The Future of Advertising and the Value of Social Network Websites: Some Preliminary Examinations

Eric K. Clemons  
clemons@wharton.upenn.edu

Steve Barnett  
steve@bardoconsulting.com

Arjun Appadurai  
appadura@newschool.edu

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1. INTRODUCTION
A confluence of changes has reduced the impact of traditional advertising. Lord Leverhulme complained that “half of money I spend on advertising is wasted, I just don’t know which half!” In contrast, were he writing today he would sound somewhat different. An optimistic advertiser might claim that it is now possible to identify the positive impact of every dime spent; a more pessimistic one might note simply that he now knows, with certainty, that both halves are wasted. Some of these changes that have reduced the impact of advertising are a result changes in consumer media preferences and viewing behavior, some are due to new technological alternatives, some may be due to changes in consumer purchasing behavior and the changing status-signaling value of many possessions, and some are due to changes in consumers’ trust of paid messages.

There has been a rush to acquire social networking websites such as MySpace and YouTube by both traditional media companies such as News Corp and internet giants such as Google. The acquirer’s own press releases suggest that they believe that these acquisitions are justified because of the websites’ potential to generate enormous profits through advertising. In contrast, we believe that the current rush to social networking websites as an alternative to traditional social networks can have great commercial value. Interestingly, such work-focused and geographically dispersed social networks often collapse over time as they get larger, as the sense of shared purpose diminishes, and as members see more clearly what participation costs them, and see less clearly the benefits that they themselves obtain. This may not be the direct result of actual free-riding, so much as it is the indirect result of the perception of free-riding that arises as networks grow and members become less tightly linked by bonds of actual friendship.

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2. SOCIAL NETWORKS
Social networks are familiar to all who study primates, from baboon troops and gorilla and chimpanzee groups to human societies in all levels of cultural development [6] [7] [12]. A social network can be a group of friends living within a city, or a group of college classmates who remain in frequent contract socially. It can also be a group formed specifically to accomplish a poorly structured set of tasks over time, like the old GBN.

Humans in all cultures at all times form complex social networks; the term social network here means ongoing relations among people that matter to those engaged in the group, either for specific reasons (like fantasy football, cancer support groups, task...
forces at work) or for more general expressions of mutual solidarity (like families, clans, friends, social clubs). Social networks are validated by shared perceptions of worth, typically expressed as cultural symbols. For example, families in various societies agree on what symbolically connects them, whether "blood purity" for Indian castes or "genes" for Western families. Likewise, social networks among individuals who may not be related can be validated and maintained by agreement on objectives, social values, or even by choice of entertainment, such as a group of people who meet for tailgating parties at when their professional football team plays home games.

Membership in these networks can be relatively permanent (extended families, which endure for lifetimes) or flexible (pregnancy support groups, in which members rotate out after a few months). They involve reciprocal responsibilities and roles that may be altruistic or self-interest based (or a combination or both). Cultural anthropologists have written extensively about these networks, from studies of caste and marriage systems to informal links in the workplace or in the neighborhood. Network members tend to trust and rely on each other, and to provide information that other members find useful and reliable. Social networks are trusted because of shared experiences and the perception of shared values or shared needs — a professor is likely to request recommendations for an accountant from another professor, assuming that their requirements are similar and that a colleague’s recommendation will be both relevant to his needs and trustworthy. New parents will get recommendations from their neighbors for a pediatrician and, over time, will get recommendations for a baby sitter. Friends tell friends about restaurants and movies. It is not yet clear to what extent virtual social networks are trusted or valued.2

The newest attempts at the development of social networks have tried to create online social networks without relying upon initial face-to-face encounter to create the network; Facebook, MySpace, and YouTube are simply the best known and most publicized of this new generation of social networking websites. Ever since the Internet began to develop online “communities,” starting with The Well in Berkeley, there has been active debate about whether online communities actually replicate in crucial ways face-to-face networks. Howard Rheingold in a number of articles and books has been the strongest advocate of the depth and power of online communities as “actual” social networks that correspond in important ways to older forms of networking [10]. Others, like John Perry Barlow, have suggested the opposite — that online communities are at best truncated networks, lacking in depth and intensity; in Barlow’s view, participants in online social networks do not have to interact in multiple and complex ways but rather may lack a corresponding basis in contact, shared experience, or shared values. Online friendships need not be trusted relationships validated by history and this shared experience. It does not immediately follow that online network members look to each other for advice and support on a wide range on concerns, from product evaluations to life choices; that is, a declared

