
**SOCIAL MEDIA BUSINESS MODELS: AN ANALYSIS OF THE PREVAILING
MODELS AND KULT'S PROPOSAL OF MONETIZING HUMAN CURATION**

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Abstract

The last decade was marked by the meteoric rise of social networks. They have existed since the 1990s. But it has been barely 10 years since they turned out to be one of the biggest markets in the world. The global social media market size is expected to grow from \$159.68 billion in 2021 to \$223.11 billion in 2022 at a Compound Annual Growth rate (CAGR) of 39.7%, reaching \$833 billion by 2026. Facebook, YouTube, Instagram, Twitter, and more recently TikTok, are the main players in this market today and dominate almost all of it. It began with fun, but now it is where all information lies. And much more than that, it now became a matter of inclusion, of defining one's identity in modern western societies. Because they are a vital part of our lives and are present in every person's routine, it is paramount to understand how social network companies are making so much profit. All these platforms are free, which inevitably reminds us of the famous sentence: if you are not paying for it, it is because you are the product.

In 2007, Facebook changed the game when Mark Zuckerberg (its CEO¹) introduced to the world a targeted advertising model based on user data exploitation. It is already a consensus that this innovation was a turning point not only for social media but for the whole society, as such models turned out to be unexpectedly harmful as they shape people's opinions by using data points that can really control points of view and even the perception of reality. In the last years, some of the consequences of such a business model started to emerge. The Cambridge Analytica scandal showed the world how a seemingly harmless social network could manipulate people, incite genocides, decide elections in favor of extremist candidates, and ultimately create a democratic and social disruption never seen before in human history. This new paradigm forced governments all over the world to respond with rigid privacy protection laws, causing social networks to rethink the way they make money.

It is important, therefore, to understand where we came from so that we can see where we are going when it comes to social network monetization, as we already experienced how these companies can directly affect our lives – perhaps irreversibly. This study contributes to exploring this topic, by analyzing the current social media business model, and proposing new ideas to monetize them, in a more sustainable and decentralized way.

Keywords: *Social networks; privacy; targeted advertising; data exploitation; Facebook; business model.*

¹ Chief Executive Officer

Resumo

A última década foi marcada pela ascensão meteórica das redes sociais. Elas existem desde a década de 1990. Mas fazem apenas 10 anos desde que se tornaram um dos maiores mercados do mundo. Espera-se que o tamanho do mercado global de mídia social cresça de US\$ 159,68 bilhões em 2021 para US\$ 223,11 bilhões em 2022 a uma taxa de crescimento anual composta (CAGR) de 39,7%, atingindo US\$ 833 bilhões até 2026. Facebook, YouTube, Instagram, Twitter, e, mais recentemente, TikTok, são os principais players desse mercado hoje e o dominam quase que completamente. É praticamente impossível conhecer alguém no mundo ocidental hoje que não esteja presente em uma dessas redes sociais. Começou com diversão, mas hoje é onde toda a informação está. E mais: tornou-se uma questão de inclusão, de definição de identidade nas sociedades ocidentais modernas. Por serem parte vital de nossas vidas e estarem presentes na rotina de quase todas as pessoas, é fundamental entender como as empresas de redes sociais estão lucrando tanto. Todas essas plataformas são gratuitas, o que inevitavelmente nos lembra a famosa frase: se você não está pagando, é porque você é o produto.

Em 2007, o Facebook mudou o jogo quando Mark Zuckerberg (fundador e diretor executivo) apresentou ao mundo um modelo de publicidade direcionada com base na exploração de dados do usuário. Já é consenso que essa inovação foi um divisor de águas não só para as mídias sociais, mas para toda a sociedade, pois tal modelo se tornou inesperadamente prejudicial ao moldar a opinião das pessoas, usando dados que podem realmente controlar pontos de vista e até mesmo a percepção da realidade. Nos últimos anos, algumas das consequências desse modelo de negócios começaram a surgir. O escândalo Cambridge Analytica mostrou ao mundo como uma rede social aparentemente inofensiva pode manipular pessoas, incitar genocídios, decidir eleições em favor de candidatos extremistas e, finalmente, criar uma ruptura democrática e social nunca vista antes na história da humanidade. Esse novo paradigma obrigou governos de todo o mundo a responder com rígidas leis de proteção de dados, fazendo com que as redes sociais repensassem a forma como ganham dinheiro.

É importante, portanto, entender de onde viemos para ver para onde vamos quando se fala em monetização das redes sociais, pois já sabemos como essas empresas podem afetar diretamente nossas vidas – talvez até de forma irreversível. Esse estudo contribui para a exploração deste tema, ao analisar como funcionam os atuais modelos de negócio das redes sociais, e propor novas formas de monetização, mais sustentáveis e descentralizadas.

Palavras-chave: *Redes sociais; privacidade; publicidade segmentada; exploração de dados; Facebook; modelo de negócio.*

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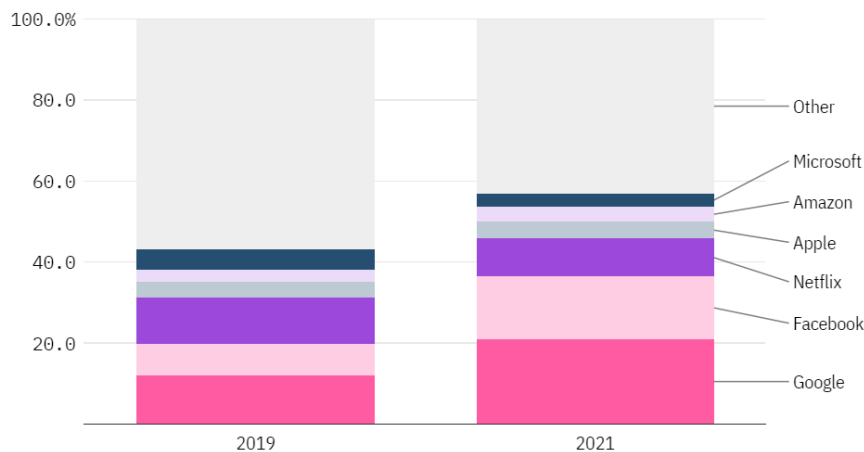
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1. Introduction and Motivation

The present study emerged from the conjunction of a series of factors. First, the critical time in history in which 6 big technology companies control 57% of internet traffic (Figure 1).

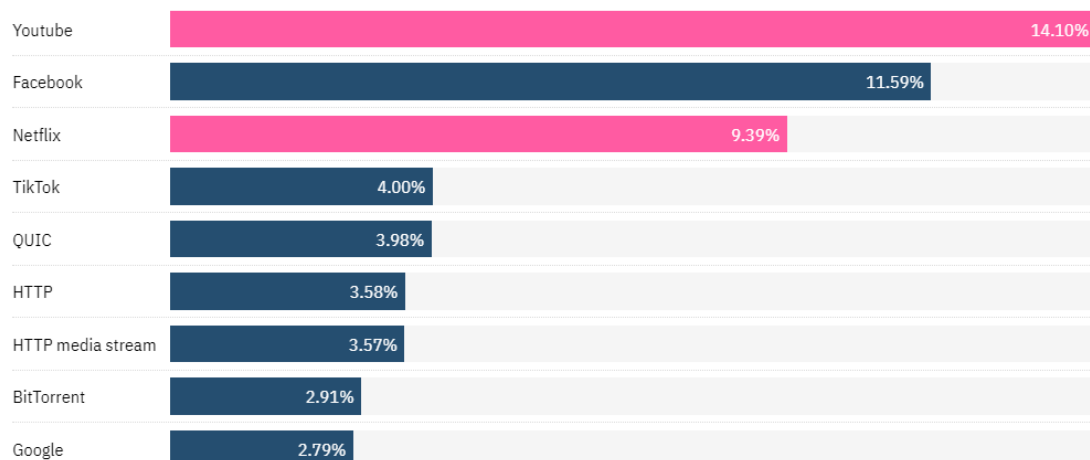
Figure 1: % of total network traffic from big techs in 2021



Source: Fitri (2022)

This unusual scenario is just not sustainable. Many studies show how this kind of oligarchy is harmful to the world in so many different ways (Simão, 2020). But we will here focus only on the business model of the biggest social media, and how they directly impact our daily lives. As the graphic below shows, only two of these social media, Facebook and YouTube, took up more than a quarter of all network traffic in 2021.

Figure 2: % share of global network traffic by application



Source: Fitri (2022)

In January 2022, social media users were more than 4,6 billion, i.e. 58,4% of the total population, which represents almost every adult with internet access in the world (Chaffey, 2022). Each person spends an average of 2 hours and a half using social media every day. So, every time they change an algorithm or internal policies, it directly affects the information that billions of people consume, in one way or the other. As of today, 56% of people around the globe use a social network as a source of news (Reuters Institute For The Study of Journalism). And every second the user is scrolling their news feed, the social media is profiting. This is the so-called “Attention Economy” (Center for Humane Technology, 2021) which will be better analyzed later in this study.

As a recent example, we can cite recent studies showing that social networks were the main channels for the transmission of fake news and misinformation regarding the COVID-19 pandemic (Bin Naeem, Bhatti & Khan, 2020). This phenomenon of “too much information including false or misleading information in digital and physical environments during a disease outbreak”, named “Infodemic” by scientists (World Health Organization, 2021) helped the virus to make hundreds of thousands of victims around the world (Gisondi et al., 2022). There were also other kinds of deadly misinformation running freely on social media, that were directly responsible for genocides (Mozur, 2018) and extremist politicians’ growth all over the globe (Brand, 2020). Even though companies like Facebook and YouTube knew about that situation, they let it happen for too many years, because these kinds of content engage more than any other (Beachum, 2021). And the more engaging it is, the more profit they make.

This is the crucial problem with social media's main business model based on advertising and data exploitation: they are complacent with hideous and fake posts and videos just because they make money from it. Bearing that in mind and pursuing a totally different approach, Kult (kult.pt or kult.com.br) was founded: a social network that offers people space to recommend and discover cultural content such as TV series, movies, books, songs, and podcasts.

As a researcher and entrepreneur, I believe social media has yet to find more sustainable business models. The main reason, as we superficially mentioned before and will elaborate along this document, is that targeted advertising based on data exploitation has proven to be dangerous for our society in different ways. That’s the main reason why different governments around the world started to elaborate laws to protect people’s privacy and data

(Lack, 2019). Therefore, social media needs to discover new sustainable ways to make money, instead of depending solely on this problematic business model. It is a matter of survival.

Taking that into account, the present research aims to understand how the current social media advertising business models work, and how they have proven to be unsustainable. Meanwhile, we will explore new ways of monetization being tested and validated by the biggest social media nowadays, questioning their viability.

In sum, to answer the following questions: “Q1: What is the prevailing business model of social media up to this point?”, “Q2: What are the emerging business models that are being tested by social networks?”, and “Q3: What is Kult’s innovative business model proposal?”.

To address these questions and the abovementioned objectives, the present work is divided into a literature review of background concepts regarding concepts of social media, social networks, attention economy, targeted advertising, content creation, content curation, Kult, Web 3.0, also the knowledge gap. The subsequent chapter is a presentation of our research methodology, including its research question and instruments. This is followed by an analysis of the current prevailing social media business model, addressing how Facebook and Google changed the advertising world. Then, by analyzing the different business models of the creator’s economy, we will understand the rise of the subscription membership model based on the power of community. Finally, we will present some main market trends, proposing Kult’s innovative business model as a disruptive one aiming to be aligned with the future of the internet.

2. Literature Review

This section aims to clarify some relevant concepts for a better understanding of the research. Such concepts include social media/social network, attention economy targeted advertising, content creation, content curation, Kult, and Web 3.0.

2.1. Review of Background Concepts

2.1.1. Social media/network

In sum, social media can be defined as “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content” (Kaplan & Haenlein 2010, p. 61). There are today thousands of social networks in the world.

For the purpose of this study, we will focus on the social media that are today more relevant in terms of influence: Facebook, Instagram, TikTok, Twitter, YouTube, Twitch, and emerging platforms, like Patreon, OnlyFans, and Substack. Those companies are the ones today dictating the trends when it comes to social influence and business models. Others like WhatsApp, Telegram, and Facebook Messenger will not be part of this study. Although very big and influential, first because they are more limited to messaging between people, and second because their business models are not so clear as of today.

We will also explore new ideas for social media business models on Web 3.0. Taking Kult's case as an example, we will explore its proposition to monetize content curators, and diversify revenue streams as a new way to face the challenges imposed by social media's new era of monetization.

