

LinkedIn against its European competitors

(A comparative study of LinkedIn vs Viadeo vs Xing)



After the recent IPO of LinkedIn this spring, and while Viadeo starts getting exposure worldwide, this may be the right time to review the mostly unknown war of professional networks, their market strengths and their fast-moving strategies.

We based our analysis on three high-profile social networks dedicated to professionals: LinkedIn, Xing and Viadeo (both mostly active in Europe). While these companies display huge gaps in members, we see that they play in the same field in revenues, premium members and strategies. Among these three, LinkedIn acts as a truly international service (with 60% of its members abroad); Xing and Viadeo are mostly European pure-players with local or multi-local strategies. While LinkedIn tops 110 million registered users, Viadeo claims 35 million users and Xing about 10 millions.

The three companies have invested massively to reach a high level of quality during the latest years, proposing multiple upper-grade features to their users. Their systems are complex to handle millions of users, and billions of relationships, discussions and multimedia materials.

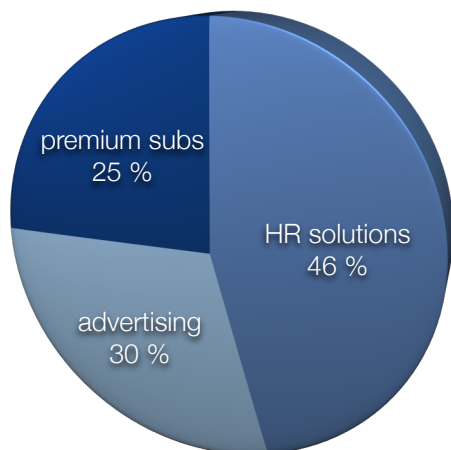
The current study has been run during a few months, exploring financial materials and product features. Some of the figures presented here are estimates (see the study methodology at the end of the report).

Business models and revenues

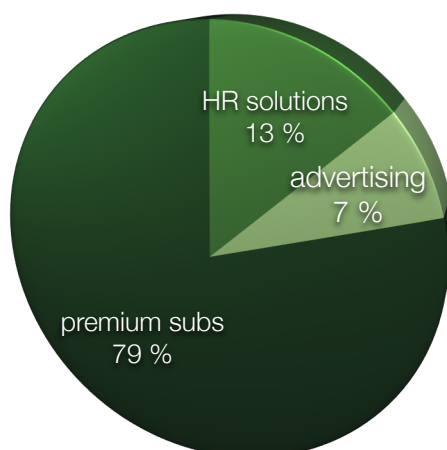
Looking at the business models of professional social networks (not only LinkedIn, but also Viadeo or Xing), all originally adopted the same revenue split : advertising and premium subscriptions.

For the last 3 years, the three networks have started proposing a vertical solution for human recruitment. While the slice of HR solutions is still minor for Xing and Viadeo, it represents the major part of LinkedIn revenues since.

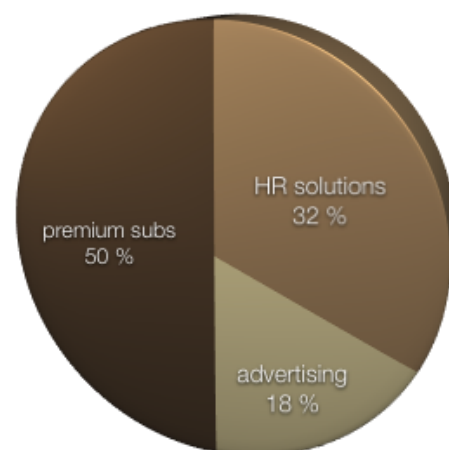
LinkedIn Revenue split (2010)



Xing Revenue split (2010)



Video Revenue split (2010 est.)



source: IKO System estimates

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Can we *really* compare LinkedIn to Viadeo and Xing ?

Yes we can. The big picture is: LinkedIn has more members but is much less efficient in driving subscription revenues from its members. There is no such gap in overall revenues between the three companies, each generating in excess of \$50m of sales in 2010.