2 Linkedin is an online social network designed to help people make contacts (see http://www.linkedin.com/). Most people are aware of it, if only because of the solicitations that they receive from friends who are already members; actually, the solicitations come from friends’ computers, which may make them easier to ignore. Some people love LinkedIn because it enables them to work through people they know, and then through people that those people know, to reach almost anyone. Indeed, if you subscribe to the “six degrees of separation” theory, you believe that you can use LinkedIn to reach anyone in the US. On the other hand, while most people are aware of it, and some people love it, most professionals over about 30 distrust it and have refused to participate. The most frequent complaint is free-riding, receiving requests from people you don’t know, arranged through people you don’t know, requesting introductions that at best do nothing for you and at worst cause you to exploit friendships that do matter to you, with no idea of how your friends will view your intervention. It appears that even using established physical communities to create online and virtual social communities may still be quite difficult.

1 As befits a subject of this complexity, John Perry Barlow argues both sides of each of his positions (http://www.wired.com/wired/archive/1.02/streetcred.html?pg=17)

4 This effect was observed by observation while studying the move to screen-based trading in London and by experiment [4] [5].
friendship network in Facebook may not confer the same degree of trust that actual friendship and participation in social networks historically do offline. People who participate in these connections typically do not look to other participants as valued sources of objective information. This is critical since the business model for the acquisition of social networking websites assumes that advertising can be moved to these websites, based upon the presence of trust among members (viral marketing) or upon the transfer of trust from the online relationships to the owner and operator of the website itself (traditional advertising). In contrast, in the remainder of this paper we will suggest that advertising in these online venues will be unsuccessful, and that at best advertising will be little more than irrelevant to viewers and waste of advertisers’ money; at worst, advertising will be seen as an unwelcome intrusion, and as reducing the value of the social website to its participants.

Virtual social networks can allow participants a high degree of freedom to explore not only relationships that they would not explore in the real lives, but also to explore who and even what they want to be. Individuals can choose to be real, idealized, or ordinary (see figure 1).

![Figure 1. Three avatars, or virtual manifestations, of residents of Second Life, taken from Flickr.com](image)

Our focus in the rest of this paper will be on internet interactions and virtual communities, in multiple categories:

- Facebook and MySpace
- Linkedin
- YouTube
- Multi-user domains and massively multi-user domains such as the Second Life virtual reality site and gamer sites such as World of WarCraft

These have experienced tremendous commercial interest, including a rash of high-profile and high visibility acquisitions. They are often believed to be trusted communities, and are often seen as the next generation of marketing, which we will address below. Second Life can be used to hold meetings and other activities, which are intended ultimately to be able to replace actual meetings, or for activities that we hope would not have counterparts in our physical space.

3. MARKETING HAS CHANGED AND PUSH-BASED ADVERTISING IS DYING: 3.1. Loss of Trust in Advertising

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

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

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

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

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5 This section is based on recent and unpublished work by Professor Ariely at MIT’s Media Lab.
consumers’ trust, consumers’ trust will be weakened, additional advertisers will be tempted to make exaggerated claims in order to have an impact on consumers’ perceptions, and ultimately each advertiser will be forced to over-promise and to over-claim. This will effectively over-graze the commons of consumer trust, explaining the phenomena that Professor Ariely observes in his experiments.

### 3.2. Alternative Advertising

Advertisers who have come to realize that consumers reject their claims have developed alternatives to their traditional messages hyping their products:

- The ironical approach to advertising was popularized by Isuzu’s lying pitchman, Joe Isuzu. Nothing that Joe Isuzu said was true, and that, apparently, was part of the charm of Joe Isuzu’s message. It is still possible to see some of the early Isuzu commercials on YouTube, at http://www.youtube.com/watch?v=mwsp_NW5nlg.

