Monetizing the Internet:
Surely There Must be Something other than Advertising

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Abstract
Almost all attempts to monetize internet applications targeted at individuals to date have focused on natural extensions of traditional media or traditional retailing. Most are either some form of consumer-focused advertising or of consumer-focused eCommerce. And yet the net is far more powerful and liberating than traditional media on the one hand, and far more liberating and thus inappropriate as an alternative to traditional media on the other; use of the net as an advertising medium not only does not play to its strengths, but actually works in an area where the net is surprisingly inappropriate. We explore eight other areas profitable business models that can be implemented online, and explore experience with them. We conclude with strategic recommendations for corporations as well as with suggestions for further research.

1. Introduction
In this paper we argue that the fundamental revenue models for most firms that are attempting to profit from online businesses are out-of-date and indeed most are seriously flawed. Surely it is possible to sell on the internet: Many firms, like Amazon, Computer Discount Warehouse (CDW.com), or The Golf Warehouse (TGW.com), have figured out how to sell more-or-less commoditized products at the best possible price, through logistical efficiencies, scale, and fast inventory turns. Other firms, like Hotels.com or Orbitz, are able to deliver travel services at the lowest possible price, by aggregating supply across numerous service providers and finding the lowest available price for any night, or any route. A few firms, like Apple’s iTunes, have found a way to transform the delivery of content, or information goods, for a fair price rather than through piracy. Most service firms have figured out how to use the net to allow customers to provide many support functions for themselves, whether for making balance inquiries, resolving service disputes, getting answers to frequently asked questions, or making payments. But beyond these obvious applications of the internet it is hard to find an online application that is both innovative and value-adding. Posting stolen copyrighted content, and then earning a profit by surrounding it with advertisements is hardly value-creating; at best it represents a value transfer from the owner of the copyright to the website that earns revenues from its ads and at worst it is value-destroying, much like the damage caused when a petty thief breaks a car window to steal the car’s stereo.

A surprising number of internet applications today involve providing access to content without charge, subsidized by the collocation of advertising with the content. Sometimes this is the provision of the site’s own content, as when The New York Times or The Wall Street Journal provides online access to the day’s stories, without charge, on sites with a range of advertisements, some targeted, some not. Sometimes this is the provision of what other might consider hijacked content, on YouTube or peer-to-peer music file sharing systems.

Computer scientist, virtual reality pioneer, and internet technologist Jaron Lanier has bemoaned this one-dimension use of the net, and the associated under-rewarding of the creative process, in a recent New York Times op-ed column [27].

2. Limitations of Traditional Advertising
2.1. Consumers’ Loss of Trust in Sponsored and Commercial Messages
Perhaps the greatest problem facing traditional advertising is the loss of credibility experienced by most commercial messages. Consumers no longer trust messages that they believe come from sources with a vested interest in consumers’ accepting them. Most strikingly, individuals no longer accept as true statements coming from sources that they feel may have had vested interests or may have misrepresented facts to them in the past, even if their current statements should appear entirely neutral and unbiased now. Perhaps the best authority on this at present is the work of experimental economist Dan Ariely, who has explored consumers’ acceptance of the same statements when the claimed source of the statement is varied [4].

The percentage of statements accepted drops significantly if we are told that the source of these
statements is a corporation, even a corporation that enjoys high public trust. We simply do not believe those who have, in the past, exaggerated the claims they presented to us, even if we have no reason to fear that they may gain from misrepresentation now. Professor Ariely attributes this loss of trust to a cycle of ever-increasing claims, discounted by consumers, leading in a self-reinforcing manner to even more inflated claims. Ariely relates this to Garret Hardin’s Tragedy of the Commons [23], where the abuse of public grazing land by one farmer reduces the yield available to the other farmers.

