was demonstrated by drawing on the most fundamental theoretical understanding of the business model as a framework of interlinked components, as first proposed by R. Normann in 1977. Based on literature reviews, the thesis claims that Normann's concept, in its most basic form, is shared by most scholars who have proposed a business model framework. Those investigated by the thesis were: M. Morris et al. (2005); S. M. Shafer et al. (2005); J. Hedman et al. (2002); M. W. Johnson et al. (2008); A. Osterwalder et al. (2005).

In detail, the thesis main result and proposed 'Analytical Framework' was developed as an extension of Osterwalder's (2005) 'Business Triangle and Business Model Canvas' with an additional dimension that embodies elements from 'the web as a phenomenon'. As the thesis concludes in the 'Theoretical Framework' chapter 5 – the main idea and reason for proposing the 'Analytical Framework' is; that for a company to be successful in a market – it needs to align its internal activities and decisions with external realities to "fit" within the 'value network' as a whole. In other words, what a company says and plans to do is one thing – what actually happens could be another.

Figure 4: Proposed 'Analytical Framework'



Consequently, the thesis concludes that the reason of using the proposed 'Analytical Framework' is to identify possible misalignments between how a company plans to compete in a given market – and how it actually chooses to execute.

The proposed 'Analytical Framework' is demonstrated by figure 4. An elaboration of the framework can swiftly be found in the conclusion to chapter 5.

Altogether, the thesis main wondering, hypothesis,

research questions and purpose were executed according to the following main steps: (1) It reflected on the main factors that make or break a successful business model, and what to consider when designing a business model; (2) It reflected on the main components that constitute a successful modern web service; (3) It merged step 1 and 2 to create an analytical business model framework designed to analyze consumer based web services/businesses; (4) It presented a case study of MySpace which served as the thesis empirical data source; (5) It responded to the main research question and tested the thesis hypothesis through applying the proposed 'Analytical Framework' to the empirical case study data. The proposed 'Analytical Framework' was utilized in two stages. First, it was used to analyze and identify relevant data from the case study that had implications (good and bad) for MySpace's business model. Second, that data served as input for a discussion of how, why, when and where MySpace both succeeded and failed to align its business model with the value network it was part of.

9.2 Reflections and Further Research

As the concept of 'business models' and the 'web as a phenomenon' were both essential to this thesis, it's important to note that the field of research related to them both individually and collectively are limited and still relatively young. Nevertheless, they have surely been acknowledged by non-academics and the majority of researchers on the topic have developed theoretical knowledge combining the two. However, the main focus tends to circle the overall definitions and technical aspects of the phenomenon's. The implications and possibilities for web companies are still relatively unexplored – leading to where this thesis seeks to contribute its results and findings.

Overall the thesis set out to test and verify its main hypothesis. This was done by addressing its main and sub research questions. In conclusion, the purpose is believed to have been fulfilled – although it is important to underline, that the result was a verification, not a confirmation.

The thesis main result, the 'Analytical Framework', is just one approach merging one particular theory with one particular definition of a phenomenon. Although the thesis believes those chosen to be of highest relevance – it would still be interesting to combine other theoretical approaches and phenomenon definitions. Those different approaches could then be applied to analyze the same case study for the purpose of comparing the analytical results.

Also, due to limited resources, this thesis applied and tested its 'Analytical Framework' on one case company. Naturally, it would be interesting to see what results would come from applying the 'Analytical Framework' in another setting.

Further, and perhaps of most interest, the thesis claims that the proposed 'Analytical Framework', in theory, also can be utilized to analyze existing, "living", consumer web based business models. It would be of high interest to test the proposed 'Analytical Framework' with a company that is currently experiencing a down turn losing users to other competing services. For this approach, the researcher would have to gain access to such a company under high confidentiality as live primary data would most certainly be needed.

Finally, one can also imagine that some entrepreneurs, managers and CEO's have developed their own "homemade", but proven, nonacademic formulas, theories and tools that address the exact same problem statement as this thesis attempts to address through its proposed 'Analytical Framework'. Another research approach of interest would then be to identify and gather such tools for the purpose of analyzing and mapping possible analogies. Further, the data could then be compared to theory as demonstrated with the proposed 'Analytical Framework'.

10. Literature List

A. Ostenwalder, Y. Pigneur, 2009, 'Business Model Generation'.

A. Ostenwalder, Y. Pigneur, and C.L. Tucci, 2005, 'Clarifying Business Models: Origins, Present, And Future Of The Concept', Communications of AIS Volume 15.