2.1.2. Attention economy and targeted advertising

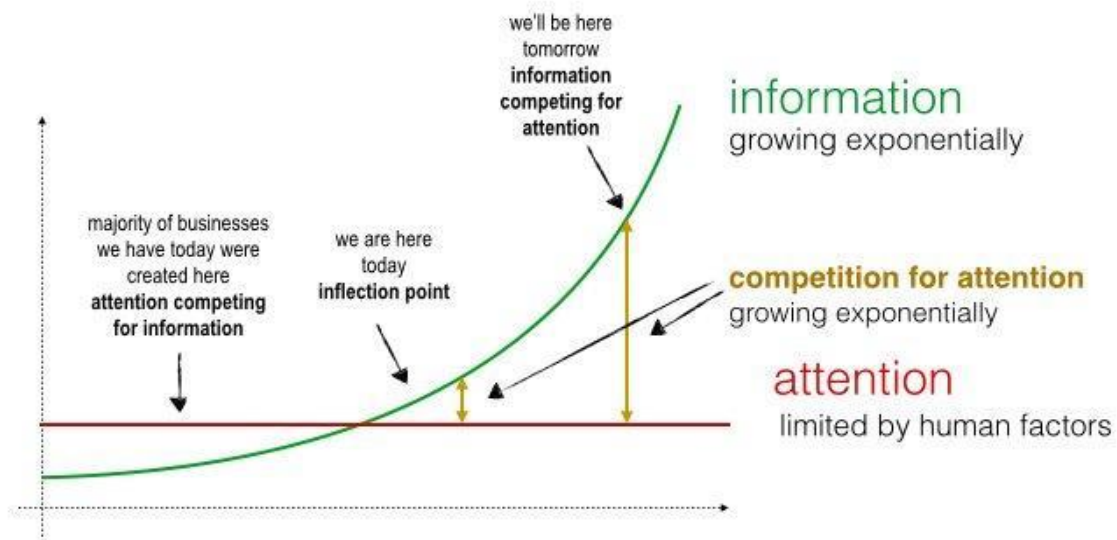
According to Tim Wu (2016), author of *The Attention Merchants*, “we are in a time where we've sort of accepted the unrestricted, unregulated mining of the human consciousness, the harvesting of human attention. We are the resource and I think it takes its toll.”

To understand what attention economy is, we must bear in mind that attention is a limited resource. Everyone's days have the same 24 hours. And we still have to sleep, work, and do other more or less essential things for most of the day. So, the little time that we have left is disputed between as many options as watching Netflix, going to the gym, checking Twitter,

drinking beers with friends, reading a book, scrolling Instagram, playing video games, and so on...

The figure below sums it up clearly.

Figure 3: Term for 2017: "Attention Economy"



Source: Ehrcsam (2017)

With more information and more choices at our fingertips than ever before, there are unprecedented demands on our attention. This feeling of constant distraction is fueled by tech companies that rely on capturing your attention to make money, normally by selling it to advertisers. Social media, in particular, grab your attention as the biggest and most well-known ones are 100% free. So how can they reach hundreds of billions in valuation? (Center for Humane Technology, 2021). The answer is that social media companies don't sell software, they sell influence. Every second people use them, they are giving away millions of data points about their personality and behavior, which will certainly be used by social media to sell that influence and knowledge to the highest bidder. It's simple: the more you use it, the more data they have, and the more money they make through ads. That's why every tech company today only thinks about one thing: capturing our eyeballs. And although streaming services, video games, a bar with friends, going to the movies, or to the gym, are all possible competitors to social media, we will not discuss them in this study. Our intention here is to focus only on social media's business models, how they are today and where are they heading in the next few years.

Speaking of social media's main business model, we have targeted advertising. Social networks completely changed how brands do marketing nowadays. Facebook invented a new

way of targeted advertising through social media, which has several advantages in comparison with other advertising vehicles (Center for Humane Technology, 2021).

- **Personalization:** social media has unique instruments to create a precise, personalized profile of each user, what they said, shared, watched, or clicked, and uses that to sell very specific services or products in a scale never seen before, as other media cannot have this level of information and detail about people.
- **Automatization/AI:** no other media can know so much about people without needing a human to analyze their target and use it to predict what will make users keep scrolling infinitely while selling them specific products that they know will catch their attention.
- **Non-stop influence:** people today spend around 2 hours and a half on social media every day, and it's the only media that is always providing new content 24/7. From the moment we wake up until we go to sleep, social media is the only place you can always find something new to watch/read/listen to.
- **Social control:** social media has the power to redefine the terms of our society, as they can shift the sense of time, self-esteem, and perception that others agree or disagree with us.

All these factors summed up give social media priceless power to “read” our minds, by deeply understanding our thoughts and behaviors. In terms of consumer preferences and habits, it would not be an overstatement to say that they know more about us than any other person. Sometimes even more than ourselves. With that power in hand, they will always find the right moment to strategically grab your attention and insert that ad or content that you will engage with. And that's why these platforms are worth so much to advertisers.

This is the basic idea behind the so-called attention economy: those companies give you free use of their social media so they collect as many data points as they can. “Data is the new oil” – they say (Toonders, 2018). With this amount of endless data about people in their hands, social media companies can make a lot of money with publicity, which is the reason why their values are up to hundreds of billions of dollars.

But what showed to be a real problem is that this much power also gives them the power to control certain behaviors in a way never seen before. Since they are all competing for our

attention, they will always prefer more provocative, attention-grabbing content to engage and make people come back. When we see it that way, it is clear that social media companies' interests are not aligned with ours, and that is why their business model is so dangerous for society.

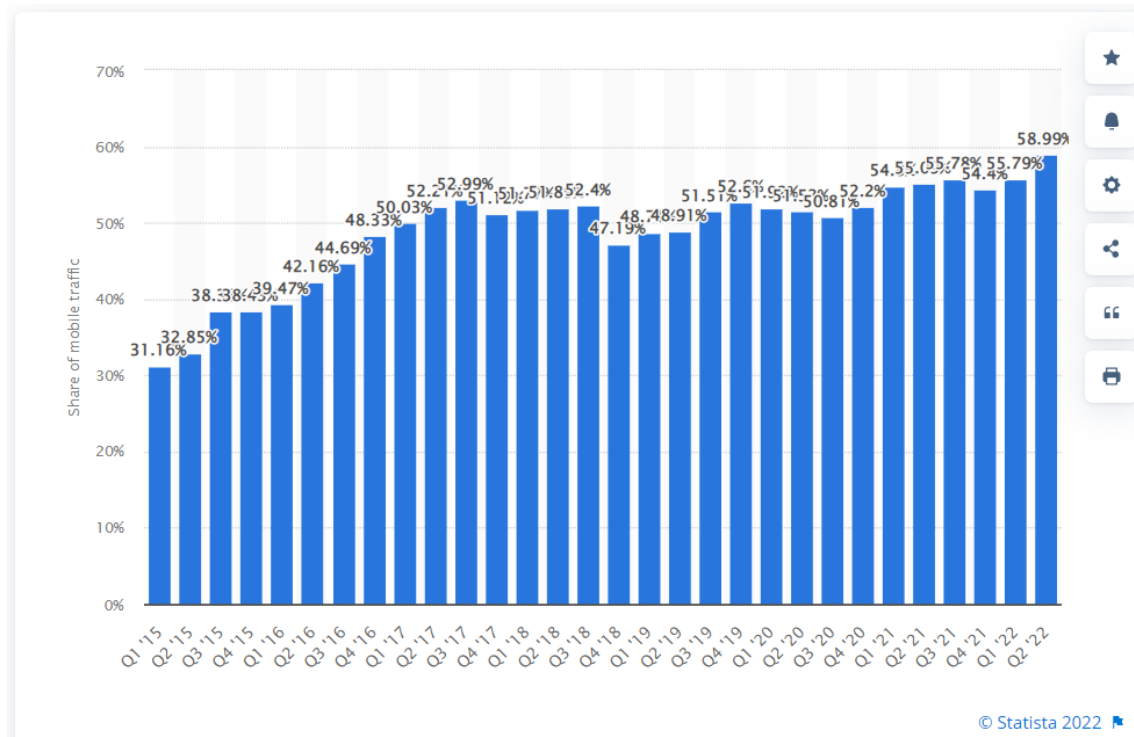
2.1.3. Content creation & curation

Content creation is process of conducting research, generating strategic ideas, crafting those ideas into high-value collateral and then promoting those pieces to a target audience (Brafton, 2022).

Content creation nowadays is the main pillar of the digital economy. The production of digital content has become exponential in the last decade due to several factors. The so-called mobile revolution, started on 2007 by Steve Jobs and the first iPhone, was the beginning of an era that would completely change our lives (Jackson, 2018). The timing couldn't be better: together with the first iPhone (but not the first smartphone), the 3G technology was reaching its maturity and allowing people to make video calls, send large email attachments, and use GPS like never before.

From this moment on, what we witnessed was the exponential increase of internet access all over the world, with huge volumes of new information being constantly created and shared. Like most technology, it just got better, cheaper, and easier to use with time, to the point where mobile already accounts for more than half of web traffic worldwide.

Figure 4: Percentage of mobile device website traffic worldwide from 1st quarter 2015 to 2nd quarter 2022

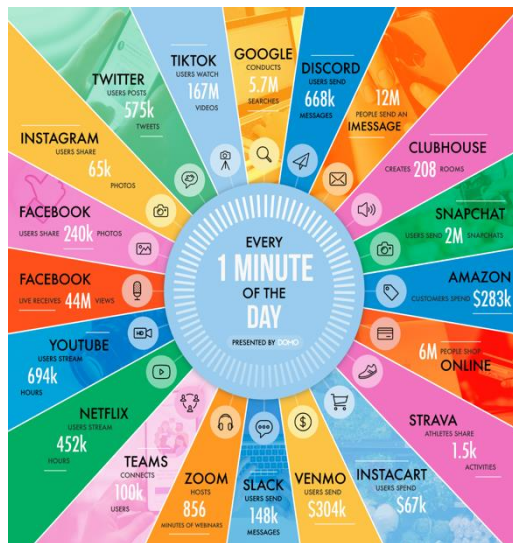


Source: Clement (2022)

The huge difference that the mobile revolution caused is that now we have access to all information, everywhere, every time, in the palm of our hands, which was not possible before. As of July 2021, 65% of the world's population has access to the internet, which represents 5.17 billion people. Of this total, 92,6% accessed the internet via mobile devices (Gaedke, 2021).

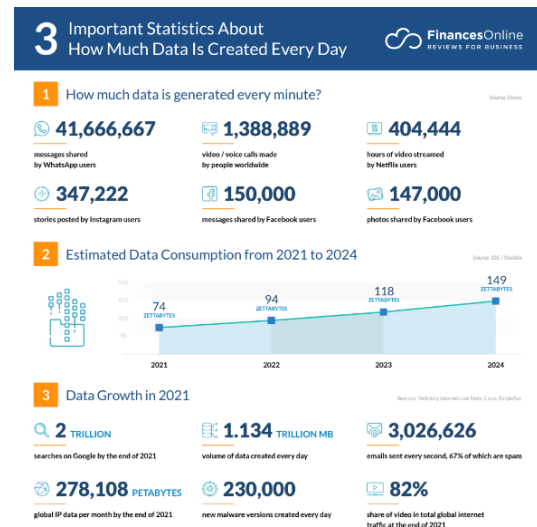
The immediate consequence is information overload. Everyone is connected all time, so information is created at an unprecedented pace.

Figure 5: How Much Data is Created Every Day



Source: Gaedke (2021)

Figure 6: Important Statistics About How Much Data is Created Every Day



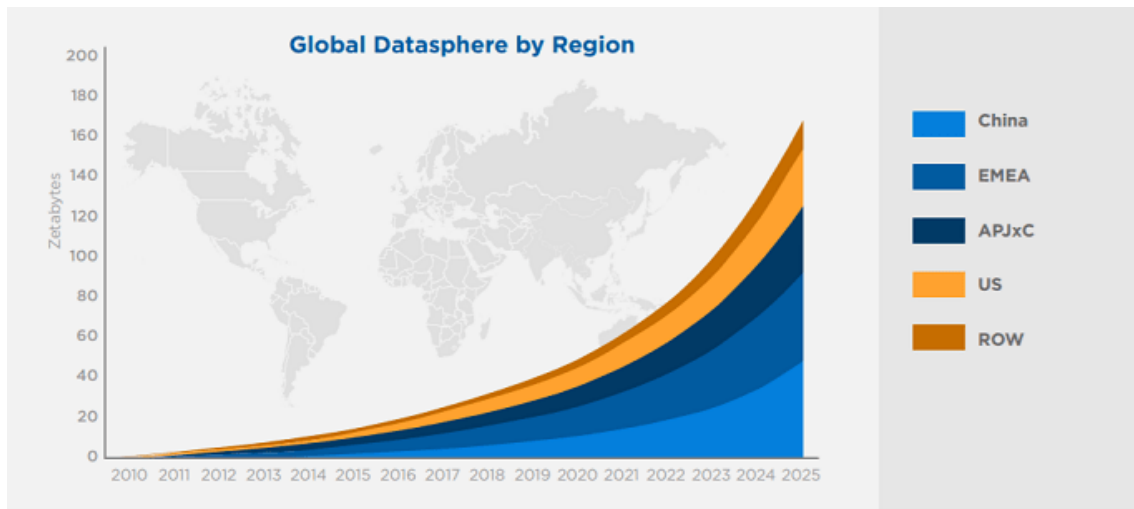
Source: Andre (2021)

The images above give us a good picture of how much data and information we create every minute in 2020 and 2021. Some of the numbers of what we consume in just 1 minute need to be highlighted for the purpose of this study:

- Almost 700,000 hours of YouTube videos;
- 575,000 tweets;
- 167 million TikTok videos;
- 452,000 hours of Netflix movies and series;
- 65,000 photos shared on Instagram.

And it is growing exponentially as new technologies come up, like the new 5G internet, smartphones get cheaper, and most people have access to the internet and mobile devices.