2.2. Loss of viewers

The viewership for traditional mass media has been eroding for decades. Afternoon newspapers in most metropolitan markets have been crushed by network and local television news; these programs were in turn replaced by cable news broadcasts, which in turn have lost most of their viewership to internet news sources. Likewise, alternative activities, from iPod to individual video games, and from online socializing to massively multiplayer online games (MMOs) and virtual experiences have cut further into television viewership. Even when viewers do watch traditional media, practices that enable them to skip commercials, such as recording and fast forwarding over commercials, or channel surfing and finding channels without commercials at that time, have become prevalent. Other media, like traditional print newspapers are becoming endangered; most afternoon papers have already failed, and big city dailies from Philadelphia to St. Louis and Los Angeles appear financially threatened.

This loss of network viewership and newspaper readership is not a temporary phenomenon, nor a problem with individual media companies, but represents a fundamental change in the economics of entertainment. In brief, entertainment has become a contestable market, and the business strategies of media giants have become vulnerable due to the contestability of their market [9, 10, 11]. One of the principal characteristics of contestable markets is the presence of cross subsidies, where the charge for some activities is too high, and the excess revenues from over-charging are used to subsidize other activities, where rates are too low.

Broadcast mass media no longer represents a monopoly provider of passive entertainment: consumers can switch to premium channels, can watch DVDs, listen to iPods, surf the net, play online games, or even surf to channels that are not running ads at precisely the same time. Television ads shoehorned into free mass-market broadcast entertainment will therefore no longer enjoy the viewership that they had enjoyed in the past.

In brief, consumers no longer trust most ads, and consumers no longer are captive viewers of broadcast commercial messages. Broadcast messages are losing their impact.

3. Explosion of Internet Advertising

The promise of internet advertising focused on two benefits that were going to be delivered to advertisers. Internet advertising promised to make advertising more efficient by providing explicit guidance on what worked and what did not, by reducing wasted advertising expenditures and by providing much better information on the results of advertising campaigns:

- First, waste would be reduced by targeting individual products to individual customers, with highly tailored messages.
- Next, waste would be reduced by targeting advertising messages and promotional pricing to consumers at exactly the right time; that is, consumers who were actively engaged in searching for the product or service at the time that the ad or promotion was presented. Promotional content would be viewed when it had the greatest impact, when the consumer was most interested in the product and most receptive to information about it.
- Finally, advertisers would know the impact of their advertising and their promotional expenditures. Advertisers would be able to rely on measurable performance, and pay per impression, pay per click, or pay per sale advertising pricing models.

For an early enthusiastic review of the promise of internet advertising, see [37].

The growth rate, both of internet advertising, and of the share price or acquisition price of companies believed to have the prospect of internet advertising has been staggering.

4. The Backlash Against Internet Advertising

Objections to internet advertising are becoming more clear, and they are not very different from the well-known objections to more traditional advertising.

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The problems faced by users are the same, whatever the media:

- **Spam is spam**, whatever its form. Just as we have learned to ignore commercials and channel surf whenever we see an unhappy caveman or a cheerful gecko selling insurance on broadcast television, we have learned to resent and to ignore a pre-recorded telemarketing offer during dinner, an offer to engage in a business deal with the orphan son of the former Defense Minister of Nigeria, or a misdirecting URL in response to a Google search. Spam — unsolicited, poorly targeted, and irrelevant online communication — is losing its impact. The problems with advertising simply port over to problems with internet and Second Life advertising when advertising is transferred to a new medium.

- Likewise, **fraud is fraud** whatever its form. The principal forms of online fraud involve misdirection on search (attempting to exploit the consumer) or click fraud and overstatement of impressions and click-throughs (attempting to exploit the advertiser).

- **Invasion of privacy** is abusive, regardless of who is doing it. Even a favorite (and until recently) counter-culture website like Facebook can be guilty of invasion of privacy, and can provoke an immediate and furious backlash from consumers who feel that private information is being disclosed in ways that can injure or embarrass them. A search for online postings with the three words “Facebook”, “Beacon”, and “Arrogance” returns 45,500 hits.