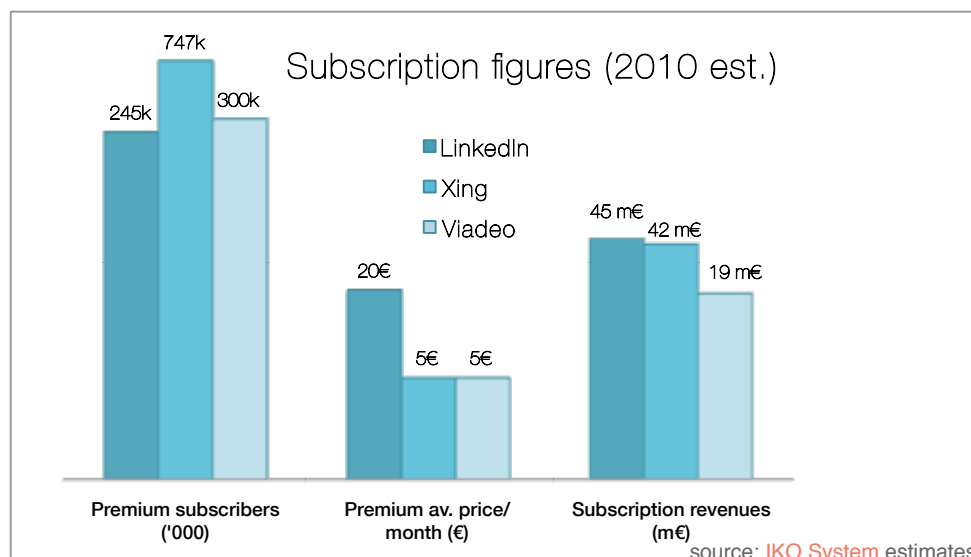
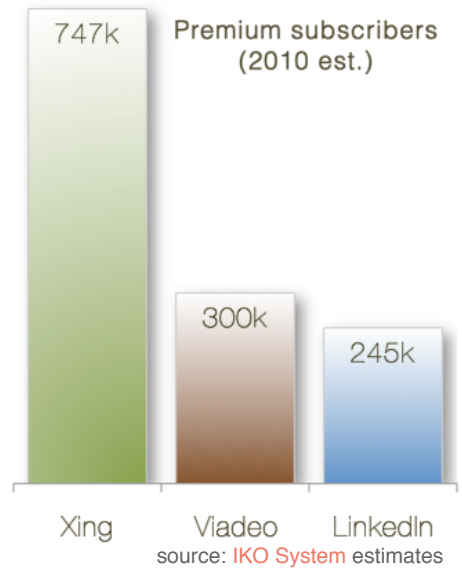
In terms of subscribers, Xing is even #1 in the world with more than 700k premium members.

A complicated freemium model

Premium subscriptions are options really easy to put in place. There are different forms of limitations to engage audience in subscribing to premium features. The most efficient one is « view restrictions ». Basically, you need a premium account to see some profiles, get search results or check visits to your profile page. It is amusing to note that US users typically pay to see profiles and get search results (a proactive approach) while the main driver for European users is the ability to check who visits your page (a passive approach).

The issue with premium subscriptions is that it generates frustration for non-premium visitors (the famous « upgrade » page). And when frustrated, users do not come back and spend time on the website, which leads to drop advertising revenues...

To be honest, this is a nightmare to balance two revenue sources that compete with each other. And to generate growth with this model, you always need to acquire more members.



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The three companies have adopted two separate philosophies : LinkedIn free membership has very few restrictions and premium mainly addresses business-related actions. The premium feature is expensive (around 20\$/month). Viadeo and Xing are more aggressive in free restrictions. Their premium starts at 5\$/month. Therefore, this leads to great discrepancies in subscription rates: around 1% of active members at LinkedIn against 10 to 20% for its competitors.

