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THE BUSINESS BEHIND THE BUSINESS: THE ROLE OF FINANCE IN THE DESIGN OF WEB SERVICES

Zane Kripe
Lieden University

Abstract

This article explores the production of internet services by looking at how web technology startups design their products and develop their business models. In particular, it explores how financial considerations of startups influence the types of digital services that become available to the internet users and under what terms. The research is based on an ethnographic study of investment seeking technology startups in Singapore and uses qualitative data gathered during participatory observation of startup entrepreneurs and investors. It argues that to a large extent the technology business is characterised by commodification at two levels. First, as the company develops its service into a commodity for its users and customers. Second, as the startup itself becomes a commodity for the venture capital* as it seeks to attract funding in the investment market. Exploration of this double relationship reveals how different regimes of value influence the social and material construction of the internet. This paper argues that for a better understanding of the contemporary internet landscape, the internet services have to be situated in their political economy relations and dependencies.

In 2012 technology business portal TechCrunch featured an article on how Facebook has changed the design of its ‘App Permission Requests’ in a way that significantly downplays the privacy tradeoffs users agree to when engaging with apps. In the article such change in the interface design was explained as nearly self-evident: “After all, this access to our information and identity is the currency Facebook is trading in and what is driving its stock up or down.” (Charkham, 2012) Since the summer of 2012 the discussion of privacy and social media has clearly gone a long way. However, this Facebook example highlights also another, much less discussed aspect, namely, the active role financial considerations and venture capital plays in shaping the internet landscape. This aspect is to what I wish to turn the attention to in this paper.

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Two level commodification process

The paper proposal is based on eight months long ethnographic study of young technology companies in Singapore that were developing their products and working towards attracting early stage investment (at the time of this research it was in the range of USD 250 000 to 750 000). I argue that web technology startup companies are often characterized by a commodification process at two levels. At the first level the startup develops its technological solution into a commodity which is marketed, sold and used by the internet users and the services customers. At the second, perhaps less obvious level the startup itself becomes a commodity. This, what I call 'the commodification of company', is a development that occurs as the startup searches for additional funding from investors. It is in this process that the startups can be understood as commodities in the investment market as they fashion themselves as 'good investment cases' for their (potential) investors. In the startup vocabulary these two levels of commodification are referred to as two different value propositions the startups have to develop - one is for its users ('user value proposition') and the other for investors ('investor value proposition'). This differentiation reveals that what is under the question are different 'regimes of value' (Appadurai 1988).

In this paper I will explore the relationship between the two levels of commodification and how they influence one another. Understanding this double relationship in greater detail is crucial if we want to better grasp what kind of services became available to Internet consumers, under what conditions and shaped by what kind of structural forces.

Social history of a web technology startup

Social and cultural anthropology has a long tradition of studying commodities, gifts, consumption and changing notions of value (Miller 1995). Arjun Appadurai (1988) and Igor Kopytoff (1986) have successfully discussed how we can gain insights in the changing nature of value by tracing the social histories of objects as they are being produced, exchanged, discarded, etc. Adapting their approach in this paper I will give an account of the social history of a web based internet service called "Explorations". From starting off as a creative hobby project to being a venture capital backed company that needs to deliver 'results' to its investors, the service provided by "Explorations" has undergone multiple changes over the course of three years. I will analyse how the founders discussed, re-envisioned, changed and re-modelled their service as they were trying to make their project become a 'business' and a viable investment case.

Good investment cases

This paper will explore the interaction between these two levels of commodification trying to explicate how the nature of venture capital plays role in the type of Internet products that become available to users and under what conditions. The "Explorations" case is an example from a wider context of internet company production. Based on interviews with and observations of technology startup entrepreneurs and early stage investors I will discuss the preference for certain types of products and product mechanisms by venture capital. For example, during my fieldwork it became apparent that investors favor startup companies that provide services with reoccurring monthly fees rather than buy-it-once products, services that are platforms for other businesses, services that can claim patents, services that gather users' data and other solutions which are seen as more likely to ensure the 'exponential growth' web startups are known for. I will explain how these preferences can be seen as deeply imbedded in the nature of venture capital, which aims for extremely high returns in the case of successful investment and absolute loss in the case of failure.

To summarize this paper calls for a more holistic investigation of internet services. One that pays attention to the commercialization processes and that situates the internet services in what Nigel Thrift (2001) has called 'the cultural circuit of capital' where the knowledge and practices of technology entrepreneurship are produced and reinforced in close interaction with financial world (see also Arvidsson 2012).

* I use the term venture capital as an umbrella term to refer to a spectrum of investors ranging from venture capital firms to private angel investors.

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