- The visibility of consumers’ objections is becoming clear:
  - This has already led to a general backlash against banners and pop-ups, of course, against email spam, of course, and against Beacon. We believe that this will also begin to show up as consumer resistance to or resentment of mobile cellphone-based advertising, and even potentially against anything that can be viewed as related to spam.
  - Resentment of Google misdirection is on the rise. Google’s sponsored search, sponsored website piggybacking, and misdirection of consumers’ search to the firms that have been the highest bidders for keywords and trademarks is increasingly seen as inferior search. [34]. Hotels.com was the subject of investigations by the attorney general’s offices of numerous states.
  - Consumers, privacy advocates, social network website users’, and large advertisers all seem to have made their objections to Facebook quite clear.
  - This does not mean that consumers do not need, or do not value, information. Indeed, a large body of research suggests that consumers are better informed than ever before, and that they are using this information in a variety of ways:
  - We have shown that consumers frequently engage in **trading out**, finding the products that best match their individual wants and needs, cravings and longings. In particular, we studied the craft brewing industry.
  - While the relationship is not necessarily causal, we have found that this behavior emerged at the time of widespread internet usage, and that online reviews can be a powerful predictor of consumer behavior. Consumers willing to pay a premium price, and seeking delight and perfect fit with their preferences, behave as if their purchasing decisions are influenced by the most positive reviews online [12, 15]. In contrast, consumers seeking to avoid disappointment when shopping for online hotel bargains behave as if their decisions are influenced by the presence or absence of the most negative online hotel reviews [16]. Finally, consumers seeking a social experience, in a category where price is uniform and not a basis for decision, behave as if the means of other customers reviews are the best predictor [18]. While this does not prove that customers are informed by consumer-generated online content, they certainly behave as if they are.
  - Consumers are better informed than ever before, and they use their information even when shopping for traditional goods in traditional settings.

5. **Successful Online Businesses Not Based on Advertising Revenue**

And yet surely there must be something other than advertising that can be used to generate online revenues. There must be other ways for businesses to

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7 automotiveigitalmarketing.com/profiles/blog/show?id=1970539:BlogPost:24873
monetize the internet. The automobile was not just a non-organic horse and carriage, television was not just a way of staging plays for larger audiences or arranging larger town hall meetings, the personal computer was not just a less expensive mainframe, and the internet is not just paperless newspapers, or an alternative form of mass media.

Since they are well understood we will not address online retailing or eCommerce in this paper.

We suggest that the following eight activities represent reasonable alternatives to traditional mass media advertising as future online revenue sources and as increasingly important strategies for monetizing internet applications.

- Consolidating demand over large geographical areas for items with only limited sales volume, that is, selling items out in the thin end of the long tail
- Charging for participation in an virtual electronic social network or group, or for access to content that has been made available online
- Selling insights and observations gained by watching people in online social networks or other online settings
- Harnessing real social content, either by using user-generated content and reviews to add value to a retailing website, or by using social networking content to improve search results
- Monetizing viral marketing and paying for endorsements or directly falsifying social content
- Selling deliberate misdirection, which is not the same as advertising
- Harnessing advertising by snooping, which is not quite the same as using social content to sell products, and is far more invasive than traditional targeted marketing
- Harnessing mobile social networks and mobile computing, which at the moment seems well on its way to becoming just another form of spam, although spam aimed at different devices

6. Selling Long Tail Items

Most striking has been the dramatic impact of the internet on the sale of long tail [2] items, things for which the demand is too small, and too fragmented, to justify a physically based retailer with inventory on hand. While the “geographic catchment area” of any physical store may be too small to justify stocking these items, the national footprint of an online store may be large enough to generate sufficient demand, and thus to make online selling of these products both possible and profitable. This is not “trading up”, many of these products are not luxuries [33]. This is “trading out”, or moving away from the mass-market to smaller, finely tuned sweet spots that form the basis of resonance marketing strategies [12, 15]. The variety of categories affected appears limitless. AsiaMex (asiamex.com) offers 51 different hot sauces and 27 different soy sauces; shizukokatea.com offers 73 varieties of green tea; and Penzeys (penzeys.com) offers 4 different kinds of paprika, 12 different forms of peppercorns, and 13 different kinds of hot chili peppers. Barbecue-wood.com has the largest variety of flavored woods for barbecue smoke, with 97 offerings under wood chunks and 92 offerings under wood chips. Surely the choice of pecan wood or peach wood for smoking instead of oak or mesquite is one of personal taste; one is not better than the other in any absolute sense, although the demand for oak and for mesquite are much higher for most other woods. Likewise, the demand for chipotle (with a heat rating of 5,000 to 10,000 Scoville Heat Units8) is much higher than the demand for piquins (at about 55,000 Scovilles) or habaneros (at about 350,000); the demand for the more extreme products is much less, making them much harder to find, but that does not imply that one pepper is better than another in any absolute sense.