B. W. Wirtz, O. Schilke, S. Ullrich, 2010, 'Strategic Development of Business Models Implications of the Web 2.0 for Creating Value on the Internet', Long Range Planning 43 pp. 272-290.

Bloomberg Business Week Magazine, June 2011, 'The Rise and Inglorious Fall of Myspace', Viewed July 2012 online: http://www.businessweek.com/magazine/content/11_27/b4235053917570.htm

C. Anderson, sep-08-2005, 'Long Tail 101', Viewed June 2012 online: http://www.longtail.com/the_long_tail/2005/09/long_tail_101.html

C. Zott, R. Amit, 2009, 'Designing Your Future Business Model: An Activity System Perspective', IESE Business School-University of Navarra.

C. Zott, R. Amit, L. Massa, 2011, 'The Business Model: Recent Developments and Future Research', Journal of Management Vol. 37 No. 4, July 2011 1019-1042.

D. J. Teece, 2010, 'Business Models, Business Strategy and Innovation. Long Range Planning', 43, 172-194.

Financial Times, December 2009, 'The rise and fall of MySpace', Viewed July 2012 online: <http://www.ft.com/intl/cms/s/0/fd9ffd9c-dee5-11de-adff-00144feab49a.html>

Forbes, July 2011, 'Four Morals From MySpace's Fall', Viewed July 2012 online: <http://www.forbes.com/sites/stephenwunker/2011/07/25/4-morals-from-myspaces-fall/>

H. Chesbrough and R. S. Rosenbloom, 2002, 'The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies', Industrial & Corporate Change, 11 pp. 529-555.

I. Andersen, 2005, 'Den Skinbarlige Virkelighed', Forlaget Samfundslitteratur, 3rd edition.

J. Hedman and T. Kalling, 2002, 'The business model concept: theoretical underpinnings and empirical illustrations', European Journal of Information Systems pp. 49-59.

J. Magretta, 2002, 'Why business models matter', Harvard Business Review, R0205F.

J. Mason, 1996, 'Qualitative researching', Sage Publications, US – California

M. Levy, 2007, 'WEB 2.0 implications on knowledge management', Journal Of Knowledge Management Vol. 13 No. 1 Pp. 120-134.

M. Morris, M. Schindehutte, J. Allen, 2005, 'The entrepreneur's business model: toward a unified perspective', Journal of Business Research, 58, 726-735.

M. W. Johnson, C. M. Christensen, H. Kagermann, 2008, 'Reinventing Your Business Model', Harvard Business Review (52)

O'Reilly, 2005, 'What Is Web 2.0', 09/30/2005, O'Reilly Media, Viewed May 2012 online:
<http://oreilly.com/web2/archive/what-is-web-20.html>

P. Anderson, 2007, 'What is Web 2.0? Ideas, technologies and implications for education', JISC Technology and Standards Watch.

P. Isaías, P. Miranda, S. Pífano, 2009, 'Critical Success Factors for Web 2.0 – A Reference Framework', Ozok and P. Zaphiris (Eds.): Online Communities, pp. 354–363.

P. Timmers, 1998, Business Models for Electronic Markets, European Commission, Directorate-General 3, Vol.8 No.2

R. Amit & C. Zott, 2001, 'Value creation in e-business', Strategic Management Journal (22) pp. 493-520

R. C. Masanell, J. E. Ricart , 2011, 'How to Design A Winning Business Model', Harvard Business Review Vol. 89 Issue 1/2, pp. 100-107

Reuters, April 2011, 'Special Report: How News Corp got lost in Myspace', Viewed July 2012 online:
<http://www.reuters.com/article/2011/04/07/us-myspace-idUSTRE7364G420110407>

S. M. Shafer, H. J. Smith, J. C. Linder, 2005, 'The power of business models', Kelley School of Business, Indiana University

T. F. Chen, 2009, 'Building a Platform of Business Model 2.0 to Creating Real Business Value with Web 2.0 For Web Information Service Industry', International Journal of Electronic Business Management, Vol. 7, No. 3, pp. 168-180

T. Funk, 2008, 'Web 2.0 and beyond : understanding the new online business models, trends, and technologies', Prager Publishers.

Techcrunch, December 2010, 'Social Networking: The Present', Viewed July 2012 online:
<http://techcrunch.com/2010/12/04/social-networking-present/>