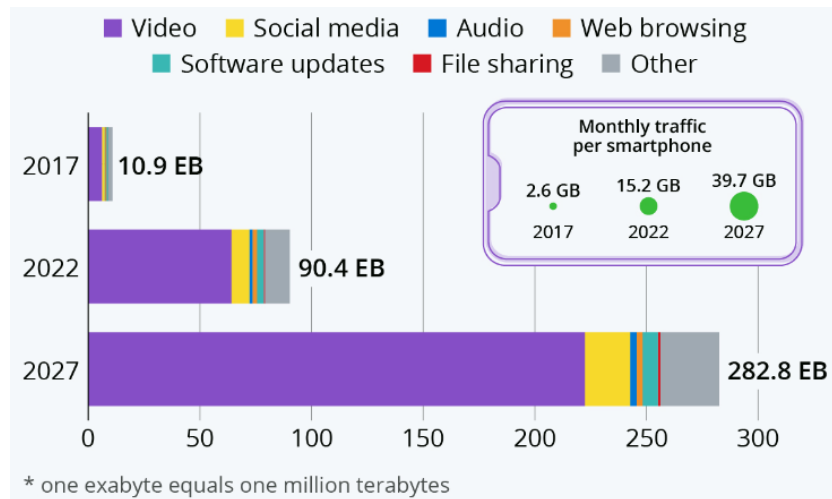
Figure 7: Global Datasphere by Region



Source: Siteefy (2021)

If today 500 hours of video are uploaded to YouTube every single minute (Mohsin, 2022), it is not hard to imagine how much it's going to be when more people have access to faster and cheaper internet. Additionally, video content already accounts for most of the mobile data traffic in 2022, expecting to reach even more incredible numbers by 2027 because of better wireless and mobile connections, as well as greater ease to create, share, and watch videos on the go.

Figure 8: Estimated global mobile data traffic by application category (in exabytes per month)



Source: Richter (2022)

However, while content creation shows an endless exponential growth, our attention is limited. We still have the same 24 hours/day, and working, sleeping, studying, doing laundry, and other activities will not get any shorter with time. On one hand, the number of platforms, creators, and content, never stops growing. On the other, people have less and less time to

consume so many things. It results in the paradox of choice, or choice paralysis: the more options we have, the less certain we are about what to read or listen to, amidst endless cool things to do.

As figure 3 shows, this scenario creates the perfect storm for an aggressive competition for our attention – which, as explained above, is the so-called attention economy. Huge tech companies fight for each second of our time. So, what is the future? How is humanity going to solve this problem? This is a central question to propose new business models for social media.

Whoever finds a way to optimize this decision, by saving people's time and energy to decide what to consume, will find the jackpot. Right now, companies are relying on recommendation algorithms. The companies with better-automatized suggestions are the ones who can keep the user's consuming for longer. But it is already known that AI has a limited capacity, as it only uses what they know about users, and this information is limited by what information we give to platforms. Although AI has revolutionized several fields of human experience, it embodies insurmountable barriers that prevent it from matching human connections. Of course, this scenario is possible to change in the future, but for now, it seems very distant from reality. Besides, with the growing array of options and platforms, algorithms' job is getting harder and harder, and the result, in the best case, is taking too long to choose something to watch on Netflix. In the worst case, though, it can cause “*significant harms*” on society, as study showed about YouTube AI system (Mozilla, 2021).

Nonetheless, recommendation algorithms tend to be a commodity: as more engineers work on them, the more companies get closer to the same system. In other words, if every content platform uses recommendation algorithms, none of them will have a differential. They will be all fighting with similar weapons. Real change comes with innovation. And this is where curation of content comes in.

Kult was created bearing this idea in mind, and it has already received a total of 120,000 euros in investment. The platform itself will be explained better in the next section, but for now what matters is that Kult offers human curation of content (movies, TV series, books, podcasts, songs, and soon videos), aiming to solve the paradox of choice (as defined above) – or at least soften it.

“Curation” can be divided into 3 essential points (Roy, 2018):

- The process of synthesizing data and information from multiple sources with or without primary research.
- Methodologically agnostic, drawing on different and diverse data sets.
- A way to make data use and management easy-to-digest and actionable.

So, amidst endless options in the era of infobesity (Roy, 2018), curation is not only necessary but welcome. And, as we are going to see later in this study, it might even be the new key for the monetization of social media platforms.

2.1.4. Kult

Kult is a website and mobile app in the format of a social network with only one purpose: human curation of content (movies, TV series, books, songs, podcasts, and soon videos). The goal is to make people discover new things to watch, read, or listen to, by sharing with their friends their content recommendations. Meanwhile, we offer a place for a community of culture lovers to debate, save, and organize titles online.

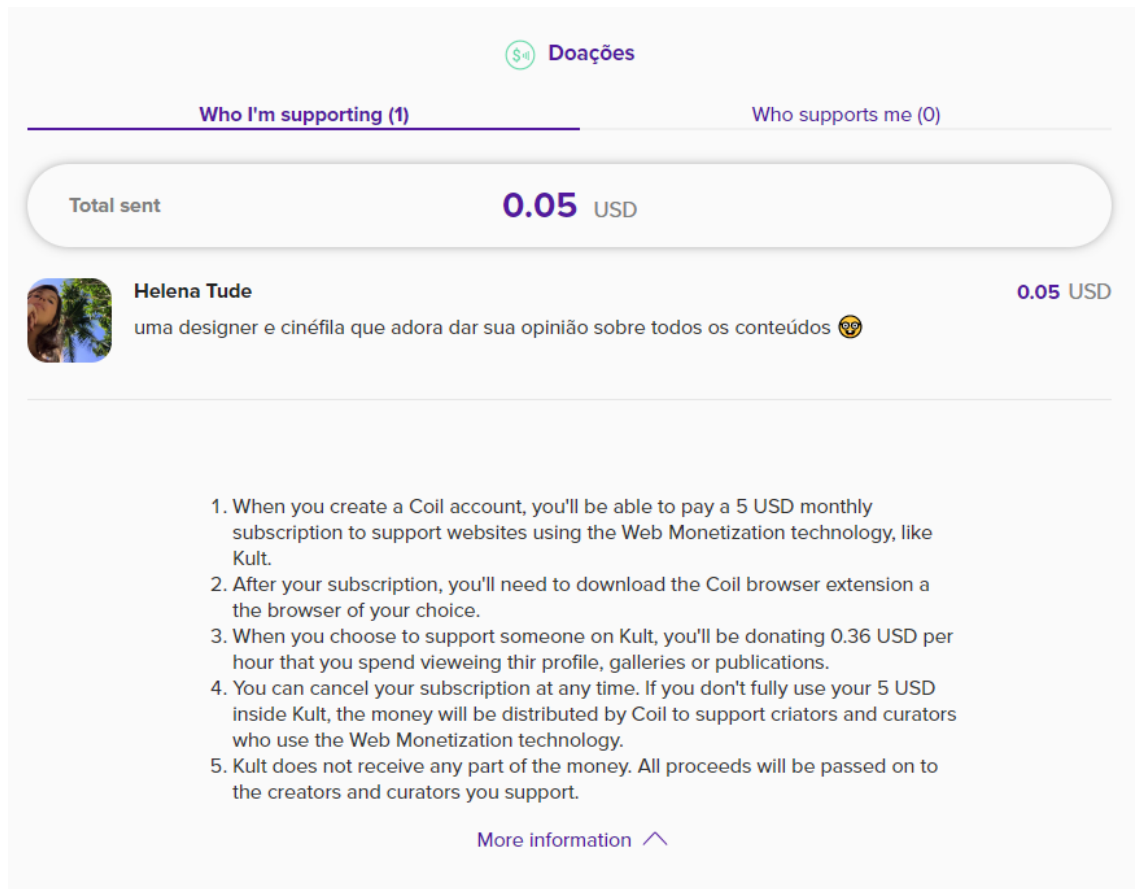
Kult is currently incubated at UPTEC (Science and Technology Park of the University of Porto) and has shown great progress over the last year, recently reaching 5,300 users on the platform, with more than 17,000 content recommendations. The first stage of validation of the idea has hence been proven, and the company now heads to its next goal: paying curators by monetizing their content recommendations.

The startup was idealized by me a few years before starting the master's in Entrepreneurship and Technology at the University of Porto. Thus, I used the knowledge obtained in the course to build a team of 2 developers and 1 designer, which are the cofounders of Kult, and to develop a minimum viable product to validate Kult's main idea. In May 2020 we were selected to participate in the Startup Voucher Program, with a total support of 20,000 euros, together with mentorship, webinars, entrepreneurship courses, etc.

After a successful first year, Kult applied for Grant for the Web Program, by Coil, Creative Commons, and Mozilla, and was awarded total support of 97,000 dollars to be used from June 2021 to June 2022. The main goal of this program was to develop a new business model for Kult, monetizing content curation using Interledger Protocol Technology – which allows micropayments between people. As we reached the end of the program a few months ago,

we managed to develop such technology on Kult, making it possible for people to transfer money to each other rewarding recommendations of content, and galleries curated by people.

Figure 9: Kult's Business Model Monetizing



Source: Kult (2022)

Yet in the prototyping phase, the experience proved that it is possible to monetize human curation of content online. And this is a promising start for new social media monetization experience. Recently, on beginning of September 2022, we received the exciting news that we are going to receive more 75,000 dollars from Grant for the Web to keep developing the human curation business model.

2.1.5. Web 3.0

Internet had so far 2 well-defined phases: Web 1.0 (1990-2004) and Web 2.0 (2004-now). The first one was the very beginning of the internet, where people had almost no interaction at all – one could only read a few static websites owned by a few companies. Web 2.0 was shaped by social media. Instead of read-only as Web 1.0, it evolved to be read-write (Ethereum, 2022). Before, few companies provided static content for users to read, but now people could also create and share content themselves. Social media, of course, was at the

core of this revolution, as people started to connect, engage, and interact with each other. However, as we already saw earlier in this study, a few big tech companies started to control the major part of the traffic and value of such platforms and started using such to make billions of dollars with the targeted advertising revenue model. Although users created most of the content, they never owned or got any of these billions. The monetization of social media platforms was shared in total by its owners, investors, and shareholders. Centralization is the rule.

The current Web 3.0, on the other hand, proposes decentralization. It suggests a new era of the internet, where people can read-write-own. As Ethereum founders described:

- in Web3, and no one gets excluded.
- Web3 has native payments: it uses cryptocurrency for spending and sending money online instead of relying on the outdated infrastructure of banks and payment processors.
- Web3 is trustless: it operates using incentives and economic mechanisms instead of relying on trusted third parties.

Using blockchain, cryptocurrency, non-fungible tokens (NFTs), and digital wallets, Web 3.0 offers decentralization, ownership, resistance against censorship, identity security, and native payments. For the sake of getting straight to the point of this study, we will not deepen into each of these concepts.

The bottom line that needs to be highlighted, though, is that Web 3.0 is the internet of the future. All these buzzwords are already a part of our lives, and they are here to stay. This new era is already disrupting several fields and markets, and of course, social media will be impacted. Web 3.0 is the opposite of everything that the current social media business model is. However, while Web 3.0 defends decentralization, market concentration is still a reality today, with the 2 biggest social media companies controlling 1/4 of internet traffic (Fitri, 2022). Also, although Web 3.0 stands for ownership, nowadays virtually all content produced online ends up being monetized by social media companies for their own profit - usually leaving content producers/providers out of the equation. Last but not least, while Web 3.0 is concerned about privacy, social media conglomerates keep using all the “likes” users give away on Instagram and Facebook to sell them more and more products.

In a nutshell, this new dawn of the internet requires new interactions, new platforms, new solutions – and of course, new business models. Innovation is key to survival in this ever-changing world.

2.2. Knowledge Gap

Although monetization of social media is not a mystery anymore, and the advertising revenue model is already well known and applied by many online platforms, it has shown not to be sustainable. As we presented in this study, there are several other studies and authors analyzing how advertising business models of the biggest social media in the world (YouTube, Facebook, Instagram, TikTok) showed to be incredibly harmful to society.

“The business models of some of the world’s biggest companies are built almost entirely on advertising, including Google, Facebook, SnapChat, YouTube, along with the vast majority of free-to-use mobile apps, social media influencers, professional sports, commercial broadcasting, and news providers. The big brands spend billions of dollars through these channels to promote their products, and also work with the major retailers to make sure their products are best placed to grab consumers’ attention in a crowded marketplace. Some level of advertising is an essential feature of a well-functioning marketplace to provide product information and raise awareness of new and better solutions. However, advertising becomes inherently unsustainable for the planet and society when it is built on highly sophisticated tools and techniques to attract, manipulate and maintain consumer engagement through appealing to people’s vanity, insecurities, ignorance, etc. (N’Goala, 2015), and encourages unsustainable consumption.” (Bocken & Short, 2021; p. 16)

This aggressive model is only possible today because it deeply violates people’s privacy and uses tricks to keep people addicted and frightened. But its consequences are inevitably disastrous to humanity. As society got more and more aware, laws started to limit the access that big tech companies have to our data. Regulations such as General Data Protection Regulation (GDPR) went into effect over the last years in several countries like the USA, Brazil, and the European Union, to stop the privacy violation that big techs carried out for years without any shame or boundary – and which made them tons of money.