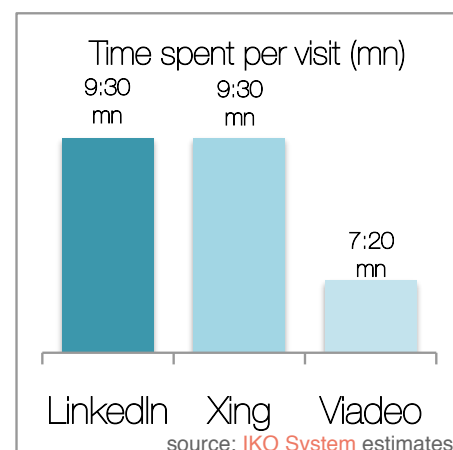
Given these figures, it is clear that a drop from 20\$ to 5\$ a month for LinkedIn premium would probably increase its subscription revenues by 2 to 3 times. While the company seems to follow a long term growth strategy (keep the members' base grow rapidly without too much boundaries to beat its competitors by size, not revenues), it is unclear whether an *extended* free membership is really a driver for expansion.

LinkedIn's equation is *less limits=more addiction=more members*. But the time spent onsite (ie addiction) is quite the same for the 3 websites: So why is LinkedIn not lowering its premium price to increase revenues ?

Audience

With time, all of them have experience disappointment on audience : most of the members do create their profile but only 35-40% of members visit the website each month and spend very few time on it (7 to 9 minutes), which is bad news for advertising. There is no comparison with Facebook who keeps its members more than 26 minutes per visit.

Discussion groups were launched for the purpose of expanding time online but groups are not killer apps: even if thousands of groups were created, the real audience remains low.



Xing #1 in subscribers

LinkedIn has currently about 200k-300k premium subscribers, meaning 0.3% of its 100m of its « public » members (and 0,8% of the real active members). Each member pays between 20\$/month up to 100\$/month.

Both European professional social networks are much more efficient in converting free audience to premium subscribers. Xing converts 16% of its German-speaking members to premium and 8% of all its members (or 19% if we only consider the active members). It is really impressive, even if the premium price is lower than LinkedIn. On its side, Viadeo affirms that 10% of its members are subscribers for roughly 5\$/month (no context on this figure).

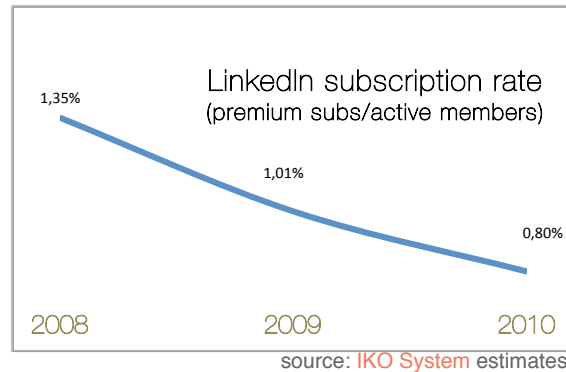
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Newcomers do not pay for premium

In a logical world, more members would mean more subscribers. That is not the case anymore.



Is the premium subscription model over for LinkedIn ? The growth of this segment is lower than 30% per year, while in the meantime the user base grows by 80%. Meaning ? It seems that « early adopters » were the best clients while newcomers are less eager to pay for such services. According to LinkedIn¹, the Indian market is one of the most dynamic for its user base (6m+ members) along with Brazil and Mexico. In fact, 60% of its member base is out of the US². And most of the emerging countries (such as Asia) still have a *free* culture when it comes to the Internet. This may explain this trend.

The drop in subscription rates for LinkedIn is also visible for its competitors Viadeo and Xing with a mildest fall. In German speaking countries, Xing even succeeds in converting up to 19% of its active members to premium.

Strategies and fast moving revenue models

Those three companies are at different steps of their mutation. A careful analysis of product features, offerings and financial figures give a clear view of their respective strategies.

LinkedIn is in the contest for leadership. They want to be the sole player of this market by a few years. In accordance with this objective, the company has always run to attract *all* professionals on its platform and get the bigger database. This is the reason why they have not focused on developing premium memberships but keep most of the features free and operate the most easy-surfing website. They have not enough nice features to keep visitors more than 10 minutes per month, but that is not their point.

