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Anthony Tai
703-561-805

LinkedIn

LinkedIn is a social networking website that concentrates on professional networking. It is a tool that helps professionals connect with each other, recognizing that networking is a key component of career advancement. LinkedIn, created by co-founder Reid Hoffman, was launched in May of 2003, and had 4,500 users within the first month.¹ Today, LinkedIn has grown to 85 million members.² It has become widely-known as the global, premier professional networking site. However, as LinkedIn continues to grow, it must thoroughly consider important aspects of its business model, network, and competition from other online social networks.

Background and Statistics

LinkedIn is a specialty social networking site. A social networking site is an internet service that allows users to create a personal profile, maintain a list of connections with other users of the site, and network with others.³ The first recognizable social networking site was SixDegrees.com, launched in 1997. It enabled users to build profiles and friend lists, combining elements of precursors to social networks, like AOL Instant Messenger's buddy list and the profile creation capabilities of online dating sites. Other networking sites were launched soon after, such as Ryze.com in 2001⁴, tribe.net in 2003⁵, and LinkedIn in 2003⁶. At first, the founders of these networks had close ties to one another and believed they could collaborate without competing. However, according to Boyd and Ellison, "in the end, Ryze never acquired mass popularity, Tribe.net grew to attract a passionate niche user base, [and] LinkedIn became a powerful business service".⁷

LinkedIn differs from other social networking sites in that it offers users the opportunity to connect with peers within their profession or work sphere. Unlike other social networks, rather than focus on socializing in general, LinkedIn specializes in professional networking with the goal of enhancing users' career aspirations. Indeed, the idea behind LinkedIn is that one's career is bolstered by one's professional contacts, and "who you know" can present a huge advantage in many career fields. For example, LinkedIn can assist users in finding clients, meeting potential business partners, utilizing insider connections to land jobs or close deals, and recruit new talent for their company.⁸

LinkedIn currently has more than 85 million members in over 200 nations on all seven continents. According to the company, "a new member joins LinkedIn approximately every second, and about half of our members are outside the U.S. Executives from all Fortune 500 companies are LinkedIn members".⁹ Approximately 3% of global internet users access LinkedIn every day.¹⁰ LinkedIn boasted revenues of \$17 million in 2008¹¹ and had over 600 employees as of June 2010. The LinkedIn service is free for all users, but the company also offers "business accounts" that charge fees for extra services. It partners with many large companies and websites to promote user accessibility to both LinkedIn and its affiliates, such as Amazon.com, American Express, BusinessWeek, CBS News Moneywatch, CNBC, Google, the New York Times, Palm, Reuters, Twitter, and WordPress.com.¹²

The demographics of LinkedIn's user base are mostly middle-aged professionals with high incomes. Most users are between 25 and 55 years old, with the majority centered on age 40. The user base is heavily populated by professionals with graduate school degrees, who earn incomes of above \$60K, though many users earn \$100K and up. The LinkedIn user base represents 150 industries. Most users log onto LinkedIn at work, and spend about 7 minutes on the site per day.¹³

Business Model

Most of LinkedIn's value to users and advertisers is generated through its powerful network. The reach of LinkedIn's network, or in other words, the size of its user base, is LinkedIn's most valuable asset. LinkedIn realizes that the more users it has, the more appealing its services will be to potential new users. Obviously, no one would want to use LinkedIn if

nobody else used it. On the other hand, if almost everyone used LinkedIn, it would be very beneficial to the few who weren't already members to sign up in order to connect with coworkers and professional contacts. In fact, it would even be difficult for say, the lingering non-user, to avoid joining LinkedIn if every one of his contacts had already joined. As LinkedIn's network size grows, the strong network effect attracts even more members, and such a large and growing network catches the eyes of advertisers who seek to reach out to large and focused audiences. The larger LinkedIn's network, the more advertisers it will attract, and the more they will be willing to pay to advertise on the site. Following this reasoning, LinkedIn seeks to augment the value of its product by attaining more members.