Either by public pressure or governmental regulation, the advertising business model will never go back to its “golden years”, when they could access everyone’s data with no restrictions at all, and nobody was paying attention. Targeted advertising back then achieved its profit peak and now tends to slow down until it finds a steady state.

So, the noticeable asymmetry of information here relates to the new era of social media monetization. Although there are countless studies and articles about the current advertising model that social networks use, the gap lies in the future of new social platforms, i.e. how they will make money with social interaction (Bauer & Latzer, 2016).

Our aim is to contribute to reducing such information gap. Contributing to the analysis of some real cases, this study will focus on how social media should discover new ways to make money using its incalculable value, in a way less harmful to society than that proposed by the current advertising-based model. Nonetheless, this study also explores how social media companies are already innovating and creating new business models, in order to reduce the influence of advertising on their revenue stream. Finally, we will explore further Kult's case study, aiming to propose a new way of peer-to-peer monetization, aligned with the future of the internet (Web 3.0), by minimizing the growing problem of information asymmetry, content overload and the paradox of choice.

3. Methodology

3.1. Methodology Introduction

According to the study “The Selection of a Research Approach” (2014) a researcher needs to identify the methodology of its study when planning its project plan. There are three factors implied in this decision: philosophical assumptions of “world vision”, the specific design of the research, and research method. However, the main factor that will influence the approach is the problem category that is under study and the questions that should be answered (Creswell, 2014). Moreover, according to “Design-Science” by Hevner et al. (2010), researchers “must use their creative skills and judgment to determine when, where, and how to apply each of the guidelines in a specific research project”.

Therefore, having in sight the questions we want to answer questions (problems) about “How?” and “Why?” can be effectively addressed through case study, which has four steps: 1) designing the case study, 2) conducting the case study, 3) analyzing the evidence of the case study, and 4) developing conclusions, recommendations, and implications (Yin, 2016). According to Tellis (1997), “case study is a reliable methodology when executed with due care”.

As of the methodology of the case study, we will use a multiple case study approach which, according to Yin (2016), allows us to unravel different real cases aiming to find more accurate conclusions, and suggest final propositions based on the entire study, as suggested by Hevner et al. (2010). In our specific case, we will use this approach since the prevailing advertising model was invented by Facebook and Google, and therefore we must understand, through case study, how this model operates and the ways it has changed the world. After, we will explore new ways of monetization, by analyzing new business models proposed by more recent social media (Patreon, OnlyFans, and Substack). Finally, we will study Kult’s proposition of business model, based on the idea of monetizing human curation of content.

3.2. Research questions and strategy

The present study aims to promote an analysis of the literature and case studies to understand what are the current business models that made social media companies so profitable. It also suggests that such business models are not sustainable in the long run. Finally, it focuses on presenting and analyzing more up to date business models that are being tested and adopted by social networks worldwide. Furthermore, in view of the new era of the internet (Web 3.0), we present the new model based on the startup Kult’s experience: the monetization of

content curation online as a way to generate profit for everyone contributing to the platform growth (instead of benefiting the company only), while contributing to solve the problem of choice paralysis (see page 16).

In sum, to answer the following questions: “*Q1: What is the prevailing business model of social media up to this point?*”, “*Q2: What are the emerging business models that are being tested by social networks?*”, and “*Q3: What is Kult’s innovative business model proposal?*”.

The methodology of the research was elaborated to understand aspects of social media business models that could answer the proposed questions. To get there, we first started to analyze literature about business model and social media, the knowledge gap and other important concepts related to our research goals and case study selection.

Finally, as the goal of this study is to propose an innovative business model after understanding the prevailing social media business models and new ones arising, the worldview proposed in the study is based on a participatory observation (Davies, 2007) as the researcher is also CEO of Kult, the selected case study (as explained above on page 17), with a pragmatic worldview.

“The pragmatic worldview emphasizes the research problem, using all approaches available to understand the problem” (Creswell, 2018).

In our case, “all approaches available” means mainly literature review and our own experience in trying to develop a more up to date business model for Kult. But it also includes analysis of recent reports, studies, articles, and interviews published in the world wide web, in order to deeply understand the cases under study and answer the proposed questions at the end of this document.

3.3. Case Study Selection

Due to the exploratory nature of the main case study (as Kult is a 3 year old startup in its early stages of development), and aiming to reach the goal of this study, the author chose to study the currently biggest social media companies – Facebook/Instagram and Google/YouTube – to understand how they innovatively changed the way social networks profit by disrupting advertising. The study then focuses on the so-called creator’s economy (often associated with such platforms), in order to highlight the saturation of such models, and how this also contributed to the emergence of new models - such as the subscription memberships based on peer-to-peer monetization. To illustrate this specific matter, we chose

cases based on some of the most validated and valued (although still recent) platforms from different creative sectors, with over a million users. The result was narrowed down to three platforms: Patreon (for artistic creators), OnlyFans (for adult entertainment creators), and Substack (for journalists and writers).

According to Yin (2016), a case study group should not be confused with a sample. The process should be seen as a multiple experience approach, and this is how we are going to treat it.

4. Analyzing current social media business model

This segment focuses on analyzing the main social media companies' business models seeking to understand where we are today and how we got to this point. The focus of the following chapters is to understand the biggest social networks' revenue streams, aiming to answer the research questions proposed by this study.

4.1. How Facebook and Google changed the advertising game

As briefly demonstrated in this study, Facebook and Google both make a lot of money by using all personal data they can get from users to sell products and services from advertisers. This is only possible with the user-generated content we provide to their platforms. In other words, while we “like” that friend’s post on Facebook, post a picture on Instagram, rate a restaurant on Google, and watch a cooking video on YouTube, we are generating content and data for these companies to monetize. The more you use their platforms, the more they know about you. You don’t have to post or even “like” necessarily. You just have to be there consuming the content other people are generating for the platforms, and that’s enough for them to profit.

Their model goes like this: on one side, we have content creators, who post text, photos, or videos; on the other, we have an audience, who accesses the platforms to consume such content. And in the middle, we have the social media companies, which provide the platforms but also act as a sort of business intermediary, by controlling the algorithms and data they sell to advertisers. In fact, Facebook and Google created a ‘bidding mechanism’, a real auction, that puts all advertisers to fight for the audience's attention. Whoever pays the highest bid, gets a better position in their platforms, which means more views, more clicks, and more sales.

“Here's how the auction works: When someone searches, the Google Ads system finds all ads whose keywords match that search. From those ads, the system ignores any that aren't eligible, like ads that target a different country or are disapproved based on a policy violation. Of the remaining ads, only those with a sufficiently high Ad Rank may show. Ad Rank is a combination of your bid, ad quality, the Ad Rank thresholds, the context of the person's search, and the expected impact of extensions and other ad formats.” (Google, 2022)

The more you use social media, the more they will know about you, and the more time they will have to show you ads, so the more money they will make in those auctions. Because of

a simple fact: with more knowledge and time, they can sell more. And this knowledge, of course, comes from the data users provide. Thus, they must keep you using the platform for as long as possible, so that you can generate more content and data for them, and they have more time to display their advertisements to you.

And that's where the most fantastic and lurid things about this model lie: they create immense value for people using fun and useful social networks and even more for advertisers who never had this accessibility to their clients. However, it charges its toll: they can only do it if they hook billions of people and violate pretty much all their online privacy. The more addicted you are, the better product you are. It is not quite distant from a drug dealer mindset.

“We are not the customers of Facebook, we are the product. Facebook is selling you to advertisers” (Solon, 2011)

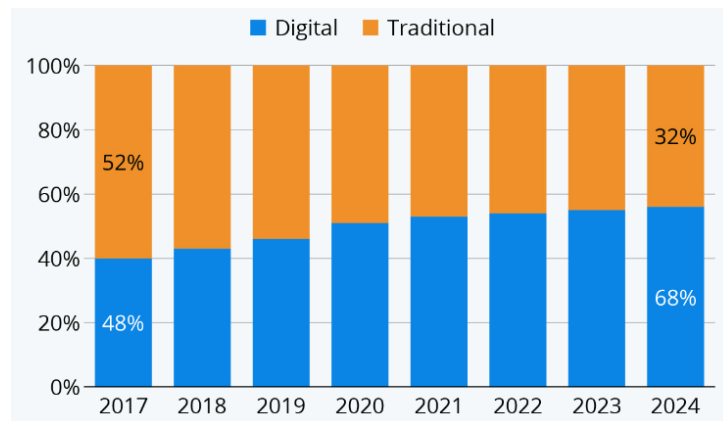
The data-driving experience can be proved with a simple test: try to Google “movies” on your mobile, and then on your friend’s mobile. Then try in your mother’s or father’s, or spouse’s, or children’s... Each one will get a different result, with different movie suggestions based on this person's taste, considering last searches, locations, language, nationality, etc. The algorithm will calculate millions of variables in a fraction of a second to give you a more accurate suggestion, based on what the platform (in this case, Google) already knows about you. And of course, there is a big chance that the first results of the first page will be ads, precisely offered to you after an algorithmic match, done in the blink of an eye.

The tailor-made experience is only possible with billions of data points they collect in the many different interactions you have online, and this is what makes their advertising so precise. It is completely disruptive and game-changing, mostly for small companies. Think about it: before Facebook and Google, companies did not have too many options of where to advertise. Newspapers, TV channels, radio, and billboards were the main channels available for advertisers. Before the internet, marketing was a “pay-to-play” arena with very few channels. So of course, they were incredibly expensive and competitive. Besides, they were also picky. TV would never risk their reputation and use precious minutes of their shows with an unknown company, even if those companies had the money to pay for this ad. At the same time, big companies were paying a lot of money for mainstream channels that had broad demographic characteristics and generalized audience segments. They never knew exactly how many people saw their brand, or who they were, or if they really bought

the product. Advertisers could only have an idea of how they are spending their money and use extremely vague assumptions to analyze the results of their marketing campaigns.

But when Google and Facebook came along, the game changed. Everyone, including singular persons and small companies, could advertise their products and services to the world for a small amount of money. Even for free, you just had to do a website or a Facebook page to publicize your brand for thousands or millions of people. And what is even more disruptive: the advertisers could know exactly how many people they reached, who they are, who is buying or not, and who is liking the product or not. With that information in hand, they could optimize their campaigns and get better results in a way never seen before, while spending much less compared to traditional marketing instruments. This is how the new digital marketing dethroned traditional media and became the king of the advertising market.

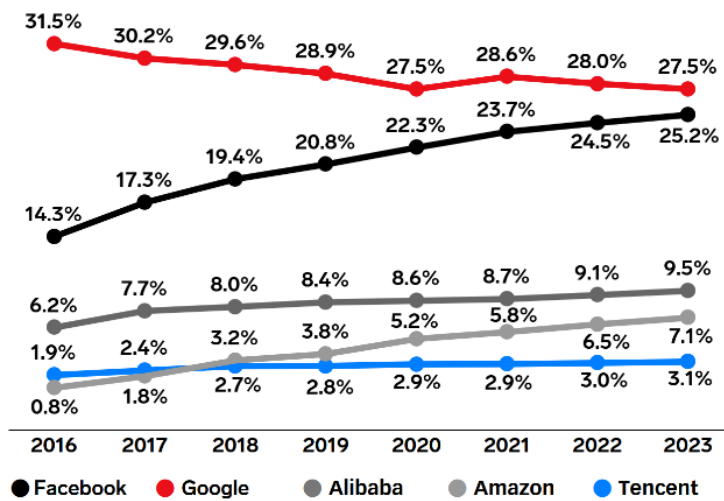
Figure 10: Digital and Traditional Formats as a Share of Ad Spend in the U.S (in %)



Source: Buchholz (2020)

This proportion above is in fact a duopoly where Facebook and Google own more than half of the digital advertising market.

Figure 11: % of total digital ad spending



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after company pays traffic acquisition costs (TAC) to partner sites; Alibaba includes Youku Tudou; Facebook includes Instagram, Google includes YouTube
Source: eMarketer, March 2021

Source: Cramer-Flood (2021)

When we see all these numbers, we must bear in mind that “Facebook” is not only facebook.com, but all the media conglomerate that owns WhatsApp, Instagram, Messenger, and Facebook, called “Meta” Group, which has 3.6 billion people using its platforms at least once a month (Zacks Equity Research, 2022). Meanwhile, Google represents Alphabet, which also owns YouTube, Waze, Android, Gmail, Chrome, and others, and has more than 4 billion monthly active users in the world. In the image above, “Facebook” also considers Instagram, and “Google” includes YouTube, being these the biggest social media companies in the world today.

