



Losing Their Cool: The Downside of Expanding Hot Social Networking Sites

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Facebook, a social networking site known as an online meeting place for college and high school students, is opening its doors to more people in an effort to grow beyond its current nine million registered users. The problem: The move could be risky if it blurs the company's focus and dilutes its brand.

Social networking sites often connect people within certain demographic groups -- such as students, business people, independent music fans or twenty-something urbanites -- using tools such as chat, uploaded pictures from users and online diaries.

For Facebook, the move to expand comes amid backlash over two features the site added September 5, 2006, dubbed "News Feed" and "Mini-Feed," which allowed users to track information updates of others in their social circles. When a person's profile changed, updates would be broadcast to people who subscribed to the feed. These updates could include such personal information as a subscriber's decision to break off a romantic relationship or start a new one. Although the same information was available for viewing in a person's profile, some users objected to the lack of control over the distribution of their personal information. On September 8, Facebook issued *amea culpa* in response to these privacy concerns, and now Facebook's new features have more finely tuned privacy controls. As CEO Mark Zuckerberg put it in Facebook's corporate blog: "We really messed this one up."

Now, according to reports from *BusinessWeek* and *Forbes*, Facebook is opening its doors beyond students and those affiliated with certain companies, to people associated within geographies. Much of Facebook's early success was due to the close affiliation of its members' networks. For instance, a person on Facebook who attends the University of Arizona would only have his profile viewed by others at the school or other people he or she has identified as a "friend." "We made the site so that all of our members are a part of smaller networks like schools, companies or regions, so you can only see the profiles of people who are in your networks and are your friends," says Zuckerberg.

With Facebook opening itself up to broader geographic regions, a person associated with a place like the New Jersey shore could post a profile that can be viewed by others in the area. In other words, Zuckerberg's small network could get much bigger.

Underneath Facebook's expansion plans is a conundrum facing any social networking site: How do these companies expand into new markets without losing what originally made the site popular and alienating their existing customers? For instance, if a site starts out as a trendy online hangout for young people and then begins courting senior citizens, it is unlikely its initial customer base will stick around, say experts at Wharton.

Couple that dilemma with the fact that social sites' business models are already fragile, and a loss of focus could be fatal. By expanding, "you can dilute what the community stands for," says Wharton marketing professor [David Bell](#). "Once that happens, people leave. It's a key tension between growth and dilution of the brand."



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Kendall Whitehouse, senior director of IT at Wharton, agrees. "It's debatable whether broadly expanding is a good idea. A lot of businesses start small and expand, but when you are dealing with affinity groups that hope to foster a sense of community, [the decision] is more complicated. Is it better to focus on a successful niche or make a play for world domination?"

This issue is increasingly difficult for sites that are associated with one group yet want to expand their base of users, says Wharton legal studies and business ethics professor [Kevin Werbach](#). "Facebook will have a challenge expanding, because it's so closely associated with the communal experience of college and high school students. Even the site's name evokes strong associations with being a student at a particular institution. Expansion will also put Facebook directly in competition with MySpace, which has many more users."

Konstantin Guericke, co-founder and vice president of marketing at business networking site LinkedIn, acknowledges the expansion dilemma, which is one of the reasons LinkedIn decided early on to focus on the business and career market. According to Guericke, LinkedIn's target demographic is people 25 to 65 years old -- those in the workforce. "We don't have any interest in becoming more than a business site," he says. "By focusing on business, we already have a fairly big market chunk to go after."

According to Guericke, deciding whether to expand depends on the specific goals of the site. LinkedIn doesn't face pressure to expand beyond its market because it already has a sizeable target. Guericke says that any decision to expand to new demographics has to be weighed carefully. Why? Social networks rely on the content provided by users; if they defect, the network falters. It would be the equivalent of eBay trying to survive without a critical mass of buyers and sellers. There is a need "to think about users much more," says Guericke. "You don't want to alienate your audience."

The Pressure to Expand

So why aren't targeted networking sites content to stay in their niche? After all, Facebook managed to land Microsoft as an advertiser and is the seventh most heavily trafficked site on the Internet, according to comScore Networks. Werbach says the primary reason social networking sites like Facebook want to expand is the network effect, which dictates that more users mean more value. The more people using your network, the more they can connect to other people. The growth cycle feeds on itself.