7. Pay to Play: Charging for Access

Charging for participation in a virtual electronic social network or group, or for access to content that has been made available online, will increasingly become a revenue source, even though it is difficult at present. Currently, only a few websites have succeeded in capturing enough loyal interest to induce a significant number of users to pay for access. The most visible and the most successful are massively multiplayer online games (MMO games) or massively multi-participant online virtual world electronic social networks (MMO virtual worlds), where a large number of users pay for gaming software, monthly access, or both. Second Life (secondlife.com) and Blizzard / World of Warcraft (worldofwarcraft.com) are the two best-known examples. Statistics on Second Life can be found on their website at their website secondlife.com/whatis/economy_stats.php. MMO websites have indeed found a way to charge for participation, either for the initial software, the monthly access, or both. Revenues from the online gaming segment of social networking9 are growing.

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8 See [http://www.chilliworld.com/FactFile/Scoville_Scale.asp](http://www.chilliworld.com/FactFile/Scoville_Scale.asp) for more information on the Scoville scale and for heat ratings.

9 [businessweek.com/innovate/content/aug2007/id20070813_120384.htm](http://businessweek.com/innovate/content/aug2007/id20070813_120384.htm)
quickly, now exceed those of Hollywood\textsuperscript{10} and are half those of cable television\textsuperscript{11}, so the prospects for usage fees from successful social networking websites would appear to be considerable. Additionally, users will often buy virtual accessories or additional capabilities for their icons, paying for ‘professional’ quality, rather than taking the time to create their own accessories in-game. This includes paying for avatar design, paying for avatar clothing and accessories and pets (sldogs.com), and paying for capabilities, such as dance synchronization in Second Life\textsuperscript{12}. The online economies have indeed become economically significant\textsuperscript{7} \textsuperscript{13}.

Although it is strongly discouraged, and has a certain social stigma attached to it, it is even possible to buy an experienced character for world of WarCraft, one with a high competitive level and with a portfolio of power-granting accessories, with prices ranging from an average of $400 to upwards of $10,000 for top end characters\textsuperscript{14}. While it is not yet fully understood, there is an emerging market that involves paying real money for virtual goods and services\textsuperscript{22}. Indeed, certain economists have suggested that the current global trade of virtual items for real money could already exceed $2 billion worldwide\textsuperscript{15}.

We expect that just as participants pay to attend seminars and executive education programs, or pay annual membership fees to join professional and academic associations or users groups, there will be an emerging market for online content and online users groups. However, to date there has been enormous resistance to charging for content and it has enjoyed only limited success\textsuperscript{16}. Both The New York Times and The Wall Street Journal have recently dropped fees for viewing their content online. Indeed, as long as almost everything is available without charge, and subsidized through advertising, charging for content will remain extremely difficult.

\textsuperscript{10} breitbart.com/article.php?id=960309211938\&c3imi38&show_article=1
\textsuperscript{11} industry.tekrati.com/research/9602/
\textsuperscript{12} http://www.slexchange.com/modules.php?name=Marketplace&CategoryID=44&page=1
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\textsuperscript{16} news.cnet.com/8301-10784_3-9816100-7.html

8. Selling Insights from Online Observations

We can observe the behavior of individuals in online social networks, which may be far easier to observe than social networks in our real world. We can observe, record, and analyze their behavior in a range of networks, whether electronically enhanced existing networks (like email mailing lists, or IM buddy lists), entirely virtual alternative reality social networks (like Second Life or World of Warcraft), or something in between (like Facebook or MySpace). If these patterns are interesting, or useful leading indicators of future trends in consumer behavior, then presumably they can be used to guide the development of new products and services, and to guide targeting promotions and information about these new offerings.