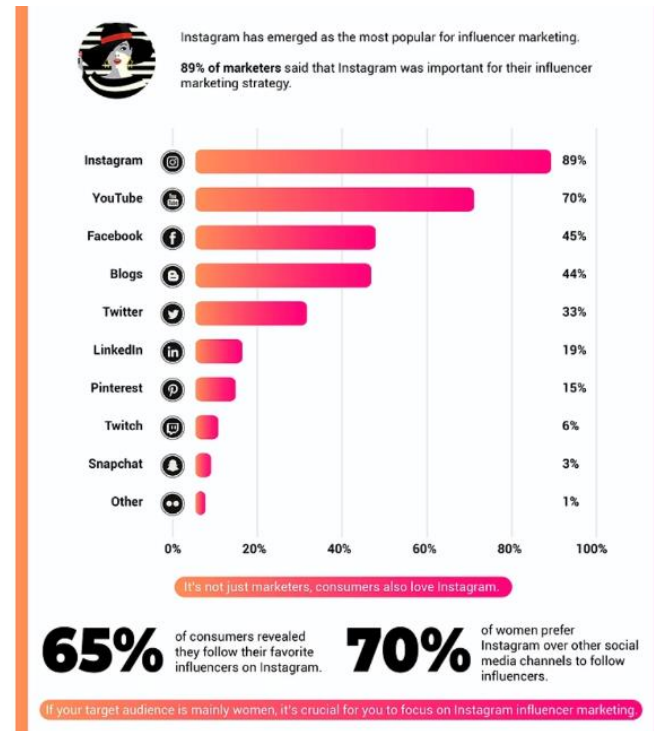
4.2. The different business models of the creator’s economy

With the surge of social media such as YouTube, Facebook, and Instagram, many people started to produce content online. What is even more relevant is that they started to be part of a network and become opinion-makers, progressively increasing their influence over their followers. And that is when brands realized they could sell products to niches using the so-called “influencers”, who began to profit with marketing campaigns specifically designed to their target audience. This rapidly became a new kind of job, where everyone, famous or not, could create content online and grow a community that followed and supported them.

As of today, there are more than 50 million independent content creators spread over many different platforms, including social media influencers, bloggers, video makers, writers, and

so on (Yuan & Constine, 2022). The creator economy is already estimated at more than 100 billion dollars worldwide (Forbes, 2022) and keeps growing exponentially. The most popular platforms for influencers are Instagram, YouTube, and Facebook.

Figure 12: Which Platform is The Most Popular for Influencer Marketing?



Source: Yuan & Constine (2022)

When it comes to the business model, however, there are differences. YouTube has a revenue sharing system since 2007, where the company takes 55% of advertising revenues and creators receive the remaining 45% (Google, 2022). Using Google's AdSense calculator, it is estimated that creators earn between \$2 and \$12 per 1,000 views. This value will vary according to the public you reach, and with the industry that advertises in the video. That said, the average creator can make around \$5 and \$7 per 1,000 views. One of the biggest video creators on earth, "MrBeast" makes an estimated 14 million dollars a year only with YouTube ads (OkDork, 2022), but he sums billions of views in his videos. Most creators cannot reach this level of monetization and have to use other revenue streams to make a living with their content.

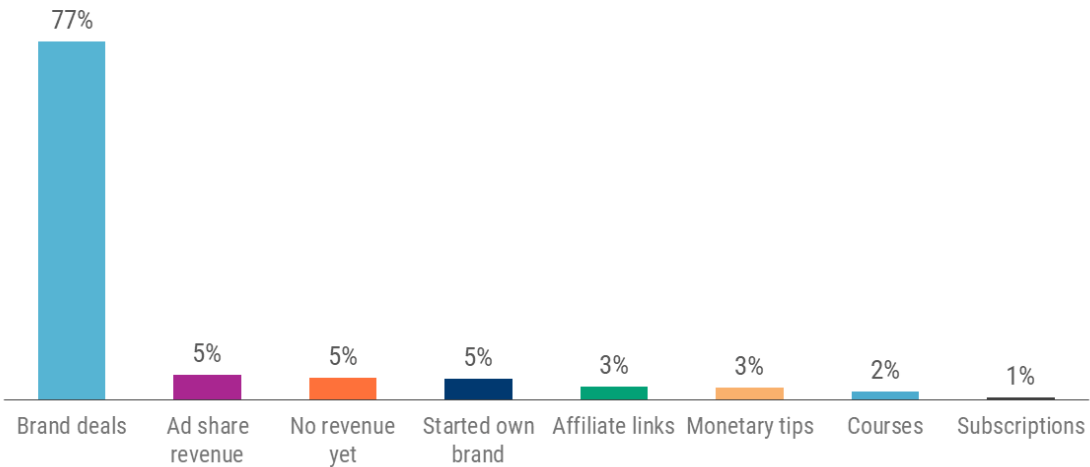
TikTok also provides a way to compensate creators for their videos (TikTok, 2022). Instagram, on the other hand, did not have a revenue share system until recently, when they announced a system similar to YouTube, where creators can earn by creating Reels (15-second videos) for the platform (Facebook, 2022). A more recent platform in the video segment, Twitch has an interesting proposal that mixes different revenue streams, like a

signature model, “bits” (similar to tipping²), commission fees for selling games, and advertising. The strategy worked so well that YouTube created similar instruments for its creators, like SuperChat and Super Stickers, where fans can donate and monetize creators directly, in a peer-to-peer business model (Murphy, 2022).

It is very common, though, that influencers appeal to other ways of making money, since platforms get the biggest share of the ads revenue. Affiliate links to sell products and courses are becoming recurrent, and some creators with entrepreneurial acumen start their own businesses to capitalize on their influence without needing to depend on platforms or brands (Padia, 2021).

Many influencers, on the other hand, focus on having advertising contracts with brands outside the platforms. That way, they don’t depend solely on the platform to earn money with their influence. As of today, social media companies are still paying too little for most creators. Although they keep growing their market value in millions of dollars year by year, based on these creator’s work, most creators depend on revenue streams outside the ad sharing paid by platforms (Simão, 2020).

Figure 13: The Highest Revenue Sources for Surveyed Creators (%)



Source: CBInsights (2021)

Therefore, the main revenue streams content creators are using today are (i) brand deals (“publiposts”), (ii) ad share revenue, (iii) starting their own business, and (iv) affiliate links, being the first one the main source of monetization for creators.

Trying to diminish this dependency on advertising, many platforms are coming up with ideas to help monetize creators’ content in new ways. Platforms believe that we reached a maturity point where the creator economy can finally be able to make money directly from their fans. Tipping and charging for exclusive content access have become a trend, as we are going to see in the next chapter. But the mainstream social media are also trying to add interesting features to cope with that (Fischer & King, 2021).

- **Twitter** is working on adding a “Tip Jar” feature on users’ main profiles. This is in addition to its new "Super Follows" feature, which allows users to charge followers for special content.
- **Clubhouse** launched payments feature to help audio creators generate revenue from the platform.
- **Facebook** said it would expand its “Stars” virtual currency, which lets fans reward video and game creators directly for their content.
- **Instagram** late last year launched "Badges", a virtual gift that users can buy during livestreams to show their support for the creator in real time.
- **YouTube** has been experimenting with various tipping features including “applause,” and “Super Chats” for years.
- **Spotify** plans to make possible for listeners to send money directly to artists and podcasters.
- **Twitch** already uses different ways of monetization like “Bits” (tipping) and “Sub” (subscription).

Not all of them were successful in their attempts, though. Market concentration and oligarchic maneuvers (such as mergers and acquisitions, not only between technology companies but also between these and purely cultural and creative companies, such as Disney or EMI, for example) are a very serious market problem, which many sometimes makes it impossible to generalize these new instruments and more democratic and fair business

models. Some of these maneuvers - although laudable at first sight - are nothing more than marketing gimmicks used by major players of the industry (Simão, 2020).

Nonetheless, the efforts to invent new ways of monetizing creators have shown to be a trend, as more platforms and creators realized ad revenue dependency is just not sustainable. In fact, such models have severely contributed to the dramatic situation of cultural and creative sectors all over the world, during the pandemic years, forcing governments and public institutions to take action (Montalto, Sacco, Alberti, Panella & Saisana, 2020). As we are going to see now, there are more and more platforms proving that it is possible to create billion-dollar companies and still reward creators in a fairer way.

4.3. The rise of Subscription Memberships using the power of community

While the biggest social media owners, like Meta (former Facebook) and Google, took advantage of an ad-share revenue stream to profit billions with user-generated content, creators started to realize that they could do more outside of these platforms. On one hand, they were still very reliant on YouTube, Instagram, and Facebook to make money. After all, this is where people are, and social media are still an essential channel to disseminate your work and attract more followers. On the other hand, the constant changes in algorithms and unclear guidelines made influencers feel vulnerable. And they were rightly concerned, as simple algorithm change can make them sink in a matter of days (Canales, 2022). It is also not rare to see creators being demonetized or banned from platforms without a clear reason.

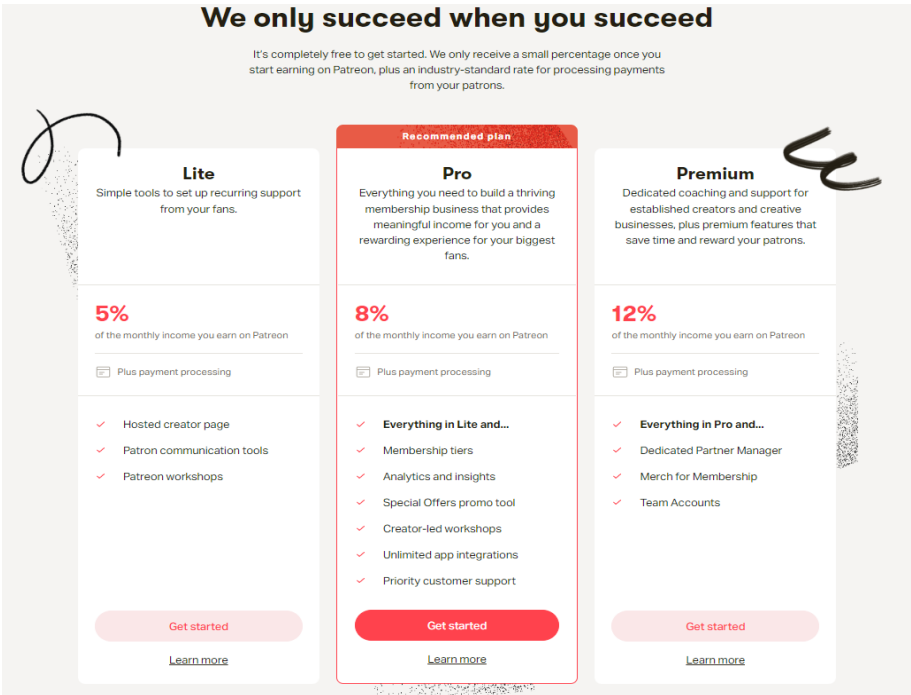
At this point, it is important to open a brief parenthesis to highlight the hypo sufficiency relationship creators have with big techs. Although people create all content that will be used to generate billions for these platforms, they do not have any voice when it comes to deciding its course. These platforms are run by executives focused on making as much profit as possible. Not rarely, it means taking decisions contrary to creators' interests. For instance, recently when Instagram started to prioritize short videos to compete with TikTok, many influencers and users sparked a revolt against the company's refocus (Milmo & Hern, 2022). The new feature, called "Reels", caused old influencers to lose views and consequently, a lot of money. So, at the end of day, creators can be the reason why people come back to social media, but big techs are still the decision-makers, and they usually decide for more money. If you want to be a part of it, you have to play their game.

With that scenario in mind, entrepreneurs came up with different social platforms to solve creators' problems: a peer-to-peer subscription model where people can directly support their favorite creators, giving them more autonomy and independence. In sum, these platforms charge a fee to provide creators a place to publish their work and receive payments. In return, the creator will provide their community of supporters with exclusive content and other perks. For this study, we will be focusing on three of such platforms: Patreon, OnlyFans, and Substack, which have similar business models but different audiences and approaches.

Patreon

With the goal to “fund the creative class” (Robertson, 2017), Patreon is a platform founded in 2013 for any creator – podcasters, writers, video makers, musicians, artists, gamers, and so on – to receive direct support from followers and fans. It is free to get started, meaning that you can publish and display your work online without having to pay anything to the platform, or the other way around. Once you start to monetize your work, the platform will get a small percentage of it, and offer in return payment processing, communications tools, workshops, analytics tools, and other features.

Figure 14: Patreion’s Business Model Monetizing



Source: Patreon (2022)

Their target creator is not the singular blockbuster hitmaker, but the long-running community. In other words, Patreon is indicated to the independent artist with a few hundred loyal and passionate fans. Or a gamer who plays a game that only a few “nerds” can appreciate. Or a podcaster who prefers to have 300 supporters paying \$5 every month - which guarantees a small but stable income and grants independence instead of 100 thousand Instagram followers - which might pay better but requires selling branded products, causing content bias. In a nutshell, it is made for independent creators with an engaged community of fans/followers/supporters - and it was revealed to be especially important during the pandemic.

When it comes to business, Patreon proves that a company can make money and support creators at the same time (Thinkimpact, 2022):

- The Patreon program has been beneficial as more than 195,000 content creators have at least one patron supporting them.
- The platform has seen exponential growth over the last few years – the number of creators grew by 40% in 2021.
- More than half of the six million patrons Patreon hosts on its website have joined within the last three years. It, at present, sees over 6 million active supporters each month.
- Videos have the highest number of content creators and are the most-watched content on Patreon. As you would expect, they also have the highest monthly revenue at \$5.8 million.
- Creatives earned an approximated \$23.2 million in June 2021, in comparison to \$18.5 million at the same time last year, translating to a 26% increase in revenue.
- In 2017, creators received \$150 million – a figure that surged to \$300 million in 2018. The amount received in 2020 doubled the \$500 million reached in 2019 to cross the \$1 billion mark.
- Considering the average fee of 8%, Patreon’s income is expected to be around \$ 80 million in 2020 (Peckham, 2019).

