

Popularity or Income? Two Sites Fight It Out



TWO SITES, TWO MODELS Two start-ups, Twitter, run by Evan Williams, above, and Yammer are a contrast in models watched by venture capitalists. Sara Morishige Williams

By Claire Cain Miller

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SAN FRANCISCO In the aftermath of the dot-com bust, many chastened venture capitalists pledged never again to finance an idea scribbled on a cocktail napkin with no viable business model. Too many poorly conceived companies like Pets.com and Webvan had flamed out. The new breed of Internet start-ups needed to have a clear path to profitability.

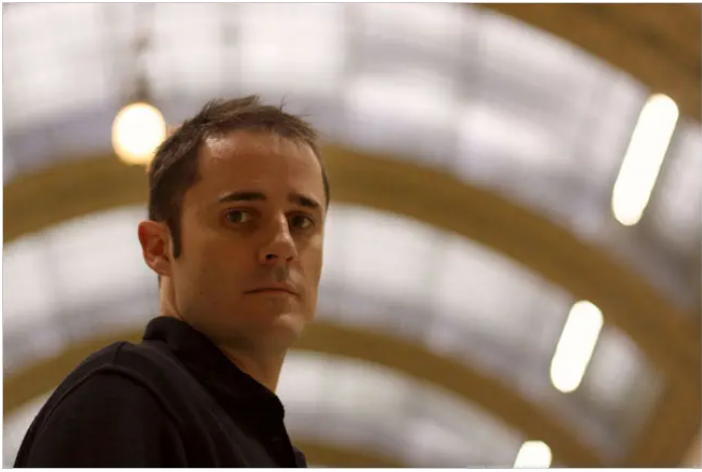
The discipline did not last. Successes like YouTube, the online video site sold to Google for \$1.65 billion in 2006, convinced some venture investors that building a Web site with a large number of users could still be more valuable than making money from paying customers.

Now, as the global economy enters a severe downturn, the relative merits of these two philosophies will be tested again.

The two poles of the debate are apparent in the world of microblogging, where people use the Web or their cellphones to blast short updates on their activities to a group of virtual followers.

Twitter, a start-up company in San Francisco that has become a household name, is the leading microblogging outfit. At least three million people have tried its free service, according to TwitDir, a directory service. But Twitter has absolutely no revenue not even ads.

Yammer, a new and much smaller copycat aimed at corporate customers, has a mere 60,000 users. Unlike Twitter, its founders set out from the beginning to charge for its service. Just six weeks after its public debut, Yammer is already bringing in a modest amount of cash.



Mr. Williams is chief executive of Twitter, which has no revenue.

Sara Morishige Williams

Twitter has drawn much attention in the tech world since the service began in 2006. When a user is logged in through the Web or a cellphone, it asks one simple question, “What are you doing?” Users answer in 140 characters or less. While some of these “tweets” have the profundity of haiku, most are mundane, like “Sure is pretty out tonight” or “My eyes itch. I am very aggravated.”

Yammer tweaks the question, asking, “What are you working on?” The goal, said its chief executive, David Sacks, is to make offices more productive. People on Yammer update colleagues on company events or ask work-related questions without clogging e-mail boxes with mass mailings.

Mr. Sacks said finding a way to make money was a priority for Yammer and a lesson he learned as operations chief at the online payment company PayPal after the dot-com bubble burst and the company had to make money fast. His focus on profits helped Yammer, which is based in West Hollywood, Calif., win the TechCrunch50 prize for start-ups in September. TechCrunch, a leading technology news blog that sponsored the contest, called the company “Twitter with a business model.”

Yammer’s business model is compelling, Mr. Sacks said, because it spreads virally like a consumer service, but earns revenue like a business service. Anyone with a company e-mail address can use Yammer free. When that company officially joins which gives the administrator more control over security and how employees use the service it pays \$1 a month for each user. In Yammer’s first six weeks, 10,000 companies with 60,000 users signed up, though only 200 companies with 4,000 users are paying so far.

The founders and backers of Twitter, which has reportedly raised \$20 million from venture capitalists, are just as adamant about their decision to grow first and monetize second.

Like the value of the telephone network or the Internet itself, the value of Twitter increases with the number of users. So growth is its top priority, said Evan Williams, Twitter's chief executive. "If we spent time monetizing early on, it would have meant we weren't doing other things that made the product better for users," he said. Registrations have grown 600 percent over the last year.

However, as venture investors tell start-ups to lay off workers and become profitable to survive the economic downturn, the revenue question has taken on new urgency for Twitter. On Thursday, Twitter's board pushed aside Jack Dorsey the engineer who created Twitter and its former founding chief executive and gave the job to Mr. Williams, Twitter's chairman and a more experienced executive.



David Sacks is the chief executive of Yammer, which mimics Twitter's model but is aimed at paying corporate users.

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"We all think Ev is a better fit to lead the company from a product perspective, an operations perspective and a business standpoint," said Fred Wilson, a partner at Union Square Ventures and a Twitter board member.

Early next year, Twitter plans to introduce several ways to bring in revenue. One idea is to charge companies that want to use Twitter as an official channel to talk with their customers and monitor what they are saying.

Although Twitter will focus on building revenue next year, Mr. Williams argues that Twitter's growth-first approach has a proved track record.

Mr. Williams helped found Pyra Labs, an early blog company that grew rapidly but struggled to build a healthy business before it was sold to Google for an undisclosed amount in 2003. He noted that Google itself began as a search engine with no revenue before finding the lucrative advertising model that has turned it into a business titan.

"It was the classic story of not worrying about monetization yet and getting their product right," Mr. Williams said.

But Joseph A. Grundfest, a former commissioner of the Securities and Exchange Commission who now teaches venture capital at Stanford, said that most companies could not expect Google-like success. “In my view, you at least want a theory about how you might be able to be cash-flow positive,” he said.

In any case, the economic crisis might leave growth-oriented companies like Twitter with little choice but to start focusing on the bottom line.

“Now it doesn’t matter if you want scale first because you just can’t have it,” said Paul Kedrosky, a senior fellow at the Kauffman Foundation. “You have the luxury of being able to decide between small and focused on revenues or large when you have capital. When there isn’t money, there’s no choice.”