What can we learn by watching the behavior of groups in electronic social networks? Can we gain insights that can help with new product development, or with marketing and merchandizing? We can observe individuals in online social networks, electronic social networks, and online communities, to see what people do, what they say, what they buy, what they recommend, and what they seem to think confers status on themselves and others. We can observe electronically-enhanced social networks, like Facebook or MySpace. We can observe electronic sharing networks YouTube or Flickr. Or we can observe fully virtual electronic social networks, where reality imposes only minimal constraints, like World of Warcraft, Second Life, or other MMO experiences. When people are free to do whatever they want, or to combine items however they want, we can learn about the implicit social lives of objects [3] as well as of individuals.

Getting value that can be transferred to corporations in the physical world through observation of online behavioral patterns in MMOs is harder than it seems. Trained ethnographic observation is required even to detect interesting patterns in our physical world, so the observations below are suspect because they are those of faculty and graduate students with no formal ethnographic training. In MMOs, the appearance of your body and of your home requires an investment of time and effort, or requires paying an avatar and a home developer, so appearance tells us what is valued. Likewise, any activity is possible, and most participants can choose to do anything they wish (since virtual sailboats are cheaper than real yachts, and virtual sky diving is safer than the real thing). One might expect striking patterns to emerge, but
most of what we have observed is trivially self-evident:

- Perfect bodies for both men and women are desirable.
- Large, well-lit spacious homes are desirable.
- Bars and dance clubs, sailing, sun bathing, sky diving, even weight lifting, are practiced in Second Life, though this must be for no other reason than these are popular in our first lives.
- And, yes, it is easier for a woman avatar to get picked up in a salsa bar than a lonely male avatar, no doubt because there are so many more men than women in Second Life. The fact that there are more men than women, but more female avatars than men, suggests that there numerous men playing CGCs (Cross Gender Characters).

While significant behavioral innovations are visible, much of the innovation does not readily transfer to the real world. For example, animal ears and ornamental wings are popular; women tend to prefer white wings, and while wings are rare on men, black wings seem to have a slight edge in our limited observations.

Part of the problem with using MMO experiences to drive product development is that it remains difficult to experience a new product through an online sample or test. How do you “test drive” a new car, to sense the ergonomics of the controls, the comfort of the seat, the way it handles at high speed, or the feedback you get from the tires just before a controlled power slide turns into a dangerous skid? How can companies let consumers “test drink” a new beverage, whether the failed “new Coke” or the more successful Coke Zero? It’s hard to share multiple offerings of most consumer packaged goods products with potential customers, especially products that are very similar, with consumers so that they can judge them with accuracy and precision, do that the firm can determine which gets a more favorable response. In most categories it remains impossible to offer alternatives to consumers online to assess their response, and despite the marvelous work of visionary science fiction authors [21, 35] it will remain difficult to do so for the foreseeable future.

And yet, opportunities do exist and it is inappropriate to suggest that nothing can be learned by observing extreme behavior. The average woman could never wear the extreme clothing displayed on an haute couture Parisian fashion show and the average teenager could never use the extreme sporting goods of a professional skateboarder or cyclocross rider. Test viewing the former online might be quite informative in developing an understanding of future styles; testing viewing the latter might be no more informative than pharmaceutical testing performed on avatars. We have found the following to be useful:

- Monitoring emerging segments of YouTube viewership, in order to detect currently underserved segments.
- Monitoring traffic in MySpace or Facebook to detect emerging artists.
- Performing high tech focus groups, and thereby gaining easy access to specific groups of consumers who can be found in Second Life.
- Predicting emerging problems with the large, bored, single, male population in China by observing their online behaviors [22].

Note that this is about monitoring and observing, not about manipulating, sock puppeting your own offerings, or paying for viral marketing campaigns.

