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Spanning the Chasm from Thought to Action

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Meeting, Working and Dating in Cyberspace:

Facilitators

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Moderator

Karen Lewis Jacobs '97 -Product Manager, Advertising.com

Panelists

Ted Adler '99.5 - Founder and President, Union Street Media - Founder, Middkid.com

Aaron Abend '77 - Founder and Chief Technology Officer, Viapoint Software

John Davidson '68 - Silicon Valley private investor and serial entrepreneur

What is Social Networking?

One of the newest phenomena on the internet falls under the category of social networking. Websites and their content continue to become more dynamic and seek to interact with their users. To many, online social interactions seem to be a natural proliferation of the internet's usage. The internet and computers in general attack inefficiencies, from computing complex scientific problems to shopping for books. In this case, the internet is able to make meeting, working and dating a more efficient process on the internet. In the town meeting format, our panelist each provided an overview of one aspect of this new internet business – addressing why social networks have been successful, if a good business model exists, the major issues and their future – before opening the discussion to our audience. Our panelist believed that this was an excellent topic for the town meeting, as they did not feel to be definitive experts on the topic, since it is only in the fetal stages. Thus, we will discuss here the topics and issues that arose in the session in the hopes of giving a summary view of “Meeting, Working and Dating in Cyberspace.”

Our opening presentation was designed to provide an introduction to social networking on the internet. (Available at www.digitalbridge20.net .) In this presentation, we looked at five types of social networking websites:

- **Friendship Networks:** This is the most basic type of social network, based on the premise that a user can list friends, and is then connected to an even larger group of acquaintances. The first of these networks was sixdegrees.com (www.sixdegrees.com) which was based on the premise that everyone in the world was connected by 6 degrees of separation. This was a similar premise to the “Six Degrees of Kevin Bacon” game, based on the premise that Kevin Bacon was the center of the entertainment universe. (<http://www.msnbc.com/onair/nbc/dateline/KBacon/Kevin.asp>) Today, one of the more popular of this genre is friendster.com. (www.friendster.com) Similar to other sites, a user can list their friends, who are then sent an email to join for free. Once a member, users can make detailed profiles, post to a bulletin board for events and even post testimonials to their friends’ characters. Friendster is especially popular among younger users in cities and other areas with widespread broadband access.
- **Professional Networks:** In contrast to friendship networks, these networks focus on business contacts. Users sign up based on professional interests and skills and are able to pursue business contacts. We looked at www.linkedin.com, which allows users to import their outlook address book and plans to charge users only based on successful new contacts. LinkedIn classifies users as “job Seekers”, “Contractors” or “Deal Makers” AS well as by professional interest and location, for search purposes. Another popular site is www.ryze.com, which incorporates more personal information as well.
- **Dating Sites:** While perhaps the simplest example, online dating is perhaps the most popular of the social network models. These sites list users based on age, sex and location for search purposes. Paying members are then able to look at detailed profiles, utilizing email, chat phone calls and even e-winks to court potential mates. Our panelists argued that these sites have proven most popular among divorced users. We examined match.com (www.match.com) which claims to match users based on a “Ph.d.-formulated system. Another popular site, e-harmony.com, uses a 500 question survey to match potential mates. Our panelists explained that recently many couples have begun to meet and marry using these services, without the stigma that used to exist.
- **Political Activism:** Recently, sites such as meetup.com and their effect on the political process have gotten significant press. These sites offer users the ability to organize, discuss and debate presidential campaigns. While Howard Dean’s use of meetup.com (www.dean2004.meetup.com) has been the most publicized, every political campaign is using that or similar tools. In addition, this type of social network is used by non-profits and issue-based activism groups to organize. Another similar tool that was discussed during our panel is Yahoo! Groups (groups.yahoo.com)
- **Weblogs:** Lastly, we discussed “blog” communities which allow users to post and comment on short opinion pieces by member authors. These are effectively networks of opinions, whose authors then interact. These sites exist in many forms

ranging from these with only one author or one topic to open communities such as www.metafilter.com.

Early Success

One of the topics that our panelists and audience discussed is what has made online social networking so successful in the early stages. They determined that this was because of the viral nature of the networks, their ease of use, and that they provided useful results. Our discussion concluded that all of these sites were exceptionally viral at recruiting new members. This was for two reasons, first that they were able to recruit users online and offline (TV ads, brochures, media coverage, word-of-mouth). Second, it is very easy to sign up and invite new members. Often signup involves just one click and inviting new members requires only their email address or even just access to an outlook address book. While these methods have built exceptionally large user communities, many potential users still do not sign up. As one audience member recounted, he had received close to a dozen linkedin invitations, but had not yet accepted any. It is argued that the major reason for the success of social networking sites is that they are easy to use, give the user and ego boost (based on testimonials and network size) and are a good “boredom” activity. (<http://slate.msn.com/id/2085714/>)

In addition, our panelist and audience felt that social networking sites success had been based on user-friendly nature, including easy of use, the ability to opt-out, and little intrusion into daily activities – once a user has signed-up, they often have to do little or nothing to remain an active member.

The early success of these sites can also be attributed to their usefulness. That is to say that they produce results ranging from a good match, organizing a beer after work or finding likeminded people near you. One great example is the ability to search for “bloggers” near you by subway stop in New York City (<http://slate.msn.com/id/2085046/>), which can then result in real interaction.