In fact, the company has made membership growth a top priority since its inception. In 2003, the year LinkedIn first launched, it had 81,000 members. This increased by almost twenty-fold in 2004 to 1.6 million members, then more than doubled the following year to 4 million. Since then, LinkedIn has practically doubled its membership every year.¹⁴ How has LinkedIn grown its network size so rapidly? Part of it has to do with the value of the service it provides. Many professionals put great importance on advancing their careers, and a lot of people know that they can't do this without knowing the "right" people. Professional networking is thus an extremely viable tool for many people and LinkedIn caters to a large portion of the population. According to the US Census Bureau, approximately 44% of the US population is between the ages of 25 and 55,¹⁵ and about 18% of the employed adult population has jobs paying above \$60K.¹⁶ Both of these categories fit in perfectly with LinkedIn's user demographics. And of course, LinkedIn operates in 199 countries other than the US, so it still has the potential to attract a very large amount of new users worldwide.

Furthermore, powerful network effects help to grow the network size even more. In other words, as more users join, they spur even more users to join. This can be thought of as a "multiplier" effect: one additional user joins, then invites ten friends, who each, in turn, invite ten friends, and so on. LinkedIn has capitalized on this network effect by encouraging users to invite their friends to join through an email search system. Users can allow LinkedIn to search through their email contacts for people they may know on LinkedIn, which, at the same time, allows LinkedIn to see the email contacts that aren't members and invite them to join.¹⁷ This service is very easy to access (users need only type in their email address and password), and it is

also very appealing to new users who may not know anyone on LinkedIn and would like to invite their friends to join them.

To help attract and retain members, LinkedIn makes its product more appealing by providing features that allow the creation of profiles and linking of contacts. These features are essential for any social networking site; however, LinkedIn adds its own unique flavor by gearing its services towards career development. For example, the profile feature focuses on current and past job positions, education history, career industry, region, and contact information.¹⁸ This is in stark contrast to networking sites that focus on socializing, which feature profiles detailing peoples' interests, hobbies, relationship status, and personal "blurbs" about themselves.¹⁹ Furthermore, the way users connect with their contacts and manage their connections differs from other social networking sites. For example, users can write professional recommendations for each other on LinkedIn. Also, connections can be easily organized for career purposes, such as sorted by colleagues, business partners, companies, and industries.²⁰

With valuable services attracting a large membership base, LinkedIn is able to capitalize on its network and monetize its business. The company generates revenue primarily through advertising. LinkedIn doesn't charge users a fee to join, so it doesn't profit directly from growing its membership; however, with a larger network, LinkedIn attracts more advertisers who want to reach out to a big audience. LinkedIn markets itself to advertisers as "the world's largest audience of influential, affluent professionals." It offers two packages: LinkedIn Advertising Sales, for large budgets of over \$25,000, and LinkedIn DirectAds for smaller budgets.²¹ LinkedIn generated revenue of \$17 million in 2008.²²

Competition

It is difficult to identify any direct competitors, as LinkedIn caters to a specialty, niche market of career-minded social network users. However, LinkedIn has several close competitors – namely, major social networking sites such as Facebook, Twitter, MySpace, and Friendster. Because these social networking sites are similar in many regards, only Facebook and Twitter are discussed for simplicity. Facebook is a social networking site that connects friends in a casual rather than professional manner. "Millions of people use Facebook every day to keep up with friends, upload an unlimited number of photos, share links and videos, and learn more about the

people they meet.”²³ Facebook generated revenues of \$800 million in 2009²⁴ and boasted 500 million users as of July 2010²⁵. Its audience is generally aged 18 to 45 and well-balanced in terms of income levels, unlike LinkedIn’s audience which is older and skewed towards high income individuals. Twitter is a site with social networking capabilities but is simpler than other sites such as Facebook. While Twitter has profile and friend list features, they are generally more condensed than Facebook’s and LinkedIn’s.²⁶ Also, Twitter focuses mainly on “microblogging” – users post short text messages of 140 characters for others to read.²⁷ Twitter is expected to generate \$150 million of revenue in 2010²⁸ and currently has 190 million users.²⁹ Twitter caters to a similar demographic as Facebook in terms of an 18 to 45 age range and broad levels of income.