- The warm and soft, almost content-free approach, that informs Microsoft’s two recent advertising campaigns, “Where do you want to go today” and “Your Potential, Our Passion.”

While Joe Isuzu is long gone, both the self-deprecating ironical style and the soft and emotive style of advertising continue. The power of either, in the presence of customer informedness, remains unproven.

### 3.3. Informedness

Consumers increasingly make their fine-tuned purchasing decisions based on their strong individual preferences, and consumers are now far better informed about their options than they were previously. Consumers know what is available, they know what it costs, and they know what they want [2] [3] [11].

- This increase in informedness has greatly reduced the prices that consumers will pay for commodities; if all flights to San Francisco or all copies of a Harry Potter novel as seen as interchangeable, then the competition discount that results from informedness drives prices down.

- Likewise, if consumers have a more complete understanding of what they want and of what is available to them in the marketplace, then they will pay less for products that do not precisely match their preferences, wants and needs, cravings and longings. Informedness increases the compromise discount.

- When consumers more fully understand what is available to them, they are more willing to pay premium prices for new products and services that do precisely match their preferences, and their wants and needs, cravings and longings, even if they are unfamiliar both with the new offerings and with their providers. The power of established brands and established providers is eroding, as informedness greatly reduces the uncertainty discount, which penalized new offerings.

Our data and our analyses support the fact that the increase in consumer informedness is real, that it significantly alters consumer behavior, and that its effects are complex and vary by category and vary with the nature of the consumer’s objectives.

- In categories where consumers seek to avoid bad experiences, it is the absence of negative ratings that correlate with sales

- When consumers seek delight and are willing to pay premium prices, it is the strength of the best reviews that predict sales.

Both effects suggest an increasing role for true awareness of the full range of choices, including prices and product attributes.

The available information indicates that informedness alters customers’ shopping behavior even for purchases that are made in traditional physical venues. The vast majority of consumers, estimated at 90%, perform some type of online comparison shopping and online price comparisons in particular before visiting a car dealer, even though virtually no car purchases are made fully online today. Likewise, our previous studies indicate that informedness alters beer purchases, although for reasons ranging from shipping costs to state regulations virtually no beer is actually bought or sold online.

The combination — purchases based on true informedness and the decreasing role of paid advertising — suggests that to a great extent organic informedness is replacing paid corporate promotions.

### 4. REACHING CONSUMERS THROUGH ADVERTISING IS SIGNIFICANTLY MORE DIFFICULT THAN IN THE PAST

There are now more media choices for the viewer. First there were three television channels, each a member of a national network. Next there were small independent stations, UHF, rather than VHF. Then CATV (community access television), provided by cable operators, provided still more choice. Now cable subscribers can have access to over 100 channels; the addition of premium channels brings the number of choices to close to 400, and then on demand capability adds hundreds more choices. Rarely does a significant portion of a potential market for a product view the same shows, tremendously diluting the impact of media for the delivery of advertising messages. It is widely observed that the TV audience is increasingly fragmented into large numbers of smaller special interest audiences. For example, the *Journal Star* notes, “The mass audience in the United States is splintering and dividing into ever more specialized and personalized niches.”

There are more alternatives to media broadcasts, such as iPods, DVDs, and video games, reducing the amount of time spent watching traditional television broadcasts. Indeed, a quick web search with Google identified over 1 million web pages that referenced declining television viewership, by decade, by market segment and age group, or by type of station or type of programming.

- According to our colleagues at Ogilvy & Mather, broadly speaking network TV viewers are down 15% over the last 2 years and this number grows to 22% for younger (14-22)
people. Cable TV is more tightly targeted than network TV and ads appeal to smaller numbers of viewers, but viewers who are supposedly more interested. And TV is declining in favor of various podcasts, games, and other sources of entertainment directly available on PDAs and computers.