¹ <http://blog.linkedin.com/2010/07/07/linkedin-india/>

² <http://blog.linkedin.com/2011/03/22/linkedin-100-million/>

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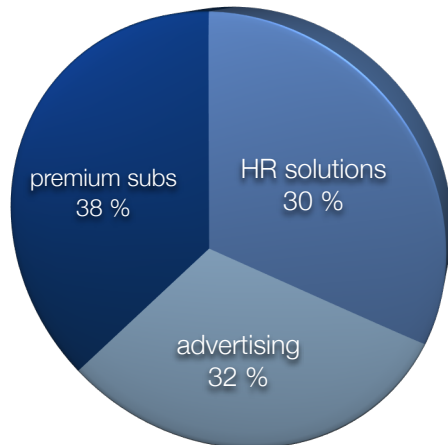
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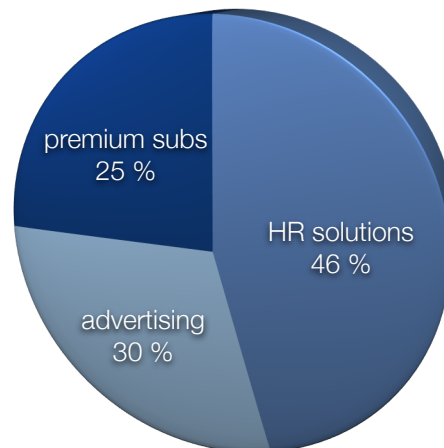
Advertising and premium subscriptions would probably represent less than 30% of their revenues by 2015. Their Holy Grail is named HR solutions. The rythm of growth for this segment has systematically *accelerated* during the last 4 years (+100% in 2009 and +300% in 2010).

Between 2009 and 2010, the revenue split for LinkedIn has changed dramatically:

LinkedIn Revenue split (2009)



LinkedIn Revenue split (2010)



The revenue split for Viadeo and Xing has moved in the same direction, but less rapidly: premium memberships still represent the major part of the pie and the growth mainly comes from HR solutions.

Following LinkedIn, Xing and Viadeo have developped their HR solutions successfully (currently growing by ~100% per quarter and representing now 13% and 32% of their respected revenues).

Regarding the profit model, this again has switched from a pure-web customer acquisition model to tough down-the-street expenses. To increase the sale of vertical solutions, professional networks need to drop sales forces on the field. Therefore LinkedIn has now a 300 marketing and sales team in the US, with longer sales cycles and negociated prices. In fact, 54% of LinkedIn revenues are now generated off-line.

Not that easy to acquire members abroad

While Facebook in essence is likely to be culture-agnostic, professional social networks suffer from local cultural discrepancies.

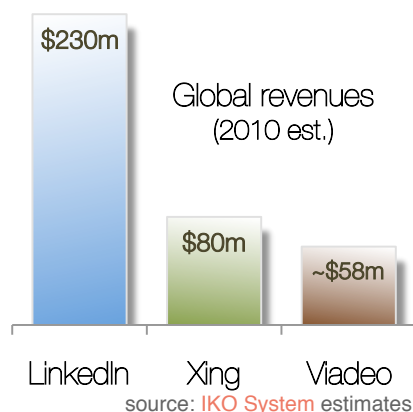
Both European actors adopted the same strategy than LinkedIn by 2008 and 2009: trying to expand abroad. Even if both of them are very strong on their home market, growth would obviously come from elsewhere. After 3 years of intense energy towards this goal, Xing has abandonned its international strategy, closing down offices and subsidiaries in China, Spain or Turkey.

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Xing remains very strong in German-speaking countries (Germany, Austria, Switzerland), but is not eager to re-conquer international landfields. Therefore German-speaking countries still represent 96% of Xing revenues. They currently are in a *citadel* strategy, milking up from their current members with features and vertical products.



Viadeo follows its multi-local strategy.

Viadeo keeps growing organically in Europe (Italy, Spain) and through multiple acquisitions of local actors in emerging countries. These acquisitions have provided leadership positions in China or Brazil, and secondary positions in Mexico or India.

