

INTERACTIVE SOCIAL NETWORKING INDUSTRY ANALYSIS USING THE VALUE FRAMEWORK™

Interactive Social Networking Industry Analyzed via the Value Framework™

by Gary George, using Mitchell Levy's Industry Analysis Value Framework™ Template
with some comments from Mitchell Levy, President & CEO, ECnow.com

SUMMARY

Human networking has been around since the dawn of civilization, but new technology promises to bring it into the Internet age. New companies are quickly forming around the idea that networks can be created, traversed, searched, and analyzed for the benefit of social and business users. The new breed of companies may help you find the right Saturday night date or a trusted partner for your next business venture.

The Interactive Social Networking Industry comprises companies seeking to navigate, analyze, or display social connections of friends, colleagues, and acquaintances. The more advanced features allow weak links and friend-of-a-friend links to be exploited for social or business networking purposes. A user may use these applications to find contacts, or to understand what relationships exist.

This analysis examines nine firms in the industry, exploring their similarities and differences. Each firm brings a new perspective or feature to the mix. The users, members, and customers decide which are valuable and which are not.

PRODUCT OFFERINGS DEFINED

Interactive Social Networking firms offer several variations of the products based on the target audience and the purpose of the product. Some firms focus on primarily one area while other firms will incorporate all these offerings:

- Business Network Building
- Business Network Searching
- Social Network Building
- Social Network Searching

Generally, the Network Building firms provide a search capability, while the Network Searching firms have focused on gathering Internet-based information from public sources or clients.

KEY EXTERNAL DEVELOPMENTS

Over the last 80 years, the Interactive Social Networking Industry has been affected by the following fundamental external influences:

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- **Before 1995:** The Interactive Social Networking Industry was based on the science of social connectivity. The thoughts behind this science date back to 1929 when Frigyes Karinthy wrote a short story, "Chains", speculating that a billion people could be connected to one another through only 5 "links". This speculation was replaced with science when in the late 1960's Stanley Milgram conducted research on the shortest path between two complete strangers (5.5 links). These theories were pushed into popular culture when John Guare wrote the play "Six Degrees of Separation", resulting in a movie by the same name. By 1995, the idea entered mainstream through late night television discussions and a board game that connects actors to Kevin Bacon. While the idea was being embraced, it was not put to use other than entertainment.
- **1995 to 2002:** Some entrepreneurs saw the potential for the idea of social network analysis to be more than entertainment and the Internet was the perfect media to test-drive this hypothesis. By its very nature, the Internet offered pages linked to other pages, why not profiles linked to other profiles. People could then help friends and friends-of-friends to conduct business, find jobs, dates, and other connections. This was the vision of several sites, including SixDegrees.com, OurSquare.com, Classmates, and BranchOut.com which became part of the first wave of Interactive Social Networks. The dot.com bust significantly thinned the ranks of these companies by eliminating those with weak revenue models.
- **2003 (the break out year):** The year 2003 saw a resurgence of Interactive Social Networking companies determined to succeed where their forerunners had failed. Most have a solid business model(s) with fees being required for network analysis or premium searching. Challenges still exist with the race for nodes (members) just starting. While this analysis is focused on only nine firms, each represents a larger group of firms that are entering or expanding into the market. Below is a list of all firms identified during this investigation, with the analyzed ones in bold:

- 1) **Classmates**
- 2) CopLink
- 3) **Ecademy**
- 4) Eliyon
- 5) Evite
- 6) **Friendster**
- 7) **Friendzy**
- 8) Govnet.org
- 9) **Huminty**
- 10) ItsNotWhatYouKnow
- 11) **Link Silicon Valley**
- 12) **Linked In**
- 13) Meet Up

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- 14) Our Square
- 15) Ryze**
- 16) Specialty Match
- 17) Spoke**
- 18) Squiby
- 19) Visible Path
- 20) Wallop (Microsoft)
- 21) Zero Degrees
- 22) Tribe Networks

STRATEGY DEPLOYED

The Interactive Social Networking firms can be divided based on their Market Reach and the Product Offering. Market Reach refers to the customer segments that will make use of the application. Product Offering considers the breadth of product functionality and features. Each firm is analyzed relative to other firms in the industry.

		MARKET REACH	
		BROAD	FOCUSED
PRODUCT / SERVICE OFFERINGS	BROAD	Classmates Ryze	LinkedIn Ecademy Friendster Friendzy
	FOCUSED	Huminty	Spoke Link Silicon Valley

This chart leads to the question of which companies have deployed a strategy, managed it, and then evolved it successfully in light of the dynamics of this business sector. The balance of this article will apply the Value Framework™ to sample companies that deployed strategies in one or more of the four strategy segments, and examine/analyze what contributed to their success or failure.