The Business Model

Our town meeting then examined the business model that our example companies are based on and if there is room for entrepreneurs to be profitable in social networking. Actually, the first question asked was “Are these things profitable?” To understand this question, we had to examine the potential revenue stream, marketing and the possible over saturation of the market. In addition, we discussed an alternate business model for non-profits.

In terms of revenue stream, we learned that most of the business charge or plan to charge based on results, not membership – charging based on use, not membership. This model allows them to build a critical mass of members that makes the network useful. However, the existing business have found that the “30-somethings” membership generates higher revenue likely because they have a higher disposable income and have a less diverse and dynamic social group, especially in terms of dating.

Our meeting was inconclusive on the issues of “How do you beat free?” This was a contentious question in the intellectual property debate and continued to our panel. While some argue that you cannot ever beat free, thus there is no possibility for revenue, others contest that a convenient, good service at the proper price point can compete with free. One compelling example is that while illegal cable services still exist, most users still pay to receive the service legally. In addition, the question arose that if a social network can provide value-added then perhaps an organization would be willing to pay for it. A good example is an effective alumni network. This is the model that Dr. Davidson proposed, under which an organization pays to validate its members while members remain users for free.

We were fortunate enough to provide a blind marketing case study of an online dating service. This service advertised primarily online, offering free signups and limiting any interaction to paying members. They aimed for an 8-15% conversion rate of non-members to members and were willing to pay about \$2.40 per new customer.

A prevalent issue in our discussion was “how many social networks will users join?” This led to the following question of whether any of the current models can be successful or if an umbrella service is necessary, as Dr. Davison argued. The primary argument was that users will want to communicate both inside and outside of their groups; however they would want to verify one's membership in a given group.

An alternate model that was not discussed at length exists for non-profits and fundraisers. These sites fund themselves, creating communities of free users who then donate or participate in the larger goal of the organization. Moveon.org, an organization dedicated to anti-Bush advertising is an excellent example - by fundraising significant amounts of money to produce ads without forcing any members to pay.

<http://www.cnn.com/2004/TECH/Internet/01/12/moveon.org.ap/index.html>

Bumps in the Road

In our town meeting discussion, the audience should concern for many of the issues involved with the use of electronic social networks and their viability. These included issues of privacy, trust, social implications and real human interaction.

Our audience and panelists expressed concerns about the user's privacy when using social networks. Since these sites inherently require a good deal of information, often personal, about a large mass of people, they are ideal for marketing research and targeting as well as identity theft. All of our panelist agreed that if the information listed is available not only to the general public but to search robots and “worms,” then there are serious threats to one's privacy. Alternately, there was discussion of whether the information available, i.e. in a blog or profile could be used for criminal investigations or could even be verified. Many audience members seemed to feel that if a user had the ability to opt-out of any program and of their information was listed only to those they allowed it to be listed to in a secure fashion, many of these issues would be resolved.

Social networks are operating on a business model that incorporates two levels of success. First, many social networks are building critical mass free of charge. Once critical mass is achieved, charging for services becomes the next priority. Unfortunately, one element of the model is still lacking. In order for social networks to work in cyberspace, they must offer trust. For example, dating sites still carry a stigma against them because they lack universal credibility. The current model is that friendship and proximity equal trust, i.e. I know Drew is o.k. and Drew knows Rob, so Rob must be o.k. The Internet has made it too easy for individuals to create a false image of themselves. Several people in the audience mentioned that they feel uncomfortable divulging personal information to individuals on the Internet. This may be a generational dilemma or a potential cause of the future demise of social networks. Dr. Davidson extrapolated that thus a method of verification is necessary, in his argument, based on group memberships. For example, a photo can be certified to be a likeness of you by Kodak and you can be certified as a skier by your ski club.

Audience members in general question the social implications of this new trend, as well. Members wondered if it is healthy to have interpersonal reactions take place through a computer with often extensive screening and how much further this trend might go. One audience member recounted when the college was concerned that classes would begin to take place online and thus eliminate the need for a college campus. He noted that had not occurred and speculated that was because people desired real personal interaction. They wanted to “look each other in the eye.” Similarly, Mr. Adler noted that if it were so easy, all of the conference participants could have saved time and energy by participating online. By transferring things that took place in the physical form and extending them to cyberspace people run inherent risks. For example, in an electronic era, people are dealing with a computer and not a physical person. Whether people gain the same level of utility from such a seemingly impersonal interaction remains an unanswered question.

The Future

Therefore, the future of social networks is uncertain. We believe that there were a number of potential future scenarios envisioned by the audience based on the issues of profitability, usability, trust and privacy as well as usefulness. Most of our audience agreed that the current models are unlikely to be successful.

One possible future, as led by Dr. Davidson believed that no individual networks will be successful, instead that a new single umbrella network will include information based on group membership in a google like searchable database. Others hypothesized that the only successful models will be based on the dating and match-making business. Mr. Abend argued that social networking could leave to an advanced form of Contact Relationship Management, thus forming a niche market as a web service in the professional world. Others believed that social interactions of this type have no place on the internet. These audience members believed that social interaction relied on human contact, thus could only fail on the internet. Within each of these concerns, other classic internet issues prevailed, especially concern that a 'gorilla' such as Microsoft incorporate social networking, i.e. as an outlook service, thus eliminating any entrepreneurial opportunities.

Only recently have people begun to meet, work and date in cyberspace and therefore there are few certainties or truths. What is known is that the early sites have been successful based on usage and results, and many are now profitable. Where this will lead the industry in the future and what models are successful will be an interesting statement about the internet and its future as a whole.