

The Economics of Social Media

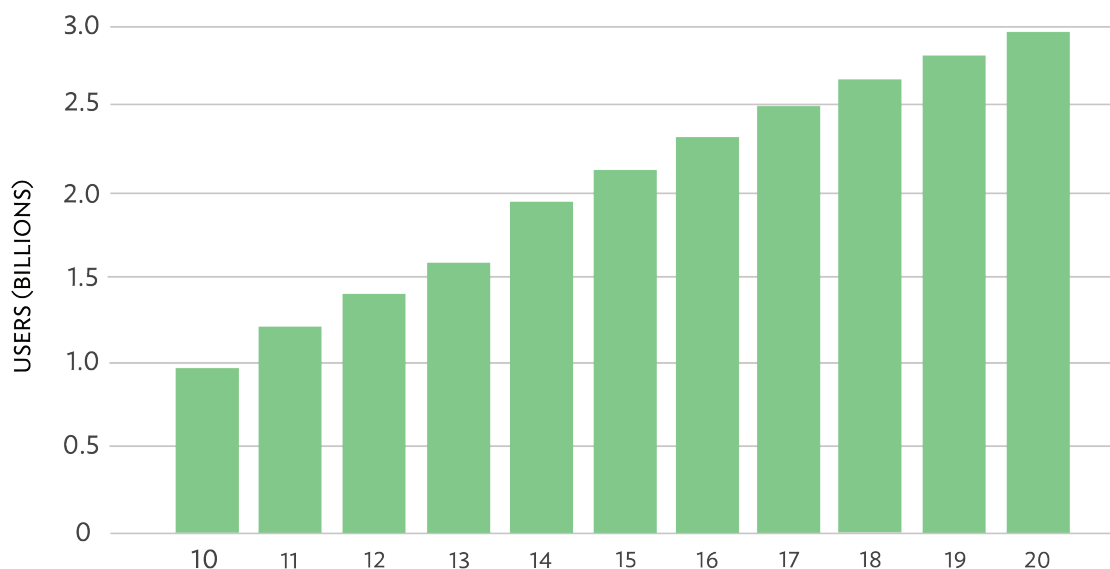
By Joao Frenandes Silva

Every day, billions of people post, share, comment, and chat on online social media platforms. More and more, they are replacing traditional means of not only communication but also socializing with friends and family.

Because of social media, it has never been so easy to keep in touch with people who live thousands of miles away. It also moves significant amounts in advertisement budgets as companies have realized their audience is moving online.

The truth is that by moving into social media, people also brought the worst parts of human behavior into the platforms and even the main networks are struggling to deal with it. Fake news is rising, and trolls/haters have been a roadblock in companies' ability to attract more investors into the businesses.

Number of Social Media Users Worldwide



The Market Mogul // Data: emarketer (2016-2020 estimates)

Online Social Presence

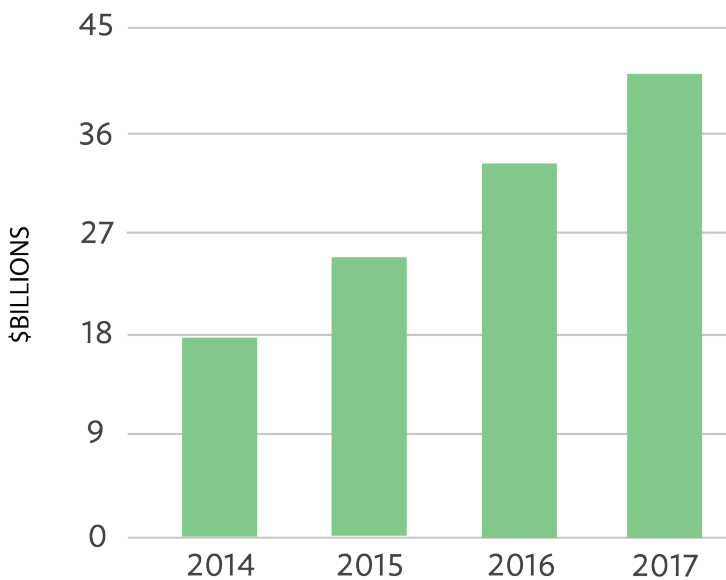
Just like traditional media, social media makes money through advertisement. The more activity it has within its networks and the more people using it, the more companies want to advertise their services and products with them.

52 trillion words are written every day on social media

Wired magazine wrote in 2014 that 52 trillion words are written every day on social media, which equates to roughly 520 million books. With every click, bounce and page view being monitored, it's easier for a social media network to analyze what to invest in, in order to get more users and, therefore, more traffic and more money from advertisement.

Revenues from advertisement have massively increased for social media in the last three years. While in 2014 all social media generated a total of \$17.9bn from advertising as well as games and apps within the platforms, the amount jumped to \$25.1bn in 2015. According to eMarketer, the estimate is \$32.9bn for 2016 and \$41bn for 2017.

Social Network Advertising Revenue



The Market Mogul // Data: emarketer (2016/2017 estimates)

It is estimated that, by the end of this year, social media advertising will be a total of 34.5% of the total global digital ad spending.