The main highlights of Patreon show an established company with solid profit growth year over year. After the last founding round in 2021, Patreon reached a \$4 billion valuation, proving that there is life beyond Instagram or YouTube's business models.

This case is paramount to demonstrate validation of the peer-to-peer business model, in which people can directly monetize their beloved creators, ensuring not only a regular income, but more importantly, freedom and independence. This is an exciting new model, where creator and company can reach a common ground that benefits both, without having to exploit one another or people's privacy. The power of community is proven by Patreon to be a force that is here to stay, and is already setting a new paradigm for future platforms.

OnlyFans

Launched in 2016, OnlyFans is a social network mainly used by adult-content creators, although any creator can use it. With over 100 million registered users, more than one million creators, and reported revenue of \$400 million in 2020 (Brewster & Dawkins, 2021) OnlyFans valuation surpassed the \$1 billion mark in 2021 (Tan & Shaw, 2021).

OnlyFans has many similarities with Patreon, however, a key difference is that OnlyFans offers the ability to subscribe to a free tier and receive free content. Also, its interaction is more similar to a social network (with news feed, likes, etc.) and is almost 100% used by adult-oriented content creators, while Patreon is more artistic/niche oriented. Creators can post anything (most people post photos and videos) on OnlyFans and lock it behind a paywall, then set a subscription price to access the content, from \$4.99 to 49.99 per month. Creators can also receive tips or private messages starting at a minimum of \$5. Private communication, by the way, is a big advantage of the platform over other premium adult content websites. Allowing subscribers to chat with their favorite creators through direct messages on the platform has proven to be a gold mine (Wishpond, 2022). The platform gets a 20% fee over every payment made on the website (Influencer Marketing Hub, 2020) and that's how they reached 1.2 billion dollars in net revenue by the end of 2021 (Statista Research Department, 2022).

With this creative business model, OnlyFans spreads almost 5 billion dollars to its 1.5 million content creators, that chose not to depend on advertising, by strengthening the fan-creator relationship. It is true that this kind of business model is difficult to replicate in websites where creators are not so appealing to the public, so to speak, but it is interesting to watch

how niche social media can come up with a billion-dollar revenue stream without selling one single ad (Darling & Perzanowski, 2017).

Substack

Substack is like OnlyFans for writers and podcasters, and was founded in 2017. It began as an email platform, where writers could create an audience and send them newsletters. Like Patreon and OnlyFans, the creator can always publish it for free or charge something for their content – the platform takes a 10% commission fee. The company says they have 1 million paid subscriptions, most charging between \$5 and \$15 per month (Fischer, 2021). In 2021, Substack reported a revenue of \$9 million³, and reached a \$650 million valuation. Despite being in the hype for the last years, most people calculate that one needs around 10,000 monthly readers, and 1,000 supporters, to reach a reasonable income (around \$60,000 per year) (Hughes, 2022), and this is not an easy task at all.

The problem, however, is that writing newsletters is a time-consuming habit, and so it is to read them. Usually, people do not have the time or will to read not even one newsletter every day, let alone two or more. Less than 10% of the 29 million monthly visitors actually pay for a subscription, and most of them do not spend more than \$10 per month (Doll, 2021). During the pandemic, the hype helped Substack to get major headlines and star as the new trend for journalists and readers, which also happened to a few other “disruptive” new social networks like Clubhouse. However, as the hype train passed, Substack realized they had a long way ahead to stay relevant in an era where competition for attention is relentless. As we could observe in this study, the tide is heading towards audiovisual content (mainly short videos and podcasts), not written. Of course, Substack realized that and recently expanded its solution to include podcasts and videos for publishers, making it possible for them to create video and audio content to complement their writings, and therefore take advantage of this trend.

As a conclusion of this section, it is important to point out how all social platforms today cannot escape from the video content wave. If we go over all social networks mentioned in this study, we realize that every single one of them has pivoted to focus on videos. Even Instagram, well known as a photo sharing network, now is mainly displaying video content on our feeds. The trend, drawn by TikTok exponential growth among youngsters, seems to

³ <https://www.nytimes.com/2022/05/26/business/media/substack-venture-capital.html>

be here to stay. And any creator or platform fighting for our attention should be aware of that.

5. Analysis and Insights

As “advertising becomes inherently unsustainable for the planet and society when it is built on highly sophisticated tools and techniques to attract, manipulate and maintain consumer engagement through appealing to people’s vanity, insecurities, ignorance, etc.” (N’Goala, 2015), and creators are not satisfied with current ad share revenue model (CBInsights, 2021), it seems that the biggest social media are trying to find new ways to monetize their products and content, consequently reducing the dependency on ads.

Meanwhile, emerging platforms proved that peer-to-peer monetization is not only possible but profitable both for creators and companies (as actually former models such as Napster⁴ predicted in the early 2000s)⁵. Networks such as Patreon, OnlyFans, and Substack, each one with different niches, managed to replace the current advertising-based model by offering a new alternative to creators.

Parallel to this, the endless battle for attention does not seem to cease as more platforms, more creators, and new technologies come along. We will need to wait and see how it will develop, as, at the same time, major players continue to develop new ways to control the market and maintain their power.

5.1. Attention’s Economy Trends

The movements observed by the biggest players in the social media market (Facebook/Instagram, Google/YouTube, Amazon/Twitch) all show the same trends and power concentration strategies. New emerging platforms, on the other hand, are usually more innovative and propose different approaches to niche problems. But it is also interesting to see how all these initiatives are impacting the attention’s economy players – from streaming services to social media. While the main players are fighting for the attention of billions of users worldwide, new platforms are paving the way to a more sustainable and meaningful business model, by solving smaller but real problems, namely through developing on what Anderson (2009) once called the long tail model.

⁴ Napster was an audio streaming service provider. It originally launched on June 1, 1999, as a pioneering peer-to-peer (P2P) file sharing software service with an emphasis on digital audio file distribution. (<https://en.wikipedia.org/wiki/Napster>)

⁵ See also: “RIP: a Remix Manifesto”

- **The era of video content:** in this study, it became clear that all the main social media platforms must consider video content strength. Videos are already the main product on YouTube, Instagram, Facebook, Twitch, and the major streaming services. Emerging platforms, such as Patreon, OnlyFans, and Substack, all came to the same realization and pivoted to include video in their creator's portfolios, which helped them to stay relevant to their users.
- **Diversification of revenue streams:** all social platforms today, either emerging or established, offer different revenue generating instruments for their users/creators. Twitter's main revenue stream is still advertising, but approximately 10-15% of its revenue comes from data licensing through its API (Reiff, 2022). Twitch has ads but also allows peer-to-peer monetization via bitcoins, donations, subscription models, and referrals (Murphy, 2022), which has proved to be successful and is pressuring YouTube to do the same (Beattie, 2021). Facebook/Instagram, largely known for the advertising model, is expanding its operation to shopping within the platform (influencers and brands can sell products, Instagram gets a 5% cut), gaming (referrals for selling games), and virtual reality (the new focus of the 'Meta' company) (Johnston, 2022). In short, although advertising is still the major revenue stream for the biggest social media businesses, it is becoming less and less relevant every year. Other platforms, such as Patreon, OnlyFans, and Substack, do not use advertising at all, but always try to diversify their creators' revenue generating mechanisms, as we saw above (page 32). Streaming platforms, however, are on the opposite path: huge players such as Netflix are giving up on the exclusivity of the subscription model and starting to launch advertising plans, as cheaper options to attract more clients (Spangler, 2022). At the end of the day, all companies fighting for our attention are being forced to diversify their business models as a way to attract wider audiences (users) and hence become more sustainable.
- **Peer-to-peer monetization:** allowing people to transfer money between each other is a major achievement that has only been made possible as the creator's economy becomes mature. It is largely proven, by many platforms and their business models, that people are willing to monetize their favorite creators directly. It is an important revenue stream to many of them, as they do not depend solely on publicity/advertising, and can create in a more independent way (oddly enough, this was pretty much the proposal of many exciting platforms born at the dawn of the

internet, from which Napster is probably one of the best well-known examples, which initial model bankrupt due to copyright infringement lawsuits).

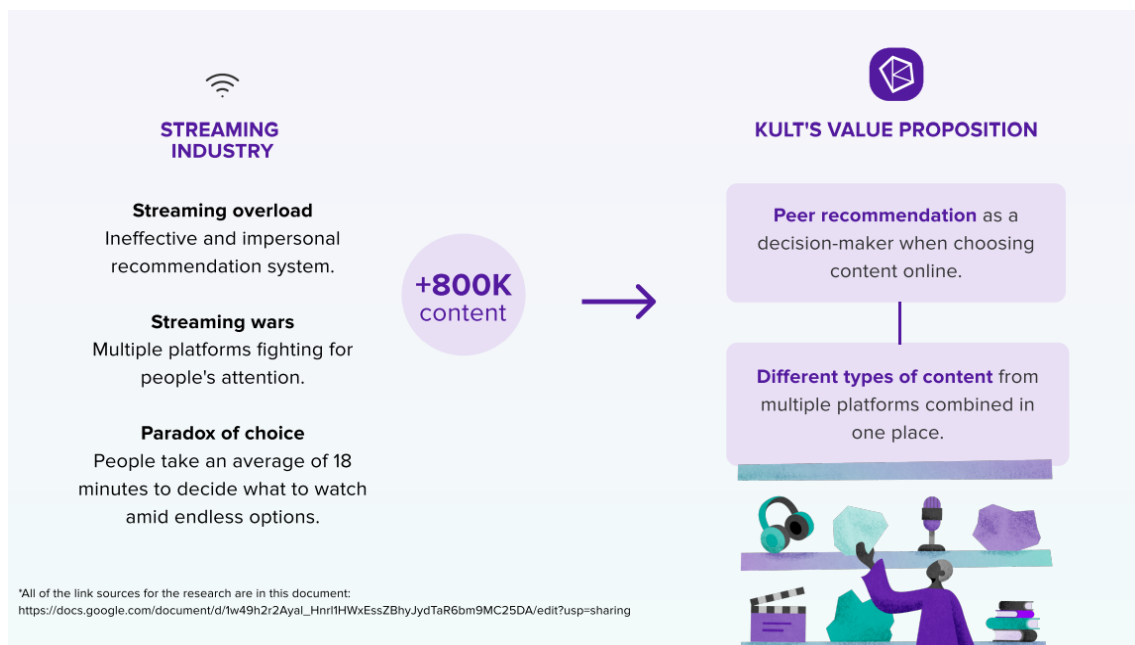
- **Choice Paralysis pandemic:** people spend 18 minutes picking something to watch on Netflix, companies' studies find (Maglio, 2016). This is a compelling way to show how the plethora of content can be overwhelming and stressful. And it's going to get worse, since we have millions of new content being published every day, on several platforms, from streaming to social media and books. Platforms initially thought that as more content you have, the more people would stay. But the reality showed that it is the opposite. People are getting lost and paralyzed with so many options. It is a problem that platforms must overcome if they want to keep people's attention - being specialized human curatorial work one interesting way to solve this, as we will see below.
- **Algorithmization:** the solution platforms are providing to deal with the problem above is improving their recommendation algorithm. The more accurate it is, the more time you save picking something, and the more attention you can keep. According to users and experts, TikTok is the most well-succeeded app when it comes to recommending content. This is what made them grow exponentially and leave behind the most used social networks in the world (Smith, 2021). However, there are several problems arising from the algorithmization of society. Algorithms are shaping the way people see the world, as they drive almost everything we watch based on how much money they will make. The outcome, of course, is not healthy at all for society. Nonetheless, artificial intelligence (AI) recommendation tends to turn into a commodity, as engineers eventually understand how their competitors' systems work and implement the same logic to compete with them. As of today, though, the recommendation system is not effective at all, as can be seen by the time users take to pick something, or by the fact that YouTube's AI has a regret rate of over 70% (Lomas, 2021).
- **Human curation of content:** as an alternative to the AI system that fits people into bubbles, affecting social dynamics (Chan, 2019), many platforms are turning to human curation. Of course, algorithmization will not end, on the contrary it will probably continue to grow exponentially. However, joining forces with human recommendations seems to be a more sustainable way even to improve AI's

effectiveness. Huge streaming services as HBO Max⁶, Netflix⁷, and Spotify are investing big time and money to create more humanized experiences, where content recommendations come from real people instead of machines. The problem, though, is that those curations are not exactly independent. They of course follow the companies' guidelines on what they should recommend, contributing to what some authors call the standardization of culture (São Simão, 2020). Netflix, for instance, will always try to push their original productions to audience, the same way as Spotify, which is now producing their exclusive albums and podcasts series.

5.2. Kult's proposition of business model, based on the monetization of human curation

With more than 5,300 members, Kult's community already shared more than 17,000 recommendations of movies, TV series, podcasts, songs, and books. According to research and feedback, 94% of the members discovered at least one content using Kult. We managed to validate the main idea, which is the human curation of content to save people's time when picking something to watch, read, or listen to. One of the biggest problems Kult helps to solve is the choice paralysis problem (see page 16).