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1. BROAD MARKET REACH - BROAD PRODUCT/SERVICE OFFERINGS

Classmates

30-Second Pitch
The goal of Classmates is to link together people that have some form of previous bonding experience (e.g., school, military unit, corporation, etc.). Founded in 1995, it is the oldest interactive social networking site and boasts a user community of over 38 million members.
Strategies Deployed
The Web site attracts users through extensive Internet marketing which drives users to the site. To search the site, you must first submit a profile. This helps to expand the network externalities as the site becomes more powerful with increased users. Revenues are generated through premium memberships and advertising. The strategy has been to expand to additional social networks (from schools to the military and now businesses) leveraging the existing infrastructure. Additionally, Classmates is leveraging its brand to other media (e.g. Classmates TV).
Strategies Managed
Metrics would include users, revenues, and importantly the richness of user profiles. Classmates makes it a point to ensure capturing a members information on a topic before they can access other members information on that same topic.
Strategies Evolved
While Classmates has experienced success, it faces the challenge of promoting recurrent use. To advance the site from more than just an occasional reference resource, it needs to incorporate features that encourage more frequent use (think about the strategies that Friendster uses below).

Ryze

30-Second Pitch
Ryze provides business networking with the profile page creation and then friend linking. It is business oriented, but the atmosphere is also friendly and encourages a community atmosphere. It was founded in 2001.
Strategies Deployed
Ryze has established a Web site where users can create profile pages to share with all Ryze users. No contact information other than a guest book is available unless specified by the user. Ryze is very full featured and distinguishes itself with the friendly community it sponsors. Weekly emailed summaries encourage return visits to the site. Premium membership and on-ground events are the revenue generators.
Strategies Managed
Its metrics should be focusing on the number of users, and their level of involvement in the community.

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Strategies Evolved

Ryze needs to focus on membership growth to insure that it can build the necessary network externalities. Also it should be concerned about balancing its friendliness with professionalism, it could easily be classified as just another dating service network, which doesn't appear to be the intent. Ryze should consider Linked In (see below) as one of its biggest competitors.

Lessons learned from the Broad Market - Broad Product/Service Strategy:

- 1) The companies in this area recognize the overlap with is user's social and professional lives.
- 2) Classmates has shown the flexibility of applying its model to different domains while Ryze has shown the benefits of tying in paid-for on-ground events.
- 3) Both firms display a talent at encouraging customers to provide data. Since their Reach and Offerings are broad, large amounts of information can be collected in an appropriate manner (i.e., satisfies the need for privacy and trust).

2. FOCUSED MARKET REACH - BROAD PRODUCT/SERVICE OFFERINGS **Linked In**

30-Second Pitch

Linked In allows "professionals" to create profiles and link to other colleagues. A user can search the network for individuals with the right profile for a business need. That individual is then accessible by connecting through intermediaries. The connection can facilitate a job search, new venture partner, etc.

Strategies Deployed

While Linked In contains similar features to other Interactive Social Networks, it is all business. The site exists for making contact through member searches and then taking activities elsewhere. Unlike other sites, it does not attempt to create a sticky community. The current site offers little indication of the underlying revenue model. Linked In features a rich search engine and a very professional look and feel. The site provides the impression that you are part of a small but highly selective community.

Strategies Managed

The impression is that its goals are related to quality and not quantity. Specifically, the site boasts of the business connections it has made in the past. Metrics should focus on the number of members, and a quantity/quality of connections established.

Strategies Evolved

The simplicity and professionalism of Linked In are a definite bonus, but it is also an area of concern—Should Linked In be attempting to build a community among its users, or should it just be a business contact search Web site? Furthermore the sense of exclusivity is nice, but it may be hurting its membership numbers, which are relatively low.

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Ecademy

30-Second Pitch
Ecademy is part of the new Interactive Social Networking applications. It focuses on linking and searching the profiles of its users. It prides itself on being the "Trusted Business Network."
Strategies Deployed
Ecademy is Web-based. It allows users to create a profile page and then link and search other user's profile pages. The revenue model is based on premium memberships, advertisements and on-ground events. Ecademy interaction is differentiated by its addition of complementary services such as Weblogs, chat, and forums. Users who are strong contributors are identified as such and receive status recognition with stars next to their names.
Strategies Managed
Metrics would include both users and revenues.
Strategies Evolved
While Ecademy has a strong Web site and value proposition, it needs to focus on what is going to distinguish it from its competitors such as Ryze. This is a race to build the biggest user base, new customers will care less about features and more about the number of members.