- Some formats of broadcast television have suffered more than others. Broadcast national and local news, both networks and cable, have seen their viewership collapse; after the evening news destroyed the afternoon metropolitan newspapers throughout the United States, they have since largely been replaced by a shift to demand internet news. The State of the News Media 2006 (Annual Report on American Journalism) notes that although morning news also suffered, evening news viewership over all networks declines from approximately 52 million viewers in 1980 to approximately 27 million today. The Washington Post reports similar loss of television viewers to the internet. The last two years have been especially brutal, with networks news down from 38% to 30% and local viewership down from 64% to 56% in just the past two years.
- Newspapers continue to lose readers to websites as well. And for some age groups the loss has been even more dramatic. ...for the core video gamer demographic, 18-34 males, TV consumption has declined by roughly 12% while spending 20% more time playing games. And when people do watch TV, they TiVo through the ads, talk on the phone and/or surf the Internet ...

5. MIS-INTERPRETING IMPLICATIONS OF FAILED ADVERTISING

It is easy and comforting for advertisers and their agencies to believe that the failure of advertising is caused by technology (TiVo) or by media fragmentation rather than by consumers' loss of interest in current media choices. Likewise, it is easy and comforting to believe that the failure of advertising is caused by technology, media, and other alternatives rather than a growing distrust of all paid push-based communications. These mistakes result in simplistic search for alternative media as the easiest response to the belief that is current media that are failing them, not consumers' unwillingness to accept their message. Media giants, advertisers, and their agencies all do want to believe that the problem is that they are pitching their message via the wrong channels.

The belief that the problem is with the media and not with the message is driving advertisers and their agencies into a frenzied search for alternative media. This search for alternative means to deliver the same message does much to explain the very high and potentially absurd valuations on Facebook, MySpace, and YouTube:

- YouTube has no revenues and ever-increasing expenses as both the storage needed for its user-provided video increases with postings and the bandwidth required to serve its viewers increases with the number of users. YouTube has been hit with litigation and threats of litigation; indeed, some of the parodies of corporate advertisements were pulled from the website while this paper was in draft form. And yet this high-cost zero-revenue litigation-prone start up was recently acquired by Google for $1.6 billion, based on the expectation that as a social network website it would produce significant revenues going forward.
- MySpace was acquired by News Corp for $580 million, with a similar and similarly vague value proposition.

It is not clear to what extent revenues on these websites are expected to come from membership fees, corporate sponsorship of messages, traditional advertising, or other business models. News Corp’s press release about their purchase of MySpace emphasizes "... their commitment to expand its Internet presence by offering a deeper, richer online experience for its millions of users." Google’s oddly similar press release describing their rationale for buying YouTube discusses "...a successful brand and passionate community. The combined companies will focus on providing a better, more comprehensive experience to users ..." Neither provides much information about what is actually planned, what services will be provided, or who would pay for them or why.

The stated hope for both acquisitions is that advertising revenue will pay for and support for huge amounts of money that each site was purchased for. But how this will happen is deliberately left vague in both press release since neither News Corp nor Google really knows how this anticipated advertising revenue would play out. Since these online communities are not really social networks and since users do not go to those sites for advertising-based content about a range of products, the assumed huge advertising revenues may not materialize. The assumption for both acquisitions, that advertising revenue will follow, is shaky at best especially for the amounts paid for each site. The purchases have an all-too-familiar resemblance to the wild escapades of the dotcom era when fortunes were paid for sites with no revenue stream and no strategy for generating revenue on a regular and sustained basis.

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10 http://www.usatoday.com/money/media/2006-05-08-newspaper-circulation_x.htm
12 Not surprisingly, Viacom and others have indeed recently sued Google for copyright infringement by YouTube; for example, see the article in the New York Times, http://www.nytimes.com/2007/03/14/business/14viacom.web.html
13 Our viewpoint here is not universally shared. The age groups that frequent Facebook, MySpace, and YouTube frequently "buy stuff online", but that they cannot shop online at these three websites. As USA Today notes, “And that means that there may be billions of dollars being left on the table by the major social networking websites, according to an eye-opening survey to be released today by the American Marketing Association.” Of
There are indeed some greatly entertaining and powerfully engaging corporate-funded messages on YouTube:

- **Dove soap’s self-esteem campaign:**
  http://youtube.com/watch?v=rJ9IPZLPGr4

The sales impact, and indeed the takeaways from these messages remain unclear.