"Social networks are inherently scale plays, unless they focus on a well-defined, high-margin niche," says Werbach. "The network effect means that the biggest social network is most valuable to its users. Facebook knows that if it stays limited to the college [market], it's only going to have its users for four years."

Guericke agrees that the pull of the network effect is significant. A large network means people have more options to connect with others. The danger is that an influx of new users may turn off existing ones. For instance, a 20-year-old Facebook user may deem the site uncool if his 15-year-old sister joins. "You have to match up the right people," says Guericke.

The need to "match up the right people" is also an issue in large enterprises, says Deirdre Woods, Wharton's chief information officer and associate dean. The same social networking tools that are popular today on the Internet may also find a place within the corporate intranet as companies seek better ways to encourage knowledge sharing and spur innovation. Wharton's computing department has a custom-developed social networking site, called Aspect, used by the school's technology staff to allow them to easily share work knowledge such as programming skills and areas of technical expertise as well as hobbies and non-work related interests. "There are a lot of people who work for us and it's nice for them to keep in touch with what others are working on," says Woods, adding that Aspect is about more than just transferring knowledge. "It gives people a sense of affiliation with their coworkers and the organization."

As Woods and her employees work to fine tune the details of the system, they are considering rolling it out to other groups at Wharton and the University of Pennsylvania as a way to connect with current students and recent alumni. The main challenge in doing so: If Aspect expands to other groups, such as students, alumni and educators, would those users find the unifying threads of common interests to form a successful social network? Woods believes so. She feels there is enough common ground in the activities of students, instructors and administrators to form the foundation for a strong school-wide social network. For a firm like Facebook, which is expanding based on geographical distinctions, it's still an open issue as to whether the bonds of a region are sufficient to create a successful communal experience.

Why Social Networking Is Different

Wharton experts note that expansion is a bigger issue for social networking sites than for other businesses, which don't rely as heavily on user input. "Businesses based on community can become fragmented so much that they splinter off the people who were attracted to them in the first place," says Bell.

Indeed, Werbach highlights another challenge for the expansion plans of players like Facebook: Users opinion can turn on a dime. "The users that helped MySpace and Facebook grow so quickly are fickle; just look at how quickly Friendster, the early leader in the space, crashed and burned." Friendster, founded in 2002, was a pioneering social networking site, but was overtaken by MySpace in 2004. Slow load times drove users away and the company nearly went bankrupt. Friendster still exists under a new management team and owns a key asset in a recently awarded patent on social networking technology.

As the Friendster saga shows, social networking players have to worry about the "cool" factor, says Whitehouse. Do users get a psychological reward from being in the club? For instance, MySpace initially catered to independent bands. Today, anyone with a browser can create a MySpace page. So far, the expansion hasn't hurt MySpace, one of the most popular sites on the web, but Whitehouse notes that other social networking sites may have to "retain their air of exclusivity" to keep their customers engaged.

While social networking sites wrestle with the expansion dilemma, Bell argues that the marketing problem these firms face is similar to the issues faced by other companies trying to segment a market. For instance, if Toyota's Scion unit initially targets younger buyers, the cars could lose their cachet if Baby Boomers start buying them.

Following the P&G Playbook?

While social networking sites have their own dynamics, there are lessons to be learned from the marketing practices of large companies in other industries, which often face the challenge of whether to become "a house of brands or a branded house," says Bell.

Consider Procter & Gamble, which has expanded by focusing on a portfolio of brands such as Tide, Pampers and Bounty. A company like Facebook could do the same thing. According to Bell, the primary brand could focus on college students and a new site could follow young professionals. "That way, there's little concern about diluting the main brand. There are elements of other industries that are analogous to this one." Indeed, social sites that want to expand and segment audiences would be similar to a company such as Toyota, which divides consumers with its Toyota, Lexus and Scion brands.

Given that the "portfolio of brands" model could work for social networking sites, Bell and others say a consolidation of these sites may be warranted. For instance, if one company owned a range of sites like MySpace, Facebook and LinkedIn, a user could migrate from one to the other and the site could keep a customer's profile throughout a career. "It's a fundamental issue," says Bell. "These sites will have to

figure out whether their strategy is to keep users as customers forever or grow them to another product."

While it may be counterintuitive to think Facebook could learn from P&G, those in the industry say it's not so crazy. The lesson for social networking sites: Just because the business model is new doesn't mean you can't learn from other, more established industries. "Whenever there is something new, people are quick to dismiss what works better in other areas," says Bell.

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