9. Harnessing Social Content

There is considerable value that can be obtained by harnessing social content, either by linking user-generated content and reviews to add value to a retailing website, or by using social networking content to improve search results. Obtaining value from user-generated online reviews is a direct consequence of the relationship between resonance marketing and consumer informedness [12, 15, 17, 30, 32]. This is not about tailoring web-based commercial messages one customer relationship at a time [1], about active personalization [28] or about active viral marketing campaigns [24, 25, 36]; rather, this is about retailers making it easier for consumers to determine what they want, and to determine that a specific retailer has it for them.

The Beer Yard, in Wayne Pennsylvania, provides a great example. Their website is remarkably well-designed to promote user informedness:

- One click on the upper right allows you to determine what’s new, and which beers have arrived within the last week, two weeks, month, or two months.
- A second click allows you to get a description of the beer, provided by the brewer.
- Another click takes you to Ratebeer.com, where you can have access to hundreds of thousands of beer reviews.
- And finally, yet another click enables you to check the reviewing profile and history of a reviewer, to see if his tastes are similar to yours.

17 http://secondlife.com/whatis/faq.php, 60%/40%
http://www.there.com/press/usaToday_111103.html 70%/30%
and if his review should influence your purchasing decisions.

Before its website was developed, 90% of the Beer Yard’s business was from within a 5 mile radius of the shop; now, after the website was launched, half of their business is from outside this distance and 30% is from out of state. See figure 1 for a more complete description of the relationship between the BeerYard.com and the Ratebeer.com websites.

Moreover, no one drives to a Philadelphia suburb from New Jersey or Delaware or Virginia for a $14 case of Coors or Miller Lite; the non-local business is overwhelmingly either American craft brews or imports, at $25 to $160 a case. Significantly, the margin percentages are higher on the higher priced beers, the absolute margins are better, and the labor involved is the same. These are beers that the Beer Yard is delighted to sell, and the business generated by their website is volume that the Beer Yard is delighted to have captured. Unfortunately, Ratebeer.com has not figured out how to capture any of the value generated by their website when used by the Beer Yard or by other retailers.

TripAdvisor provides a better-known example of gaining value through community-generated content, although the example is not usually widely known or well understood. A decade ago if travelers were interested in a hotel in a city they did not know well, they would seek recommendations from full service travel agents. If we wanted a hotel near the Louvre the agent might start by recommending the InterContinental. We might respond by saying we know and love the intercontinental chain, but that the Paris property was too expensive for our university travel budget. The agent might counter with a suggestion that we try the Hotel Regina, the closest hotel to the Louvre in Paris. But we didn’t know the Regina and were not sure we could trust it. The agent’s experience with the Regina was our best guarantee.

Now most of us look for our discount hotels online. We’re getting our recommendations now from hotels.com. How can we determine if we can trust the Regina in Paris, the Allerton in Chicago, or the Meikles Hotel at Harare International Airport in Zimbabwe? We go to TripAdvisor, where we have access to hundreds of thousands of online reviews, posted by individual travelers, reporting on their experiences, both good and bad. TripAdvisor blesses the hotels.com recommendations, much as a trusted agent’s experience provides credibility to a traditional recommendation.

Not surprisingly, TripAdvisor was owned by the same company, Interactive Corporation, that owned hotels.com. The success of hotels.com was in some ways made possible by the success of TripAdvisor. It was not necessary that TripAdvisor be directly profitable, as long as TripAdvisor contributed to the profitability of hotels.com. Although Interactive was careful to maintain the independence of reviews on TripAdvisor, it was essential to its success that the relationship between the two was not widely known.

10. Monetizing Viral Marketing
10.1 Paying for Viral Marketing and Favorable Reviews

Online viral marketing involves paying for endorsements, whether from just plain folks or highly influential individuals [Keller 2003]. Using social networks to sell directly is far more difficult than it appears. First, it is often seen as inappropriate behavior, violating social norms; we do not attempt to sell cars at our daughters wedding even if we own a dealership and we do not attempt to sell beer in class, even if we own a brewery. Second, this form of behavior is inconsistent with the contestability of online markets for individual attention; if a website visitor doesn’t like what is being done in a non-monopoly environment, he or she will just leave; research suggests that when a retailer, service provider, or manufacturer pays someone to post favorable reviews or in other ways manipulates content, the impact of the website is greatly reduced [5, 6]. Paying for viral marketing, especially in an online environment, and paying for favorable reviews, may initially seem especially attractive. Certainly, it violates the code of ethics of the Word of Mouth Marketing Association (http://www.womma.org/ethics/code/), but more to the point you get caught when you try this and as Awad and her coauthors note, you destroy the credibility of your website.