Dove, through research at OgilvyOne, learned that many women do not, and cannot, aspire to the anorexic images of supermodels with airbrushed skin and perfectly symmetrical features, and learned that these women feel that products advertised using those supermodels do not speak to them. By using women with more average figures and facial features in their advertisements, Dove hopes to capture those segments of the market that does not respond to idealized models. The campaign on TV and in print media has been successful but it is uncertain whether the YouTube extension will add to that success. YouTube is not seen by typical users as a place to go to look for presentational advertising messages, and most of the intended Dove audience will in all likelihood not even see the Dove message on YouTube, much less respond to it.

The Dove campaign on YouTube, if indeed it is a campaign and not a spontaneous posting, cannot be taken as future examples of how advertising will work in social networking websites for at least 3 reasons

- It does not directly sell nor provide any way to assess whether they contribute to sales
- If many brands chose to clutter these sites with videos, users will avoid them much as they avoid pop-ups now as intrusive, annoying, and unnecessary
- Like “guerilla marketing,” this kind of supposedly entertaining video will have a relatively short life before its intended viewers will move on to the next new thing, and this move will almost certainly be hastened by clumsy attempts at commercialization

Although they are amusing enough for repeated viewing, the Dove posting may not serve as a long-term model for how these websites will generate ongoing revenue for their purchasers.

### 6. QUESTIONABLE VALUE OF SOCIAL NETWORKING WEBSITES

The central issue in generating revenue from social networking websites comes down to the extent to which they can be understood as actual networks, akin to older — face-to-face — networks. Actual networks create trust and credibility, precisely those traits being lost by push advertising. These do not appear to be the attributes that draw users to MySpace, Facebook, or YouTube, and even if these are the attributes promised by LinkedIn, LinkedIn does not appear to be able to deliver on this promise. An informal survey of college students indicates that Facebook, for example, is not seen as trustworthy, largely because anyone can be added to a list of “friends” or can choose to add himself or herself to the list. Students are very wary nowadays of the outside intrusion of unwanted people and perspectives when they are online and are careful not to put themselves in adverse or potentially dangerous positions. A virtual community does not substitute for an actual community and someone known only online is not a “real” friend. While signage for Budweiser on Second Life happens, it does not lead users to say, “Bud is best” or “I want a Bud.” Worse, such signage can be seen as unwelcome, the penetration of the bad aspects of the real world into the virtual world. Users in these sites want a sense of control, of active participation, and advertising can only limit that positive vibe. Direct product advertising aside, even recommendations from virtual “friends” are not trusted as they are easily seen as setups and these virtual friends do not have a history of trustworthiness that is basic to valuing a product suggestion. Understanding the relationship between real and virtual connections is basic; it is premature to assume that the real and virtual social relationships are similar, and premature to assume even if they are similar that virtual relationships can readily be commercialized without affecting the value of the relationships or the attractiveness of the online social network. It seems that the purchase of social networking websites has neglected developing this understanding or using this understanding for the development of business models or accurate valuations; rather, the acquisitions appear to be a second wave of dotcom hubris.

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

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

We understand that some virtual friends do become real friends, complicating this analysis. Gamers, in particular, appear to form close relationships that can be transferred into the live relationships.

We believe the following three propositions to be true, but need to follow up and verify them:

- **MySpace does not appear to be a trusted community on college campuses; this needs to be explored further.**
7. SOME WEBSITES MAY HAVE VALUE

7.1. Selling Something

If I’m selling me or my group’s music on Facebook or MySpace I may be willing to pay for sales that result or to pay for hits. Although the descriptive and narrative content on many Facebook and MySpace websites seems fatuous at best, artistic content (music and art available for download) really does speak for itself, without much possibility of hype. The music either does or does not sound good, and the potential buyer either does or does not like the samples he hears. Sampling artistic content before purchase does contribute to informedness and this sort of content may produce revenue for the website operator.

7.2. Selling Information About Things:

Peerage and Purchase, People to People, Things to Things

If consumers trust a website enough to request product referrals then the requests contain information that can be valuable to producers and retailers. If consumers request referrals that cannot be satisfied, because the products or services do not yet currently exist, this can potentially be even more valuable. The aggregate information of which consumer segments want to buy goods and services, with which attributes, and in what combinations, whether or not these products or service are currently available, could have real value.

