

## **Social Networks: Will Users Pay to Get Friends?**

*Bob Tedeschi*

The idea behind "social networking" Web sites like Friendster, Tribe.net and LinkedIn is almost the opposite of the old Groucho Marx joke: they attract people who want to join a club eager to have them.

But as the popularity of such sites has taken off, the big question for investors in new technologies is whether social networking sites can ever make a lot of money by connecting friends of friends in mini-networks of trust, whether for dating, business or maintaining acquaintances. For many, the buzz over social networking sounds a lot like vintage Internet hyperbole from the late 1990's.

"I'm having a real problem finding a business model here," said Nate Elliott, an analyst with Jupiter Research. "It feels like the early days of the Internet, with sites like Globe.com saying they'll aggregate tens of millions of users, then find a way to monetize them. That's not the way to run a business."

The creators of such services strenuously disagree, arguing that in contrast to the hundreds of dot-coms that bombed, they have clear plans for generating revenue. But those plans could be short-circuited by Internet giants like Yahoo and Google, as well as by established players in the online jobs and dating categories, whose turf most social networking sites seek to occupy.

Indeed, as the more popular dating and jobs sites like Match.com and Monster.com quickly add networking features of their own, sites like Friendster face the challenge of how to differentiate themselves - beyond boasting that they are, for now, free.

The prospects of social networking sites that focus on business-oriented users look more promising, analysts say. When these companies start charging fees later this year, they expect business users to spend more freely, partly because they may be able to expense the cost or write it off on taxes. That is one reason at least one business-oriented networking site, Ryze.com, has already reached profitability, according to Adrian Scott, its chief executive.

"We've proven there's a business model that's profitable," Mr. Scott said. He contended that Ryze, which has operated for less than three years and is privately held, is "quite solidly cash flow positive."

Ryze's chief mission is to connect its 120,000 registered users for business reasons. But that doesn't stop it from including social elements in the profiles that users present to other members.

"It's the whole golf and business thing," Mr. Scott said. "Or the water cooler in business, where you have those soft interaction points. People connect as people, not just as business entities."

Ryze's approach is similar to that of other social networking sites. Registrants set up personal Web pages to communicate with current and prospective business contacts. A typical personal page might include photos and graphics, along with a résumé-like description of business and academic achievements, before going into personal hobbies and other nonbusiness topics.

From there, users can build a network of "friends of friends" by visiting pages of acquaintances and asking permission to include their names on a list there. Other sites, like LinkedIn, recognize the degrees of separation between people more overtly and have referral mechanisms to ease introductions.

Users of Ryze and other sites also frequently join an industry-specific network, where they can post to message boards and establish new contacts.

Ryze earns money by selling gold memberships which, for \$10 a month, allow users to search the site more extensively than nonpaying members can. (Mr. Scott would not disclose the number of gold members.) For \$6, Ryze members may place ads for jobs and other services atop message boards and in the site's classified ads section for 30 days.

Friendster, which had its debut last March, hopes to turn itself into a profitable business in a similar fashion. It plans to offer paid services to its five million registered users later this year, according to the chief executive, Jonathan Abrams.

But Friendster says it will not charge members for what they now get free. Mr. Abrams is circumspect about what the new offerings might include, but analysts say the site's premium services could compete with Web sites already well established to serve the needs of job seekers and those looking for dating prospects.

Among other services, Match.com allows users to view lists of their friends' friends without charge, then charges users \$11 to \$25 monthly, based on the length of commitment, for the ability to contact prospective friends and dates.

The new Internet sites say they believe that their services will command similar, if not higher, fees. LinkedIn's co-founder and marketing vice president, Konstantin Guericke, said he expected users to pay in the range of \$10 to \$15 for each meeting, or an annual fee of \$100 to \$200 when the site starts charging for subscriptions later this year.

Friendster, which already has a reputation as a date-finding destination for young singles, has also earned an undisclosed but small amount of money from advertising. But for now, Mr. Abrams said, the site is less concerned with attracting ads than with upgrading its technology to combat widespread criticism that it is too slow.

To pay for the upgrading, Friendster is using part of the roughly \$13 million it raised in its first round of venture capital financing in October. In early November, LinkedIn raised \$4.7 million, while Tribe.net's parent company, Tribe Networks, followed later that month with \$6.3 million from Mayfield, Knight-Ridder and the Washington Post Company.

To an extent, these investors are pursuing a vision of e-commerce and online media that is far different from what exists today, says Mark Pincus, Tribe's chief executive. Social networking applications, he contends, will ultimately act as a user's online agent of sorts, connecting people for transactions and social interactions, using what the applications know of a user's personality profile and the extent to which they want to interact with others who fit a certain profile.

That already exists to a limited degree on Tribe.net. Members of one "tribe," or subgroup, and visitors can view classified advertisements by other members of that group. But Mr. Pincus says he believes that the various social networks will ultimately share information - with privacy protections in place - "so people can take on identities across the network that expose parts of themselves based on who asks about them and what the activity is."

In that environment, Mr. Pincus said, "the network is the marketplace."

For now, Tribe.net, which was introduced last year and has 110,000 members, represents a chance for newspaper publishers like Knight-Ridder and the Washington Post Company to stave off the damage done to their classified advertising businesses by eBay, Monster.com and online sellers of real estate, cars and household items.

Hilary A. Schneider, who runs Knight-Ridder Digital, says her company hopes to begin testing a classifieds service on Tribe within the next six months - perhaps charging users to show listings to

people within the Tribe network who are, say, at least three degrees separated from them. (Charging for listings between direct friends would have limited reach and could be risky, since the site benefits from offering some services at no cost.)

Part of the impetus for Knight-Ridder's involvement, Ms. Schneider said, was a company survey last year that found half of the people who bought or sold something to another person in the previous 12 months had done so not through newspaper ads or on eBay, but through word-of-mouth advertising or through their own personal networks. "We were stunned," Ms. Schneider said.

Online social networks can facilitate that process, Ms. Schneider said, and Knight-Ridder can capitalize on the transactions. Knight-Ridder customers who fill out classified ad requests online spend 50 percent more on add-ons like boldface print, for instance, than those who contact the company by phone.

But Charlene Li, an analyst with Forrester Research, warned that these businesses would soon face formidable competition from Yahoo, MSN, AOL and Google.

"What happens to Friendster when Yahoo turns this on?" Ms. Li asked. "You might be able to survive as a stand-alone business. But how many social networks will people actually belong to?"

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