11. Selling Deliberate Misdirection
11.1 Misdirection through Search Engines

Selling misdirection is not the same as advertising or legitimate marketing and promotion. Selling advertising entails providing information, or at least entertaining content, to promote the sale of a product or service. Ideally this informs the consumer, so that he knows that a product is available, with attributes that he truly desires, and at a price that he considers attractive. Misdirection misinforms the consumer and online misdirection presently comes in two principal forms:

• Misdirection through search engines
• Misdirection through comparison-shopping websites
Sponsored search is a means of misdirecting the consumer, in which Google sells search terms to the highest bidder; the consumer is then directed to the website of the highest bidder for the search terms, and not to the website that the consumer might otherwise have found through organic search. More egregious forms of search engine misdirection exist, such as Google’s online piggybacking [34], in which the user is offered a URL that truly appears to be taking him to the website he desires, but which then takes him to an unrelated website that has purchased (some might say hijacked) the trademark of another seller from Google. The example of Cornish Wreckers is instructive, and suggests that misdirection has been a commercial problem for centuries. These were in essence pirates who operated from on shore, and who would place lights, false lights along the British coast, impersonating local lighthouses. These lights were placed, not to mark safe fairways for sailors and navigators but to lure ships to their destruction. They could then harvest (or as they preferred to describe it, salvage) the cargoes for their own profit [8]. The previously noted backlash against Google suggests that it will be difficult to sustain a business model based on online misrepresentation in an environment as transparent as the internet, and, indeed, awareness of and resistance to Google’s practices is growing among computer professionals [31] and is now being noted in the popular press [26].

11.2 Misdirection through Comparison Shopping Sites

One would surely expect that over time misrepresentation would be unsustainable as a business model, especially in an environment as transparent and as interactive as the internet. And yet, for years misrepresentation was at least a small part of the business model of hotels.com.

- Despite claims in its advertising, hotels.com was not low cost, and low cost did not enable it to offer lower prices to hotel chains. In fact, hotels.com was the highest cost distribution channel in the industry, charging commissions as much as 3 times higher than travel agencies.
- Hotels.com was not high tech, and relied upon faxes to make reservations with individual properties; guests might think that they had confirmed reservations because they had received confirmation from hotels.com, but that did not mean that hotels.com had received confirmation from the guest’s desired hotel.
- Hotels.com was not low price, in the sense that equivalent rates were usually available directly from the hotel itself, and almost always with better terms than the reservations made through hotels.com (such as more liberal cancellation policies or better rooms).
- Hotels.com was not always even honest in reporting availability or price, in that if it could not offer rooms at a specific property it would show the hotel as sold out, rather than indicate that hotels.com did not have any room availability, or not list the hotel all.

12. Monetizing Snooping

Much of Google’s future business model appears to be based on targeting advertising by snooping. The content of user’s gmail messages, web searches, and even Google Office word processing documents, can be scanned by Google and used as the basis of highly tailored and individualized advertising. This has not yet been widely understood, and it is not yet clear how the user community will react.