Figure 15: Kult's Value Proposition



Source: Pitch Deck Kult 2022

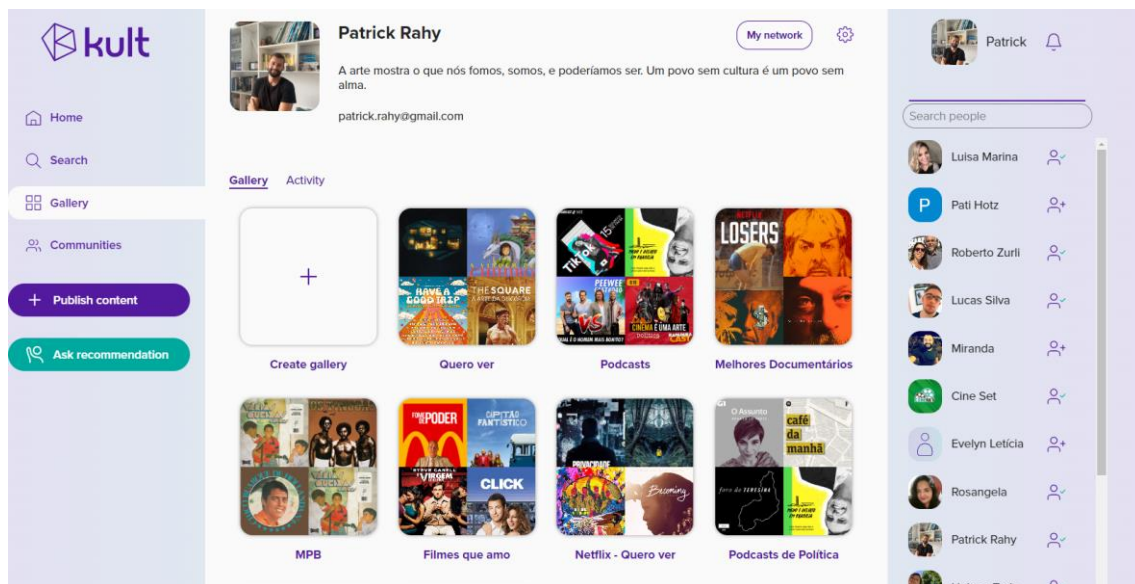
⁶ <https://www.theverge.com/21268972/hbo-max-design-recommendation-human-curation-friends-kids-profiles>

⁷ <https://techcrunch.com/2019/08/23/netflix-tests-human-driven-curation-with-launch-of-collections/>

Instead of scrolling Netflix for hours without any idea of what to watch, Kult offers a complementary service which allows users to see hundreds of movies and TV series that their friends are watching and liking. But Kult has become much more than a mere recommendation platform: it is now a vibrant community of culture lovers, with several features for members, including:

- **Digital library:** every time people hear about a great new song, or a must-read book, they usually try to remember it to listen or read later. Most of the time, though, they forget what it was just a few moments after. This is a common struggle Kult offers to solve through its digital galleries, where users can save and organize things they discover with other people:

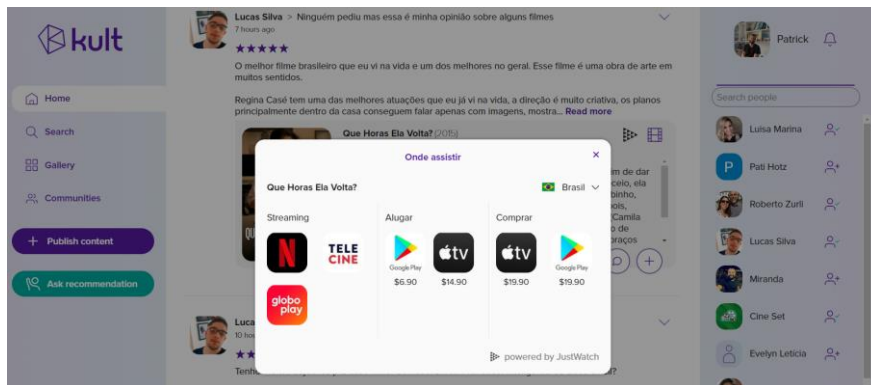
Figure 16: Kult's "Digital Library" Example



Source: Kult (2022)

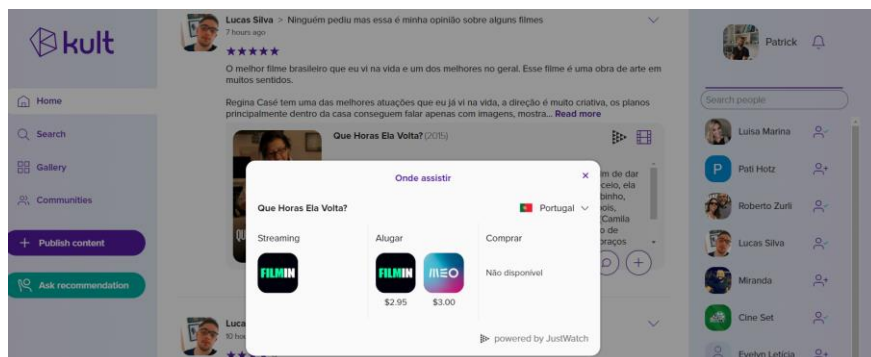
- **Where to watch/read/listen to:** another real struggle, amongst several platforms, is knowing where the content is available. Besides the number of old and new streaming services, there is a recurring fact, which is the constant change of titles between platforms. To solve this confusion, Kult offers the “Where to watch” feature, which displays updated information on where the content is available in different countries, with a direct link to it:

Figure 17: Kult's "Where to Watch" Example



Source: Kult (2022)

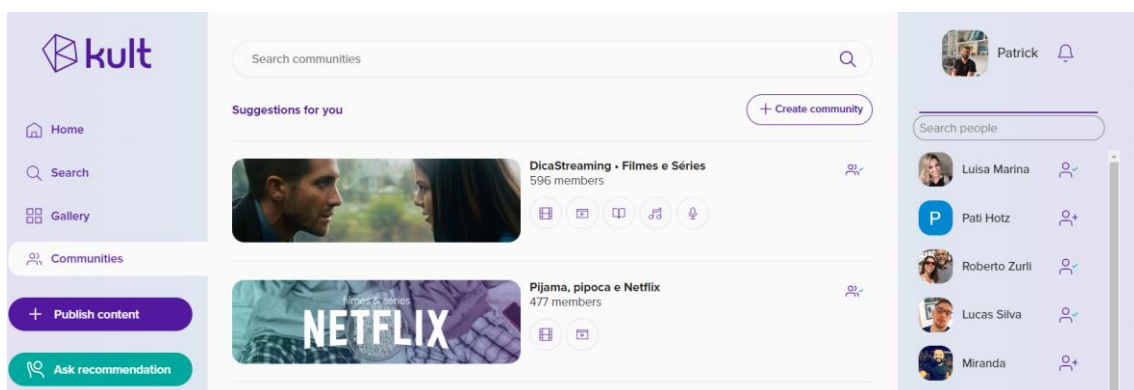
Figure 18: Kult's "Where to Watch" Example



Source: Kult (2022)

- Communities:** there are a number of different types of content on Kult (movies, TV series, songs, podcasts, and books), and each of these contents has genres like horror, comedy, drama, documentary – or rock, pop, samba, for songs. So, our members were seeking more niche-oriented communities, where they could exchange recommendations and debates about specific types of content. The solution was to create communities, where people could narrow the types of content, and specify what styles or genres they want:

Figure 19: Kult's "Communities" Example



Source: Kult (2022)

- **Asking for recommendations:** for those who want more specific recommendations, it is possible to ask your friends what they recommend. As seen in the image below, the member Thayane Ferreira, for instance, asked for a community of book lovers called “Book Club” which “romance book that hooks you in the first chapter”.

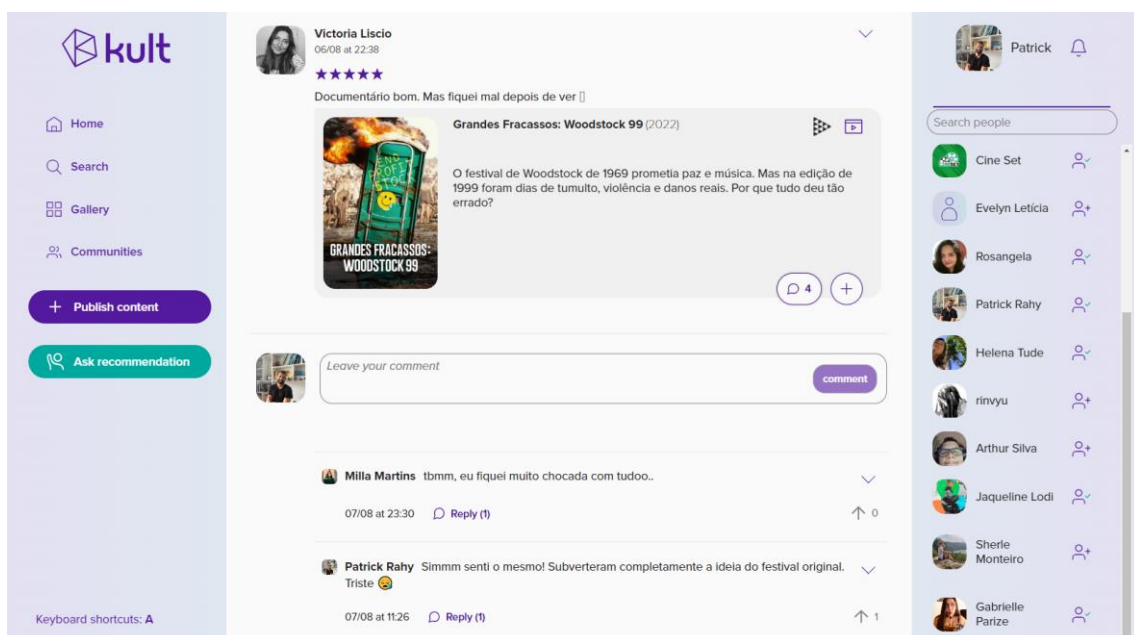
Figure 20: Kult's "Ask for recommendations" Example



Source: Kult (2022)

- **Content forum to debate and exchange ideas about titles:** a common feeling people have is watching a mind-blowing film and as soon as it finishes, wanting to talk about that immediately. It also happens with books and all types of content, and Kult provides this space to incentive conversation through its features of commenting and replying to comments.

Figure 21: Kult's "Forum" Example

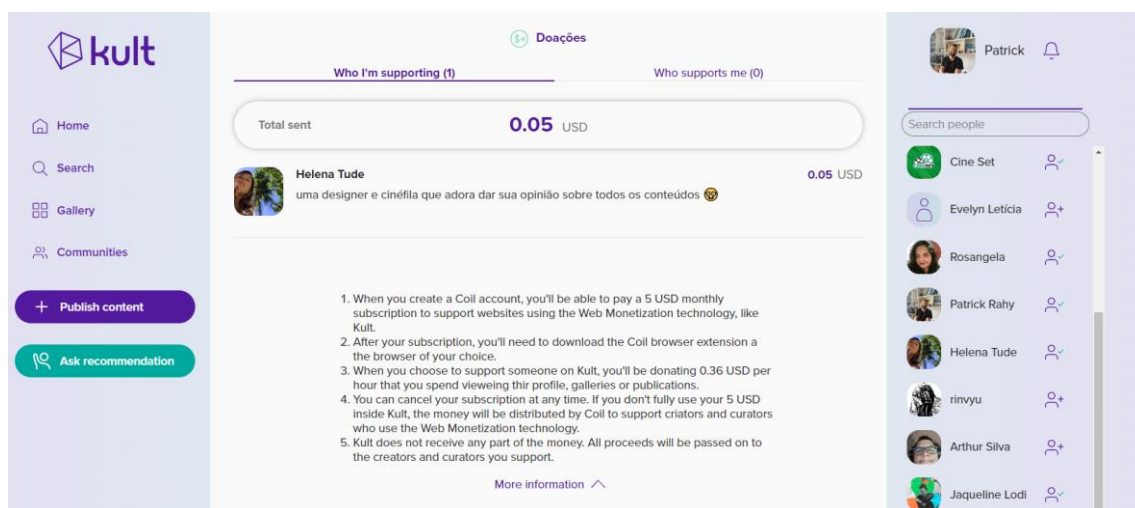


Source: Kult (2022)

With such features, the Kult community of culture lovers is alive and always exchanging ideas about what they are watching, reading, or listening to. The human curation of content (and the dynamic interaction between people it generates) is real, and it is proven to be a necessity to solve one of today's biggest challenges: the overwhelming amount of information and content that is being thrown at us on a daily basis. The main goal for Kult to be profitable and really disruptive is now to monetize this human curation of content, through peer-to-peer monetization.

The first step is complete: Kult already allows people to use a micropayment technology called Interledger Protocol⁸ to transfer tiny amounts of money between each other, as a way to reward curators who help us discover amazing content amidst endless options. It works like this: you can choose people to support, and every time you see one of their posts or galleries, you will be transferring 0,36 USD per hour.

Figure 22: Kult's Business Model Monetizing



Source: Kult (2022)

This is just a beta version of the human curation monetization Kult is trying to develop, but it is paramount to validate the minimum viable product of this business model. Before going forward, however, Kult's next step is to add YouTube videos, considering members' feedback and the market trends detailed in this study. As seen before, we found that human curation of YouTube videos is a disruptive way of leveraging qualified views for creators, and therefore generating value for the audience, for YouTube creators, YouTube as company, and advertisers.