People associate with other people, sometimes considered friends, but more often called peers. But people are associated with objects and objects are associated with each other, allowing us to write about the social life of objects [1]. A new understanding of the various peerage systems may emerge from analysis of users’ website profiles on MySpace and Facebook and of their purchasing behavior or of their requests for product and service referrals:

- People to people peering — the new market segmentation
- People to stuff peering — new product positioning strategies
- Stuff to stuff peering — as yet unexplored, unexploited, and poorly understood. We always knew that port went with Stilton, that ham went with eggs, and that gobi paratha went with hot lime pickle. We may learn that a fine blue blazer now goes with tattered blue jeans rather than khakis, or that a new iPod is the new male jewelry, replacing an expensive wristwatch. We don’t yet know how companies would use this information, how the websites would obtain it, or how the websites would charge companies for it.
- In a virtual world we can all look exactly as we wish. At present, male avatars in Second Life appear to be hunky, and female avatars appear small-waisted and busty. Will this change? Will avatars begin to look like people, rather than idealized people? Will changes in avatar style provide leading indicators for changes in meatspace style? Or are the two worlds so different that our virtual preferences will not provide indicators of our real world preferences? Might I explore things anonymously in a virtual world that would never interest me in my real life? Or might I explore things in a virtual world that truly interest me, and eventually gain the confidence to exhibit them in my first life?

7.3. But What are We Learning that We Transfer To Our Physical Meatspace?

It may indeed be possible to find activities for which Second Life is appropriate. Organizations are experimenting with holding meetings in virtual space. Such meetings give you a chance to observe who is “raising his or her hand” and who is interacting. It is probably far easier to fake interest, or even fake attendance, in Second Life than at a meatspace meeting or in video teleconferencing, and we suspect that Second Life offers a poor substitute for video teleconferencing rather than a good substitute for travel. Still, there was considerable interest in Second Life at the most recent sessions of the World Economic Forum in Davos. Virtual world Second Life is a hot topic at the World Economic Forum this year, according to The Independent. Indeed, even the forum’s founder and chairman, Klaus Schwab, has his own avatar, or virtual identity, and Reuters is conducting interviews with major players at Davos at its virtual bureau in the Second Life realm. This is likely to increase the number of big companies that have a presence in the alternate computer world, owned by Linden Labs. Picking up the climate-change theme at this year’s gathering, Linden’s chairman, Mitch Kapor, told the newspaper that Second Life could help reduce carbon emissions if big business conducted meetings in the virtual realm rather than jetting around the world for face-time14, assuming of course that such virtual meetings are effective substitutes for travel, or for the more closely related video teleconferencing.

Non-business uses of Second Life may be even more difficult to commercialize, especially as sources of information that can be used by physical product companies. The first thought is that we can learn what to market by obtaining unique insights into what people would choose to be, freed from the constraints imposed by accidents of birth or by the laws of physics. Tracking avatar design teaches us surprisingly little so far. Initial “default” avatars are overwhelmingly uninteresting. With considerable investment of time (in avatar design and construction), or money (for direct avatar purchase) individuals can select their Second Life appearance. In theory their selected appearance should be quite instructive.

It is not immediately clear what we are learning that is new, or that can be transferred to our physical meatspace. It is clear that most people, at present, choose to design avatars that are very close to, or even move beyond, stereotypical images of male and female ideal forms (see figure 2). This does not teach us anything that we can directly use in product design or marketing. Likewise, it is possible to adopt avatars that have no direct analog and indeed can have no direct analog in our physical world (see figure 3). These, too, are difficult to transfer to our physical world. Even the status symbols of our physical space, such as hot tubs and yachts (not shown here), seem to port to Second Life, even if it is not clear that they actually be enjoyed in a virtual space, and even if it is clear that they offer neither exclusivity nor status in this virtual environment. In brief, it is not yet clear what we can learn from observations of this virtual world.

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

Figure 2. More residents of Second Life, taken from Flickr. But what, exactly have we learned about how people want to look that we did not already know?

Figure 3. More residents of Second Life, taken from Flickr. But again, what have we learned about how people want to look that we can actually use?