13. Monetizing Mobile Social Networks

Increasingly, social networking is based on smart phones and mobile computing technology. Commercial text messaging using mobile devices will emerge either as the most effective form of targeted messaging or as the most invasive and expensive form of spam. The logic behind investing in mobile commercial text messaging is simple:

- The market for mobile messaging is becoming large enough to interest advertisers and entrepreneurs. Cell phone usage is becoming nearly universal, smart phone usage (phones with messaging and internet capability is increasing), and an increasing number of phone subscribers have unlimited text messaging plans, unlimited internet access from their smart phones, or both.
- Mobile messaging based on both the recipient’s social networking and the recipient’s current location has the potential to be relevant and effective. This last point can be amplified as follows [13]:
  - Targeted mobile messages can be relevant to individual recipients, based on their interests and their current location
  - Targeted mobile messages can allow the user to act
  - Targeted mobile messages can allow the user to act on opportunities that are both relevant and time sensitive

An individual in New York, who is a jazz fan, might react very favorably to an online notification that Clark Terry is performing at the Blue Note tonight and the 8 pm set is not yet sold out..
minimum these messages would not be seen as intrusive, and at best the recipient might purchase tickets immediately through his cell phone.

Our preliminary research suggests that the reactions of individuals to online social networks varies greatly by age (both in [14] and in work still in progress.)

14. Conclusions and Future Research

14.1. Conclusions

With all the great new technology, processing power, bandwidth, and applications development platforms available, it would be a pity to pretend that the internet is no more than a new way to deliver television, newspapers, or other one-directional forms of communication. And it would be very bad business indeed to assume that net-based communications would be controllable, with captive audiences, willing to accept ads pushed at them. The net is going to be both participatory and voluntary, with all the behavioral norms of a community or a social meeting place. Recommendations can be offered, by friends to friends, when truly felt. Commercial recommendations can be offered by third parties in response to explicit solicitation for advice; they can be pull-based advertising, rather than targeted push-based advertising. Unsolicited commercial messages, like mass media commercial messages, will be distrusted and discounted, suggesting a limited future for sponsored search and piggybacking. Social network advertising will be used sparingly if at all; the successful use of social content, and indeed all successful internet advertising, will be pull-based, in response to specific requests for information.

There will of course be commercial opportunities on the net, even if fewer of them are based on pushing ads or selling recommendations.

- Watch for opportunities to monetize users’ experience, through fees for access to proprietary content or for participation, or for rent, ad-ons, and additions to games or online homesteads
- Watch for opportunities to get value from community content, as the Beer Yard has done with Ratebeer and as Hotels.com has done with TripAdvisor
- Watch for dramatic improvements in social search, as a real alternative to paid search, and a real threat to Google’s business model
- Watch for progress in mobile advertising, although it is difficult at this time to predict where these opportunities will emerge

Likewise, there are things to avoid, both as developers or as investors:

- Beware of investments based on informed invasion of privacy or tailored spam
- Beware of monetization based on misrepresentation, including especially Google sponsored search and any web-recommendation site that biases its results in favor of its own profitability
- And beware of monetization of snooping in general

14.2. Future Research

The following developments are worthy of future study:

- **Google:** Will Google’s attempt to monetize its knowledge of individuals result in a successful platform envelopment strategy [20], trumping Microsoft, or will consumer awareness lead to rejection of even Google’s core search engine products? Far too much current research in the MIS community deals with optimum pricing for keyword auctions, and far too little addresses whether paid search masquerading as an unbiased response to user queries will remain viable.

- **Social search:** Will social networks become the basis of effective search, rendering sponsored search for products irrelevant, changing the balance between the Microsoft / Facebook alliance and Google? Will social search [29] augment or replace recommendation websites?

- **Monetization of social content and the deliberate manipulation of community content:** Will the use of online user-generated content to reinforce other online marketing efforts increase? Will more manufacturers and retailers find opportunities to benefit, the way the Beeryard benefits from Ratebeer, hotels.com benefits from TripAdvisor, and Open Table benefits from Zagats? Will deliberate content manipulation become a problem? This is less significant at sites like ratebeer, where there may be hundreds or even thousands of reviews available for each beer, but sites like TripAdvisor, where each property may have only a few reviews, may be far more vulnerable to manipulation. If so, how can manipulation be detected, and what social and legal policy implications will there be?

15. References


[31] Rosencrance, L. “E-commerce leaders move to fight deceptive online ads: The Alliance Against Bait & Click is focused on keyword advertising”, ComputerWorld, August 2008.

![Figure 1.—Relationship between Beeryard.Com and Ratebeer.Com.](Image)