Still emerging countries remain immature markets where positions are fragile. Leading the Chinese professional social space with only 6 million members only means the market has not started to kick-off. An additional figure to highlight the non-consistent Chinese market: only 37% of the user

base comes back to the site each quarter.

In India, the company acquired another local player who faces a 5x stronger LinkedIn user base. Local acquisitions are a key success factor for reaching scale. The time frame to launch a viral social business is very short. The user base has to gather momentum rapidly: if you still have 100k users after 6 months, there is no way to acquire the other potential millions.

A third interesting acquisition of Viadeo is Unyk, an address book solution with 15m registered users, mostly in South America. The challenge for now is to convert Unyk users to become members of the professional social network.

Through these acquisitions, Viadeo adds members, not revenues, as there is still no monetization model in the emerging countries.

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The future of the market

LinkedIn follows its strategy of reinforcing its international presence (with local offices especially in Europe) and expanding its product offering. The company also spends lots of efforts in enhancing its database of members (its latest launch of "skills" features is part of this). On a daily basis LinkedIn is not trying to compete with Viadeo and Xing: there are lots of virgin fields to conquer. And they probably believe they will win this race with a tsunami tactic: they have opened their database to tens of thousands of websites (with their API) and replay Facebook's *social graph* strategy.

Xing is currently redefining its international strategy, after the backup from Spain or Turkey. The company has successfully launched a new vertical solution: selling tickets for events (it is obvious that events is intimate with networking). During the latest months, Xing has participated in the organization and ticket sales for 70k events (and captured roughly 7% of the event revenues). Consequently the company recently announced the acquisition of Amiando, one of the main actor in this field.

Everyone on this market now has in mind the bright future of vertical solutions. Human Resources are only the beginning. And the quality of their profile databases has still a lot of potential for additional revenues. Here we point three vertical solutions that make sense with the nature of professional networks and could drive future revenues.

- ▶ Sales solutions: the way sales professional can use social network to identify prospects and work out their portfolio is still germinal. There is a huge market for such a vertical solution and independant actors (InsideView or IKO System) start to emerge here.
- ▶ Freelance escrow services: a large part of professionals would like to deliver their service (as consultants or freelancers). Social networks can leverage this opportunity to match profiles, offer payment escrow service and earn a dime of transactions.
- ▶ Marketing recommendation service: viral marketing still does not gain momentum on professional networks. Opening API or mashup features to third parties could offer companies a way to convert existing users into affiliates. Imagine you use a professional service and a message pops up to invite targeted relationships in subscribing to this very service and earn part of the generated revenues.

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Study methodology

This study has been run between February and May 2011. Its results are based on:

- ▶ the experience of the website features (including the ones restricted to subscriptions),
- ▶ a deep analysis of the respected offerings,
- ▶ executives' and insiders' interviews,
- ▶ financial reports,
- ▶ analyst presentations,
- ▶ web traffic analysis.

Being listed on the stock exchange Xing is highly transparent in its strategy and financials. We also made an extensive use of LinkedIn S1 file (preparing for IPO).

We used multiple traffic analysis sources (Google AdPlanner, Comscore, Alexa, Google search trends) on different destinations (Viadeo has multiple local websites) to reconstruct estimated figures.

About IKO System and the author

IKO System is a professional service to find and follow clients on social networks. The solution applies artificial intelligence on social relationships to push actionable sales alerts to sales reps right into their CRM. **IKO System** social sales intelligence provides easy *social selling* with immediate ROI.

Founded in 2010 by Marc Rouvier and Nicolas Woirhaye, **IKO System** is headquartered in Paris, France. www.iko-system.com



Nicolas Woirhaye, 36 years old, is **IKO System**'s co-founder and head of product design. He enjoyed 15 years of experiences in various fields: M&A consultant, founder of ITmarkets.com (IT companies valuations), founder of CERT-LEXSI (European leader in cybercrime mitigation). Nicolas lives in Aix en Provence (France) with his three children.

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IKO SYSTEM in a glimpse

«The social sales intelligence company»

- Founded in 2010 with \$1.1M
- 8 employees
- 70 customers, 2000 active users

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