7.4. Performing — The American Addiction

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

8. PUTTING SOCIAL IMPACT INTO ONLINE SOCIAL NETWORKS: THE FINANCIAL VALUE OF TRULY RESONANT ONLINE NETWORKS

Some websites may indeed produce sufficient resonance to create strong virtual communities, and these strong virtual communities may have significant monetary value. Two New York entrepreneurs, Paul Lambert and Jonas Nielson, are bringing The First Wives Club — The Musical to Broadway. Based on the best-selling novel and successful movie, the concept of First Wives appears to have real power and resonance with women for whom a recent divorce remains a salient life event. Related to the musical, the entrepreneurs are also developing a powerful tie-in with a social network website, http://www.firstwivesworld.com/. Since the importance of the divorce event bonds these women, they may indeed turn to the website to explore emotions and experiences that they are unwilling or unable to explore with their existing social networks, their family and friends. The intent of firstwivesworld.com is “girlfriends helping girlfriends” and “out of the pain, growth and hope.” The power of the online experience and of online friendships may give this website much of the character of a true community, and the developers expect that friends will post content, and recommend products and services that they have found especially valuable, review retailers and service providers who provide extraordinary service (either good or bad).

The developers believe that some women will become more than casual visitors, but will become virtual citizens of FirstWivesWorld, much as others are becoming virtual citizens of Second Life. Indeed, Paul and Jonas argue that any successful social network or virtual community website must create bonding by being both personal and participatory. The stories and content must relate to them; indeed, the stories and the content must, to some extent, be theirs. If Kraft (maker of well-known brands like Cracker Barrel Cheddar, Philadelphia Cream Cheese, Kool-Aid and Tang) can get viewers to its post to its community website then the power of personal stories and participation can certainly

15 See http://kraft.liveworld.com/thread.jspa?threadID=1700000607&tstart=5&mod=1175103128112 for an example of the sort of interactive exchange that Kraft has been able to stimulate.
draw women to a website where they can post content about painful experiences and learn from others how best to cope with them.

Steady viewers of and participants in First Wives World will come to trust the website. These women probably will explore product recommendations among each other, and probably will value impartial product evaluations and certifications from the website itself as well as those from other virtual citizens in their virtual social network. Corporations will not be permitted to advertise on First Wives World, but trusted partners will be permitted to purchase corporate sponsorships.

And, of course, multi-user virtual reality websites like Second Life or gaming websites may themselves produce significant revenue in a number of ways:

- The websites can charge for software, or monthly fees for participation, or fees for time in country; gaming websites in particular charges fees of this kind
- The website can charge fees for homesteading (that is, for property rights to prime virtual locations), for virtual world equipment upgrades, or for other work performed for the in country character or his or her virtual possessions. In Second Life these can be purchased with LindenDollars, which can be exchanges for real (US) dollars. Indeed, developers and speculators are actually profiting; profits are small but growing:
- As noted in section 7.2, it is not clear that much of the behavior observed in virtual worlds will support inferences about commercial opportunities in the physical world. It is questionable if we can learn enough from observing consumption behavior in the virtual community to make inferences about the same consumers’ purchases in the physical world; indeed, I’m not sure that it would mean anything to see an avatar reject a Budweiser in favor of good Belgian Trappist Abby Ale like a Westmalle Tripel or a Westvleteren 12, or to decide that an ale like that called out for a smoked Gouda or a Roquefort.

As intriguing as the Second Life phenomenon is to researchers and to journalists, it is all-too-easy to over-state its importance and its potential. Second Life was recently featured on Good Morning America, in which claims were made that virtual reality experiences will become as big and as important as email; we feel that this is most unlikely. Email is a way of performing asynchronous communications asynchronously, either because the various parties cannot locate each other in real time, because real time response is not required, or because lengthy documents must be transferred more quickly than by physical document delivery. Email is more reliable and more convenient than voice messaging, and allows for more complex messages and attachments than voice messaging. Ultimately, with better integration of voice with traditional document files, email may yet be replaced by a hybrid that looks as much like phone messaging as it does like email; the inclusion of avatars adds little to real communications, and it is at least possible that Second Life may be much more like 1970s CB radio, a short-lived and temporarily fashionable pseudo-hip diversion, than a real mode of communication.