⁸ <https://interledger.org/>

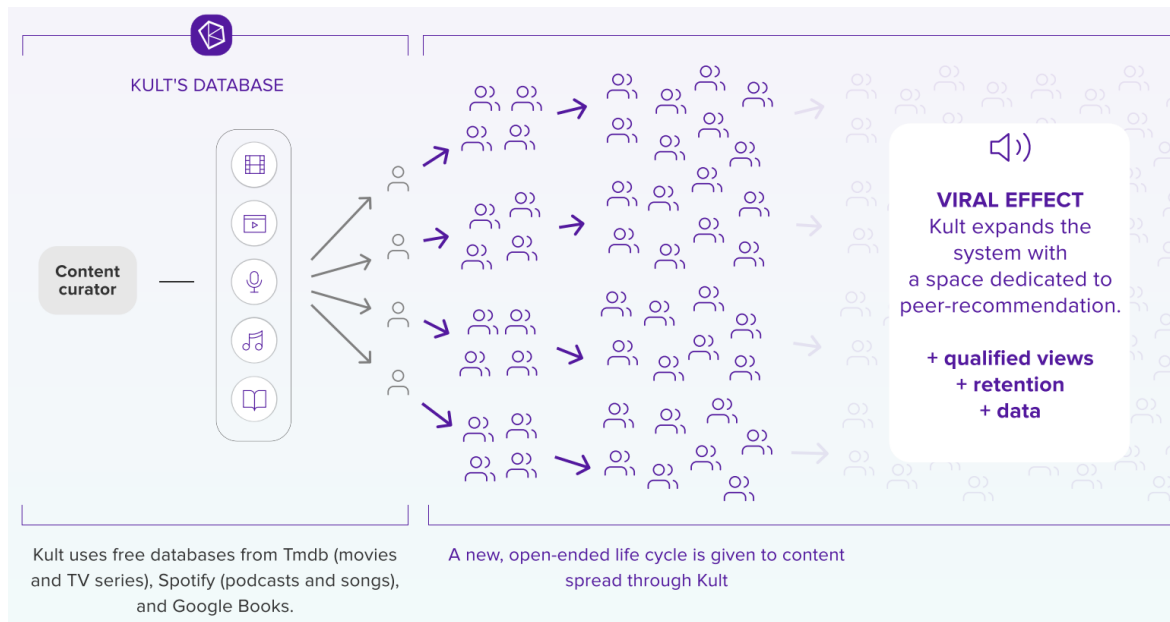
With almost one billion videos available on YouTube, and more than two billion users, it is too narrow to believe that the algorithms will be able to handle recommendations effectively. Actually, as we have already seen, it has already been proven that YouTube AI system has a 70% regret rate, which means users often “regret what they’ve clicked”⁹ to watch after getting an algorithm suggestion. In an era where getting attention is like gold for these companies, it is not a matter of views anymore, it needs to be more than that. Those companies want people to love what they are watching, to be a part of it – and not to hate what they are consuming.

Therefore, qualified views became one of the main Key Performance Indicators (KPIs) for YouTube. A qualified viewer is someone that will love a content, and will yearn for it. To put it in practical terms, it is those people who will wait eagerly for new content of that creator they love, or count the days until a new episode of that TV series is finally out. This kind of viewer is the one that platforms are fighting for. And they are the reason that Netflix, YouTube, Instagram, Twitch, Spotify, and all other competitors in this market are investing an incredible amount of money in new exclusive content production.

With all this scenario, Kult has an immense power to unleash: enabling qualified discovery, this is, making people discover the next TV series they will love, or book, or song... And if the curator is the one making it all possible, their recommendations - their work - should be monetized. They are the ones breaking through new productions, using their valuable time to watch a countless number of contents, and bringing all the best to other people. They are the modern discoverers of this infinite universe of culture and entertainment. And as they help people to find amazing content, they are also generating big profit for YouTube and advertisers, since more views equals more ads which equals more money.

⁹ <https://www.vanityfair.com/news/2021/07/study-youtube-users-regret>

Figure 23: Kult's Database

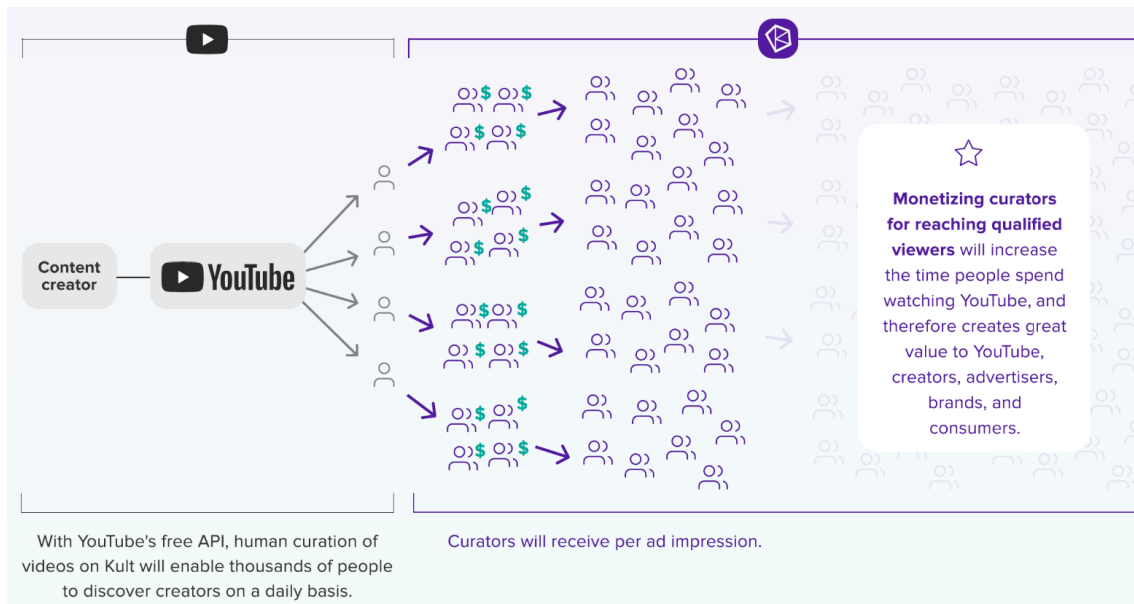


Source: Kult (2022)

Thus, the disruptive business model is to monetize the curation of content made by real people, through different revenue generating instruments:

- **Ad-revenue sharing:** different from current ad-revenue share currently used by the bigger players, where the company gets more than a half of the ad revenue and uses the creator's content to profit, Kult proposes another approach. For each view the curator generates to the video, through their recommendation on Kult, value is being created, as more ads can be sold. So, it is fair to reward the curators, by sharing a part of this value that they generated.

Figure 24: Kult's Ad-revenue sharing



Source: Kult (2022)

This is truly disruptive as curators have the power to replace the role algorithms are playing in a very problematic and ineffective way, by creating much more value in a more fairly distributed, hence economically sustainable, manner. The problem, however, is that this monetization depends on YouTube's permission to work. Although using their videos is the easy part¹⁰, they would have to pay back to Kult a small percentage of the ads that curators are helping to sell, and it is not so simple to do. Nonetheless, Kult can still use its own platform to profit with advertising, and then distribute this money to curators, as a new path to curator's monetization, totally aligned with Web 3.0.

- **Cultural marketplace/affiliate fee:** as influencers recommend content they love, followers will eventually buy these products, and companies today already have affiliate programs to monetize curators. Amazon, for instance, allows people to create customized links and receive 10% fee for each product they help selling (Amazon, 2022). Kult will also be able to get a cut from it by doing the same with other types of content, such as movies, TV series, and songs.

- **Donation/Tipping:** in different platforms like Twitter, Spotify, Twitch, and others, tipping/donation is already a reality. Kult, as seen, has already implemented a technology of micropayments to allow donations between people, although yet in beta version. When it

¹⁰ YouTube offers a free and open API to anyone who wishes to use their video database: <https://developers.google.com/youtube/v3>

evolves to an established monetization tool, Kult will be able to charge a percentage fee for each transaction.

- **Access to exclusive galleries:** allowing people to create their own exclusive curations and charging to access them is a disruptive way to monetize human curation of content. After all, this work of organizing an infinite number of titles and classifying them, saves enormous time and energy for other users/followers.

- **Big Data:** as we analyzed during this study, recommendation algorithms are an important weapon in the battle for attention. These algorithms are loaded with tons of information, and the more data you have to provide them, the better. So, if a platform has an enormous amount of data regarding the affinity between multiple types of content, it is worth gold. For instance, knowing that 90% of people who watch Stranger Things also like reading history books is precious - particularly to big players in different cultural and creative sectors. This kind of cross-correlation data is paramount to take recommendation algorithms to the next step. Of course, all this must respect people's identity and privacy, under the regulation of GDPR¹¹.

As more and more people join, and new features come up, Kult will add several other mechanisms of monetization as a way to attract and maintain its users. The main goal is to create a method of peer-to-peer money transfer within the platform (Interledger Protocol-based digital wallet), allowing people to send and receive any amount. Then, human curation will continue to be explored and monetized in different ways as people help each other discover amazing content amidst endless options. And aligned with Web 3.0 premises, Kult is committed to distributing the money generated in such revenue streams with its curators, effectively contributing to the democratization of culture in a more economically efficient way.

¹¹ <https://gdpr-info.eu/>

6. Conclusions

Considering that social media companies today are worth billions of dollars and directly affect our everyday lives, this study focused on understanding what is their main business model and why it can be problematic and unsustainable. Once this first analysis has been completed, the goal was to study new business models proposals being tested by social networks, and finally, to understand in what ways such business models can be more interesting than the traditional ones. We believe to be now in conditions to answer our research questions.

“Q1: What is the prevailing business model of social media up to this point?”

As we have seen, advertising seems to be still the most popular business model among social media major market players. The biggest players, Meta (Facebook and Instagram) and Google (YouTube), which control a quarter of all internet traffic worldwide, are advertising-based. Because of these companies, ad spending became 68% digital (compared to only 32% on other more traditional channels) (Figure 10). As discussed, the reason seems to be that digital marketing has super targeted advertising that has major advantages such as personalization, automatization, 24/7 influence, and social control. However, as shown in detail, this kind of business model has proved to be dangerous for our society, as it directly and effectively affects our behaviors and beliefs because “it is built on highly sophisticated tools and techniques to attract, manipulate and maintain consumer engagement through appealing to people’s vanity, insecurities, ignorance, etc.” (N’Goala, 2015).

“Q2: What are the emerging business models that are being tested by social networks?”

Peer-to-peer seems to be again the main emerging business model for almost every recent social media platform, and it has proven to be more sustainable and (hence) less harmful to society overall. New social platforms like Patreon, OnlyFans, and Substack, managed to reach billions of dollars in valuation without one single ad. They did it by providing people tools to monetize their online content sharing, narrowing the fan-creator relationship.

Each of these companies has a different approach, but the business model essence is the same: allowing several forms of monetized interactions between people, such as donation, tipping, exclusive content, exclusive interactions, monthly support, and getting a cut from each transaction. Even major players in the attention economy market, such as Twitter,

Twitch, Facebook, Instagram, YouTube, and Spotify, have also been adding peer-to-peer monetization in different forms, as seen in this study.

“Q3: What is Kult’s innovative business model proposal?”

Kult’s proposal is to monetize human curation of online content, through peer-to-peer money transfer (donation, tipping, exclusive galleries), affiliate program fees, ad-revenue sharing, and big data. As an enthusiast of Web 3.0, Kult believes in the power of community, and commits to distributing its profits with the curators responsible for keeping the platform contents dynamic and interesting.

The first step to monetize Kult is to add YouTube videos, since the era of videos is becoming stronger every day, and YouTube has nearly one billion videos and an inefficient recommendation algorithm. Then, creating a digital wallet, using Interledger Protocol, that allows this money to transfer between people within the platform. From each transaction, Kult will get a share, but will also distribute a part of its profit to all curators in the platform, fully aligned with Web 3.0 spirit.

Given the influence of social media on today’s society, this study offers an analysis of the damage caused by the advertising-dependency business model of the biggest social network to global democracy and economy. Also, it gives insights on how this is being changed by new monetization alternatives, and proposes a new and disruptive business model to be applied on social media to monetize human curation of content, solving the frustrating struggle of the choice paralysis amidst endless options, in full alignment with a more sustainable and interesting future of the internet (Web 3.0).

It is necessary to understand, however, that the advertising model itself is not the issue. The problem lies in the fact that social media companies took advertising to a whole new level (often by means of anti-competition practices and intense political lobbying), where the limits of privacy and data monitoring were far from being respected (Simão, 2020). This was a unique scenario in human history, where millions of data points about every person could be extracted freely in a matter of seconds, and used to manipulate society. But as society evolved and understood the danger of such a situation, governments have been having to act by creating new laws, and companies had to come up with more innovative technologies and business models, becoming less dependent on data exploitation and targeted advertising.

As a researcher and entrepreneur, I hope that the next few years will bring us better times when sustainability (and not just market profit and power) moves social media companies, and business models are used for the good of society. Nonetheless, I expect that this study (and the example of Kult) will contribute to such brighter future, serving as a useful tool to understand where social media business models are, where they came from, and where they can go – hopefully for all of us, a better place.

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