Friendster

30-Second Pitch
Founded in 2002, Friendster is at the forefront of social networking. It is very focused on friendships and dating and encourages its users to bring friends and build online communities.
Strategies Deployed
Friendster allows the user to set up a profile, and also provides them with a portal type page for monitoring their profiles. Friendster is considered to be in beta and there is no clear revenue model identified on the site, however, we can think of a couple that work. Friendster's portal integration is a strong feature. It encourages users to continually check their networks bulletin board. We believe that Friendster has increased its user base faster than any other Social Networking company.
Strategies Managed
A Nielsen/NetRatings study found that "Surfers spend nearly two hours on Friendster, an hour more than other top dating sites". Metrics would include both users, revenues, and average length of site visits.
Strategies Evolved
As Friendster continues to evolve, there is significant speculation as to what the emergent business model will be. There is a strong concern that charging users will drive them away. Options include exploitation of data assets, premium memberships, on-ground dating events, payment for successful matches, and/or partners who need to make their sites stickier .

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Friendzy

30-Second Pitch
Founded in 2003, Friendzy is an up and comer in the area of Interactive Social Networking. Similar to Friendster, Friendzy is focused on bringing together you and your friends to make your life better.
Strategies Deployed
Friendzy repeats the model where users set up profiles, link to other profiles to build a network. Stand out features of the Friendzy implementation are its Friendzine and Classifieds. In Friendzine, users are encouraged to submit stories and set up polls. This encourages users to mingle with other users.
Strategies Managed
Metrics would include users, revenue and overall user participation.
Strategies Evolved
While the look and feel of Friendzy is nice, it needs to grow fast. The number of users will become a determination of future users (network externalities). A partnership with a company with a significant Web presence would be very valuable to drive traffic.

Lessons learned from the Focused Market - Broad Product/Service Strategy:

- 1) The most important lesson from this entire section is Friendster's ability to draw users, keep them coming back and spending time on the site.
- 2) Much of the challenge for these firms is the acquisition of members. Due to network externalities the firm with the biggest membership has an advantage that perpetuates itself. Tying in paid-for on-ground events, like Ecademy does will help.
- 3) The design and feel of these sites are all focused on their specific market. This may be a benefit or a detriment by alienating other users.

3. BROAD MARKET REACH - NARROW PRODUCT/SERVICE OFFERINGS

Huminity

30-Second Pitch
Huminity is a software application that combines the best features of an instant messenger with Social Networking navigation. Go into a chat room and find out how you are connected to other people.
Strategies Deployed
The Huminity experience begins with a member downloading the software and setting up the profile. Once set up, the user can navigate their friends and search for acquaintances. The application then facilitates chat. Huminity's choice to deploy on the desktop is an important differentiator. It recognizes that for some users the value of social networking will be frequent interactions. Their chat software is an attempt to better facilitate this. The current revenue model is unclear.

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<i>Strategies Managed</i>
Huminty stood out for their excellent online demo of how the product should be used. Important metrics at this point are the number of downloads and number of users.
<i>Strategies Evolved</i>
Huminty's unique approach may be the right mix of instant messenger and social networking software. A needed improvement is the ability to broaden the profiles of the users. Finally, the installation process requires submitting 5 contacts to add to your tree. While this is a respectable form of viral marketing, it may also be turning off potential users. It is recommended that this constraint be removed or reduced.

Lessons learned from the Broad Market - Narrow Product/Service Strategy:

- 1) Interactive Social Networking does not have to be done through a Web site, and it might be more powerful as a stand-alone application.
- 2) It is important to connect with users, and stay connected.
- 3) While viral marketing is ideally suited for this industry, it should be an option and not a requirement.

4. NARROW MARKET REACH – NARROW PRODUCT/SERVICE OFFERINGS

Spoke

30-Second Pitch
Spoke takes advantage of the relationships you have already established in your Outlook Contacts and leverages them for the entire organization. It can then be utilized to make a trusted chain of contacts between the end user and the target. The idea being that business can be facilitated through business interactions, specifically sales. Spoke was founded in 2002.
<i>Strategies Deployed</i>
Spoke is establishing itself as a Sales Force Automation product that can help companies connect to customers more quickly through a trusted chain of contacts. Spoke leverages the same kind of Social Networking analysis as the other companies in this space, but instead of being dependent on users to set up profiles, it leverages existing links stored in Outlook. Spoke's revenue is based on business sales and not on members.
<i>Strategies Managed</i>
Spoke provides a useful online demo of its software. Its metrics are more focused on revenues and business customers.
<i>Strategies Evolved</i>
Spoke should continue to expand its niche of Social Networking analysis, but be aware of other companies activities. Using its existing client base, it should consider expanding its feature set. Establishing key customer and partner relationships to rapidly expand its usage will be key.

