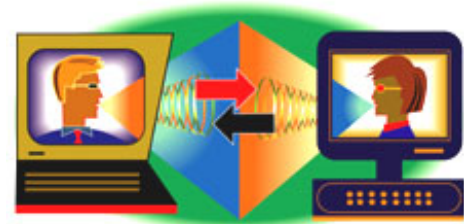




Need a Job? How about a Date? Networking Services Want to Help

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Networking services – Internet companies that offer to bridge the six degrees of separation between the friend of a friend we might marry, or the colleague of a colleague who might hire us – are the hot e-businesses of the moment.



Friendster, Orkut, Tribe, Ryze and LinkedIn – along with nearly two dozen more online communities that have cropped up recently – are furiously recruiting members who, in turn, recruit their friends, relatives, co-workers and just about anyone seeking an introduction to, or reference from, someone who might matter. Some networks count up to 100,000 people as members while others are claiming between 500,000 and one million.

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These services, also known as social networks, aren't just attracting members. They are raking in money offered by venture capitalists from San Francisco to Boston. Sequoia Capital has invested \$4.7 million in LinkedIn. Kleiner, Perkins, Caufield & Byers have put \$13 million into Friendster. Mayfield and media giants Knight-Ridder and The Washington Post Company have invested \$6.3 million in Tribe.net.

To some e-business experts, the explosion of social networking businesses is all too reminiscent of the dot-com boom-and-bust phenomenon: An interesting idea pops up on the horizon, companies with vague business models are formed to exploit it, and venture capitalists see profits in the businesses, even though revenues have yet to make an appearance. "We've created this little bubble again with high prices and high expectations," Andrew L. Anker, a partner with August Capital, told the *Boston Globe* late last year.

Still, networking services trying to turn themselves into successful e-businesses shouldn't be compared to the likes of Pets.com, the poster child for the burst Internet bubble, according to some observers. Many of the dot-coms that went belly up failed because they had to carry heavy inventories of real goods and maintain brick-and-mortar facilities in the non-virtual world. The only inventory that network services have to carry is a long list of names. And they don't stock any products.

Furthermore, back in the 1990s, when the Internet was unfamiliar to the masses, the dot-coms had to spend a substantial part of their raised capital on advertising. Social networks don't have to spend a penny on advertising because, through the very nature of networking, their subscribers bring in other subscribers. "What has been attractive to investors is the phenomenal viral growth these [networks] have experienced," says Ross Mayfield, founder and chief executive of Socialtext, publisher of software that is used for social networking.

Konstantin Guericke, a cofounder of LinkedIn, is the vice president for marketing yet has "no budget and no staff. But of our 500,000 users, we can track the 95% who responded to invitations from other users."

Almost all the nascent networks are still in their early stages, which means that they are, for the most part, concentrating more on building the networks and hooking participants than worrying about profits. Some, if not most, have yet to make hard and fast decisions on how they will pull in dollars. However, at least one network, Ryze, has publicly said that it is turning a profit, although it has not cited dollars and cents.

An Invitation to Dinner

According to Wharton marketing professor [Peter Fader](#), networking services may succeed where a multitude of dot-coms have failed for a number of compelling reasons. One is that the Internet has become a part of just about everyone's daily life, including in some cases their social lives. The second is that in an era in which the Internet has also become a tool for communications, the networking services indeed have something tangible to offer – the ability to connect with people who may be important to you. In fact, says Fader, he has personally experienced the value of networking services as a member of LinkedIn, one of the hotter networking services around.

When a student recently asked him to give her a reference to a person whose name he did not immediately recognize, Fader turned to LinkedIn. Within seconds he had found the person, remembered who he was, made the requested recommendation – and arranged to have dinner with him. “That sort of thing is happening every day,” Fader says. “These new platforms are being used to fulfill the genuine needs of users.”

Those platforms – and more specifically, the business models driving them – vary substantially. Some of the networking services are looking to advertising, subscription fees or a combination of the two to generate revenues in the future. Others, perhaps concerned that upfront subscription fees will turn off members, are likely to allow entry to all comers, but will charge if a participant wants to contact someone, say, three or more degrees away. Some hope to make money on ancillary services such as organizing teleconferences or trade shows for network members who share business interests. Ryze has found revenues in organizing networking events in the non-virtual world.

LinkedIn, says cofounder Guericke, is thinking about charging for “key value” transactions. About 10% of the people who are part of LinkedIn are looking for a former colleague, 10% for an industry expert who might be willing to give a talk, 30% are looking for business partners and about 50% are looking to hire someone. Searches that involve business partners and potential employees “should not be hard to monetize,” says Guericke, because “people are already spending money for that and we are not asking them to spend something new.”

But the beauty of networking services is not that they will be asking customers to spend new money, says David Flaschen, a managing partner at Flagship Ventures. Rather, their appeal is that they could substantially lower the cost of finding executive talent by helping cut out recruiters who now charge tens of thousands of dollars – and do so while expanding the pool of people from which to hire. Says Flaschen: “Monster.com can help you find people who are looking for a job, or people who are out of a job. But social networks can help you find people who are not looking for a job, but are a perfect match for what you have available. Social networking moves you beyond the obvious connections.”