9. MAJOR SOURCE OF UNCERTAINTY

We have several sets of questions:

- Can any social networking website attempt to commercialize trust without destroying that trust? Can websites charge for advertising, or receive payments for positive recommendations, without destroying the trust of its users and becoming seen as just another source of paid messages rather than of real conversations of and two-way communications between customers and firms? In brief, can trust be monetized, or does the mere attempt to get paid for trust destroy it?
- Can any social networking website attempt to steer traffic without destroying trust? Can it attempt to control interactions to commercialize them without destroying trust?
- Do social networking websites actually move business? Do they deserve to be paid, quite separate from whether or not any mechanism exists to monetize trust?

Questions in the first set remain unanswered and they pose the biggest challenge to commercializing and monetizing News Corp’s investment in MySpace, and, for that matter, the most interesting strategic questions facing First Wives World. Questions in the second set are closely related; that is, if websites can create business just by steering users, and if users will tolerate content that attempts to steer them, then MySpace, Facebook, and Flickr may have huge untapped value. It is plausible, but uncertain, that in many instances users would abandon websites that were populated by pseudo-users who were little more than paid corporate shills.

Finally, it is useful to assess whether websites can move traffic, since it is indeed possible that any website that has traffic may find a way to turn that traffic into billable routing of traffic with more a more overtly commercial missions. That is, any website with significant numbers of eyeballs may find a way to convert those eyeballs into billable click-throughs. At present, estimates are that as much as 10% of the traffic to the wide variety of music websites in the UK come via MySpace. While this is indeed impressive, several questions remain and are not answered in the web posting16:

- How many of these click-throughs ultimately represent sales?
- How many of these click-throughs are incremental? That is, how many are the result of music recommendations from virtual online friends, and how many of the resulting hits on music sites would have resulted even without the Facebook visit?
- How stable is this pattern? That is, are these click-throughs the result of a recommendation (“I want to see that site because it was recommended to me by a friend”) and how many result solely from the fact that the viewer has been introduced to a new site by the online friend? The pattern of click-throughs resulting from recommendations for new music may be stable and may even increase over time. In contrast, the pattern of click-

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throughs resulting from the introduction to a new site may decrease over time as viewers become more familiar with the websites available, develop their own viewing habits, and set their own bookmarks.

Data suggest that the patterns of traffic and the sources of clicks are indeed not stable over time. Even today, search engines and direct search already quickly replace website referrals for each group, and time span during which referrals truly contribute the sales for a group will be limited. We remain uncertain about the following:

- Can this traffic be hijacked, by Murdock or others?
- Will it be trusted if it is hijacked, or even harnessed? That is, can this traffic be monetized?
- How much of the initial word of mouth really does come from uncontrollable websites like blogs, and how will the percentages shown above change in the next two to three years?

10. CONCLUSIONS
10.1. Forces at Work

We believe that Resonance marketing allows every consumer to decide what he wants, based on true informedness rather than settling for a compromise product that has been hyped by advertising.

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

- Consumers use the net to see what they want and do what they want, when they want it. The net will not support entrapment, and consumers who are escaping ads through TiVo are unlikely to become attracted to full time advertisement programming
- The modern consumer views the net as transparent, and community postings and the recommendations of friends will outweigh paid placements, and paid reviews. Placements of products in movies or in video games are likely to be ignored; the presence of advertisements directly into movies or video games will be resented. Virtual reality websites simply are not ideal for encouraging online consumption or for encouraging consumption in physical space:
  - It’s meaningless to drink a beer online, and pointless to attempt to influence my selection of a beer by drinking one online with me. I can’t taste anything online, and I know that you can’t either.
  - It’s impossible to convince me to fly your airline by allowing me to fly it in a virtual world; why would I waste time in a virtual world when I can move instantly?
  - You can probably get me to listen to music in a virtual reality setting, and I might even buy it afterwards; if you get me to view a movie online in virtual reality, I probably no longer need to buy it or to see it again.

10.2. Predictions

Some phenomena are too complex to predict right now. If a truly stunning avatar were to be seen carrying a great new product, or wearing a bold new style, that might indeed influence styles in the meatspace world.

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

11. REFERENCES