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Link Silicon Valley

30-Second Pitch
Link Silicon Valley focuses on how business gets done in Silicon Valley. It provides insight into the connections between companies and people. The user can then use this information to find a job, a partner, a client, etc.
Strategies Deployed
Link Silicon Valley has a Web site listing the public and private technology companies in Silicon Valley. The Web site offers powerful search capabilities showing companies that met a specified criteria. Users can see the key management and companies that are associated with a specific company.
Strategies Managed
Link Silicon Valley is aiming to be a valuable resource for those in need of information. While its search is powerful, a demonstration on the best way to use the site (like Huminty and Spoke does) would help users get the most out of it. Metrics are largely focused on the number of members.
Strategies Evolved
Link Silicon Valley has two significant assets: the data and the infrastructure. One possible evolution would be to separate the data and the infrastructure into two separate entities. Either way, the company should explore additional uses for both and expand out of its niche. There's also a strong need to expand the customer base to allow for the evolving model or revenue-based models. We'd suggest moving away from the 30-day free trial and moving into a free Beta mode to reduce any friction to trying the product.

Lessons learned from the Narrow Market - Narrow Product/Service Strategy:

- 1) Interactive Social Networking firms should not feel limited to membership strategies. If possible, create an infrastructure or tool that facilitates Interactive Social Networking and apply that to different data sources.
- 2) If there is a source of existing Social Networking data, making it searchable might be a great business model.
- 3) Some customers are always looking for links (e.g., a sales force). Focusing on that market's need can be especially valuable.

SUMMARY AND CONCLUSIONS

The Interactive Social Networking industry today is the culmination of over 80 years of science and theory about how people interact and are connected via relationships.

Today over 20 firms are examining how they can add value (and make money), by building and searching these relationships. Some of the firms are focused on specific markets with specific features while others are offering a broad feature set to a broad user base. The firms that will succeed must address their user's

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needs while finding a tolerable model for making money. Many questions will be answered by the users, deciding what features are important and if they would like their personal and professional networks mixed.

The firms in this industry are advised to keep abreast of their competitor's feature and strategies. In the end, the firm with the "best" feature may not emerge as the winner. Tying in paid-for on-ground events appears to be a growing business model. The true race is to have the most users. When a new member makes a decision to join, it will be for the network that has the most known people (friends and/or business associates). Other opportunities include leveraging the infrastructure to seek new opportunities with different data sets.

A couple words of caution: Microsoft & profitability

1. Microsoft will include one or more of the components discussed above in their next operating system. This shortens the horizon for customer acquisition. Acquire and aggregate customers today or disappear tomorrow.
2. Companies that failed in this space lost sight of the need to make a profitable business out of the Interactive Social Networks. The source of revenues needs to be realistic and obtainable.

In the next stage of Interactive Social Networking, there is likely to be only a couple of very large players that dominate the space. They will allow us to make business deals, keep in touch with old friends/business acquaintances, help us find new ones, find love, and much more!

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About the Authors:

Gary George is an analyst in Silicon Valley, California. He received his undergraduate degree from the University of Arizona in Management Information Systems. The Value Framework™—which he came across while pursuing his MBA at Santa Clara University—fit well with his interest in emerging markets and industries.

In his personal life, Gary enjoys the outdoors and spending time with his wife Heather.

Mitchell Levy is President and CEO of ECnow.com (<http://ecnow.com/>), a management consulting firm helping companies grow with strategic consulting and targeted business education. The strategic consulting component focuses on helping companies choose and manage the business models they deploy, manage and evolve. Through the Value Framework(tm) (<http://ecnow.com/value/>), we share a tool that allows the practitioner to merge strategic planning with business process reengineering and execution. For qualified firms, we offer a free 2-hour initial consultation which will result in a high-level analysis of the business models currently in place and those planned for the future. The business education component involves custom programs as well as off-the-shelf programs at Universities like San Jose State where we run the Silicon Valley Executive Business Program (<http://SiliconValleyPACE.com>).