While business models such as those based on subscriptions or advertising may well prove to be viable, even more imaginative approaches are likely to be tried, says Wharton operations and information management professor David Croson, currently a visiting professor of management science at MIT. A

networking service, he says, could work out a deal under which a cellular phone company, in exchange for a fee, gets access to some of the network's members. The networkers, in turn, would get preferential phone rates.

Networking services have posted privacy policies attesting to their determination to protect the privacy of those who participate. Still, technology experts like Esther Dyson worry about potential invasions that joining networks may encourage. "There's a real danger that the whole field and its potential for supporting human connections could be irretrievably tarnished by privacy issues -- either as a result of policies that leave people feeling exposed by the aggregation of data, or by security breakdowns, resulting in some kind of informational oil spill," Dyson wrote in the *New York Times* last fall. "For now, no one online social network has enough heft to matter. But these issues will inevitably arise when the services approach critical mass."

3,500 Alpine Skiers

Very highly-targeted merchandising could also generate profits, Croson believes. In a networking service, for example, there might be a sub-group of 3,500 Alpine skiing enthusiasts. A manufacturer of skiing equipment could "effectively, fully and openly hit those skiers with detailed information" about available products, Croson points out.

Observers like Socialtext's Ross Mayfield speculate that networking services can succeed because they are poised to cannibalize dating and employment web sites where a vast number of people are already spending hundreds of millions of dollars to look for mates, friends and the next, best job. The dating and employment web sites, Mayfield says, match people with potential dates or jobs by using arbitrary algorithms to determine who should date whom and what job seeker to pair with which employer. The network services, however, will be able to offer a time-trusted approach to love and labor: A set of people willing to vouch that someone is compatible with you and worth taking to dinner or putting on the payroll. Says Mayfield: "If I go out on a date and do something inappropriate, that information will go back into the network so any action I take will risk my social capital," Mayfield notes. That informal, but effective, rule creates the sort of trust that a Match.com or Monster.com cannot duplicate.

Potential profits may await networking entrepreneurs – whether they are selling a full-fledged service or only the software for creating a network – in some highly specialized and potentially lucrative niches. Both Fader and Croson point out that social networking can be of immense value to universities, for example, not to mention specialized institutions such as business schools which, as Croson says, "have not been effective at making alumni connections. Using (networking software) to spice up an existing group could be powerful." Network services, Fader adds, could help tie together different groups such as faculty, admissions and career management. Among other benefits, telling potential students of this powerful networking component could help attract top MBA candidates to your campus.

Large corporations with far-flung offices and sales forces are also a potentially lucrative market for networking services. In a typical corporation with hundreds of salespeople, information about contacts and relationships is hidden away in hundreds of individual Rolodexes or personal information management software. A vast store of valuable information is also locked away in the contact lists belonging to managers, executives and members of the board of directors.

Using social networking software to bind all those people and their contacts into a corporate network would yield immense results, says Stowe Boyd, an information technology expert. A salesman vying for a

major contract from a business in Washington, D.C. could access the network and find that someone in Ohio has a connection there. “At the very least he could go to (his colleague) in Ohio and find out how to better get in, or get an introduction.” That sort of networking “adds up to real money,” Boyd notes.

Corporate networking services could even change hiring and firing decisions, Boyd adds. “If you decide to let Joe Jones go, it may not look like a big deal on the surface. But, whoops, if you look at it from a social networking point of view you may find that he is an incredibly connected guy who was a powerful influence and has been responsible for closing 25 deals.”

Boys calls corporate networking “the killer app,” and venture capitalists seem to agree. In addition to the deals mentioned earlier, Visible Path, a vendor of corporate networking service software, has received \$3.7 million from Kleiner, Perkins, Caufield & Byers. Spoke Software, another entrant in the field, has pulled in \$20 million in venture capital from investors including US Venture Partners, Sierra Ventures, Partech International and DCM - Doll Capital Management.

Subverting the System

For all the enthusiasm about social networking services and the disclaimers that this time it is different, their success is far from assured. Anker of August Capital is skeptical of networking services aimed at corporations, for example. The impact of collecting and analyzing networks within companies may not yield results for 18 months to 24 months, he points out, making behind-the-walls networking a tough sell to CEOs beset by impatient stockholders. Dan Keldsen, a senior analyst at the Delphi Group, sees a more profound reason enterprise-oriented networking services may flounder: “Sales people are not known for sharing leads or contacts. They’ll find ways of subverting the system,” he suggests.

The broader social networks may find that there are only so many people interested in networking; that many of those interested in joining social networks won’t pay fees of any sort; that, as the novelty of networking fades, members will drift away, especially as it becomes evident that networks deliver less than they promise.

As a result, some social networks will disappear. Others, the betting goes, will be subsumed by bigger fish interested in using them to provide ancillary benefits to existing customers. Zero Degrees, a Los Angeles-based social networking service, has already been devoured by Barry Diller’s Interactive Corp. Conversely, experts also expect that existing web-based businesses will add social networking to their services, thus ratcheting up further the pressure on the startups. Monster.com – which might expect to see its business cannibalized by social networking aimed at helping people connect for jobs – recently added networking to its offerings, telling subscribers that it will help “introduce you to the right people.”

All in all, the betting is that only a handful will be left standing after another 18 to 24 months have passed. “I can’t imagine that there is room for more than one dominant social network, one dominant business network and one network for special interests,” says Croson.

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