Should LinkedIn be concerned about competitor social network sites? On one hand, Facebook and Twitter have larger membership bases, indicating that they may be taking users from LinkedIn or discouraging new users from joining LinkedIn. Also, Facebook and Twitter generate larger revenues than LinkedIn, suggesting that they get more attention from advertisers and may possibly be deterring LinkedIn from accessing a large advertising customer base. On the other hand, it is much more likely that other social networking sites don’t have much negative competitive impact on LinkedIn. First of all, joining these sites is generally free, so users can be members of both LinkedIn and Facebook. Second of all, LinkedIn caters to a different market. It targets older and wealthier individuals and focuses on professional networking, not purely social networking. This means that there is little risk of LinkedIn losing members to other social networking sites, since competitor sites don’t carry out exactly the same function as LinkedIn. Furthermore, LinkedIn sells to a niche group of advertisers who want to reach out specifically to middle-aged professionals. The ads encountered on LinkedIn, such as ads for small business solutions or hotel bookings, differ from ads on Facebook, such as ads for restaurants, online games, and radio stations.³⁰ Finally, analyzing LinkedIn’s click stream suggests that other social networking sites are not necessarily in direct competition with LinkedIn. The second and third most popular sites that users visit before and after visiting LinkedIn are Facebook and Twitter.³¹ This indicates that users are not choosing one social networking site over another, but rather embracing a multitude of them.

Strategic Issues

As market conditions change, the global economic situation fluctuates, and as new entrants enter the market, LinkedIn must consider various strategic issues to maintain its membership base, market share, and profitability. Generally, the key concerns LinkedIn should think about are pricing, membership, and competition.

Currently, LinkedIn doesn't charge members to join, and generates revenue mainly through advertising sales. This pricing scheme is viable because it allows for easy membership growth and leverages a large member base to make money. Advertisers are willing to pay more to reach out to larger audiences, so LinkedIn can augment its network and then indirectly gain revenues through advertisers. However, LinkedIn may consider a different pricing scheme in which revenues come directly from charging members to join, and advertising sales are only supplemental. Implementing such a scheme would likely cause LinkedIn's network size to shrink, but it may be justifiable if LinkedIn can generate large enough revenues. LinkedIn already sells certain "business accounts" – memberships that cost money but provide extra features. This may suggest that some users are already willing to pay for LinkedIn's services. Indeed, many users likely feel that professional networking is an extremely important step towards advancing their career and would pay a nominal fee for the service. When considering its pricing strategy, LinkedIn must be very careful because once it changes its scheme, it may be difficult to revert back, or customers may become dissatisfied and the entire business could rapidly collapse. LinkedIn should test new pricing schemes on controlled groups before implementing them within the entire community.

So far, LinkedIn has been very successful in growing its membership base. The company has historically been able to at least double its membership almost every year. LinkedIn is already implementing some effective strategies, such as encouraging users to invite friends to join through LinkedIn's email search system, and creating symbiotic partnerships with companies like BusinessWeek and CBS News Moneywatch to increase accessibility to the site and spread name recognition. These strategies are clever in that they don't cost a lot, which is important for LinkedIn because it doesn't generate large revenues. LinkedIn could continue to focus on low-cost strategies, such as ramping up website features, or could begin implementing some more costly policies. For example, LinkedIn could nationally advertise on television in select countries, or increase its focus on global online advertising. While these methods may be

costly, the additional membership they contribute may be able to justify the costs. LinkedIn could also consider moving away from its niche market of middle-aged wealthy professionals and become more like Facebook. By doing so, LinkedIn may be able to capture a larger market, but it would then also be more exposed to competition from Facebook and other large social networking sites.

Competing directly with large social networks is likely not a viable plan, however, because sites like Facebook have a huge size advantage and loyal customer base. LinkedIn may be best off staying in its niche market and leveraging its niche to fend off competition. Even though competitors like Facebook are large, they don't have much impact on LinkedIn's membership or advertising customer base because LinkedIn is burrowed into a specialty market. Furthermore, LinkedIn must thoroughly consider switching costs. To take users from competitors and also retain current users, LinkedIn must ensure that the switching costs to join are low and to leave are high. LinkedIn already makes it easy to become a member, build a profile, and connect with others. For example, new users can import their résumé to quickly create their profile, and they can import contacts from their email address books to quickly connect with friends. LinkedIn must continue to monitor switching costs to stay successful. Finally, LinkedIn must be wary of new entrants in the market who may be able to break into its niche. However, LinkedIn would already have size advantage and first-mover advantage over new entrants, which it must use to immediately crush new competitors. Unfortunately, one very pressing problem for LinkedIn is the possibility of large existing networks like Facebook creating sub-sites to directly compete in LinkedIn's market.

Endnotes

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