Being the Product

Besides advertisement, social media also sees users as a product. As social media collects incredible amounts of data about users – what they like, what they don't like, who they talk to and how they talk – that data is valuable for companies who wish to target certain niches of the population with their products or services.

Whenever a user signs up for a social media account, he's giving up the data of everything he does within the platform. The more people interact with each other, the more data social media has to collect and sell to the highest bidder. This means that smaller companies who cannot make money from advertisement can still monetize their business by selling user data.

In that sense, it's in social media's interest to keep its users occupied. It adds features and adapt content the user sees to what they believe the user will enjoy seeing.

Power of Mobile

Mobile is changing the social media game and forcing platforms and marketers to adapt their content and their ad campaigns to the growing mobile audience. A comScore study shows that in 2015, the smartphone was responsible for more than 60% of all the time spent in social media. If tablets are added to the equation, the percentage goes up to a total of 79%.

79% of time spent on social media is on mobile

In that sense, it isn't surprising that companies are looking more and more into tailoring their ads to the increasingly mobile audience while social media platforms work on developing their apps to accommodate new users.

In fact, mobile users will likely increase in the next few years. With only 2.8 out of 7.2 billion people on the planet connected to the internet, it's easy to see there is enormous growth potential for mobile since the devices are cheaper than a laptop or desktop. Only half of China's population is online. In India, it's only 30%.

But even if those two countries are taken out of the equation, Western countries already have an internet penetration of roughly 80%, according to the Internet World Stats. It's not hard to see that the biggest potential comes from emerging markets where only a tiny amount of the population is connected to the internet.

80% of the population in Western countries has internet access

It's no surprise that Facebook's CEO Mark Zuckerberg is developing drones and balloons to bring free Wi-Fi to countries that have limited access to the internet.

With some smartphones being sold for only \$40, there is enormous growth potential for social media to grow in popularity and user base.

Winners and Losers

When it comes to social media, the users are the factor that determines the success [or] lack thereof. The top 5 doesn't seem to change much – the three networks at the top are all under Mark Zuckerberg's control: Facebook, Facebook Messenger and WhatsApp.

China is well positioned too, with Tencent Holdings being responsible for the next three social media platforms in the list – QQ, WeChat and QZone. Tumblr, Instagram and Twitter fall short in comparison. However, while Instagram has been showing a steady user growth rate along with revenues, Twitter hasn't reported any profits and is struggling to captivate new users.

Twitter's Problem

Twitter is facing tough times. After filing for its IPO in 2013, the San Francisco-based company announced losses of \$511m in the fourth quarter of 2013, which caused the share price to

sharply plummet as investors realized the company hadn't been making any money and its user base was slow to see growth.

Until now, CEO Jack Dorsey hasn't managed to make the company profitable as he took the wheel. Facing tough competition from Instagram or Snapchat, Twitter's user base only grew 3% in the last quarter. Rumors of a takeover intensified and Microsoft, Google, Disney and Salesforce emerged as potential candidates for an acquisition. However, all the big contenders seem to have lost interest in the social media company.

While the company has a lot of influence in social movements and making trends viral, it hasn't been able to modify its product to attract new users. The company had five CEOs in its short life and yet none seemed to steer the social network towards profitability. Now, it risks getting acquired much later, at a significantly lower price.

The Problem of Fake News

The growth of social media brings out the best people, by allowing crowdfunding, crowd learning and providing a platform for strangers to share thoughts and experiences. However, it has also brought some of the worst of people: trolling, hating, death threats and most recently, fake news.

According to a study by BuzzFeed, fake news stories from hoax sites and hyperpartisan blogs actually got more engagement during the US presidential elections than real news by trusted outlets. However, another study by Stanford University found that only 14% of American citizens think that social media was their main source of information in the months prior to the election of President Trump. This means that fake news had, apparently, no direct effect on the election results.

Still, they are like cancer for big platforms like Facebook and Twitter, where users are incentivized to write as much as they'd like. Facebook doesn't position itself as a news editor, so there is a challenge of how much content it can censor or if it should censor anything at all.

The debate is currently trying to figure out what can be done to solve the issue. One of the options would be hiring human editors to thread the content and, in different ways, determine what should and should be maintained. Another option is letting the public decide and using the crowd to verify the veracity of news. However, Facebook favors a third option, which consists in using machine learning to decide.

Dreaming Big

Social media take in more and more responsibility every day with each new feature it adds. Captivating new audiences also means assuming responsibility for them as the users get more dependent on them by the day.

As big as it may seem now, social media is still relatively new and will likely grow much larger as bigger chunks of the global population will get easier access to the internet. But that doesn't mean it will make money. Social media needs a strategy and either choose to focus on a niche, like Snapchat for a younger audience, or generic, such as Facebook.

With growth, there is a chance that other problems will also continue to present themselves, with no easy solutions. The international community should set out clearer rules for digital social presence, but ultimately, it is up to companies how to deal with issues such as fake news. One thing social media companies understand is how important their users are and how much they should work on keeping them busy, happy, entertained and informed.