

Friendster, Love and Money

By Gary Rivlin

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SAN FRANCISCO, Jan. 23 - Fifteen months ago, Friendster enjoyed the kind of enviable status that Silicon Valley start-ups dream of: A-list investors and millions of users flocking to its Web site to browse profiles posted by friends and friends' friends, in search of dates or playmates.

So great was the buzz surrounding the company in the second half of 2003 that Friendster, which is based in Mountain View, Calif., helped define a hot new facet of the Internet dubbed "social networking."

People are again buzzing about Friendster. But that is because the company, which endured three chief executives during 2004, has seen a spate of senior executives depart in recent weeks. Just as troubling, a younger, flashier rival called MySpace has eclipsed Friendster, at least in the United States, among those in the most highly coveted 18 to 29 demographic. And Friendster loyalists have grouched that the company has done almost nothing to enliven its site.

"I think Friendster really missed their big opportunity," said Mark J. Pincus, who is an investor in Friendster and the founder of Tribe Networks, a budding social networking Web site that hopes to capture some of the print classified advertising market. "They weren't quick to turn on new functionality, where a company like MySpace kept innovating and adding new features."

In the fall of 2003, when social networking first became all the rage in Silicon Valley, the looming question was whether these new sites were viable businesses or the kind of phenomenon that generates headlines but no money.

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"Social networking is at this very interesting point," said Ross Mayfield, a pioneer in the social networking field and the chief executive of Socialtext, which sells software for collaborative writing and editing via the Internet. "These companies are at the stage where they need to demonstrate real results in terms of revenues and their business model. That voyeuristic fascination of seeing who has the most friends has worn off for a lot of people."

Since Friendster first attracted backing from two high-profile venture capital firms, Kleiner Perkins Caufield & Byers and Benchmark Capital, the company has also served as a litmus test for the new Silicon Valley, haunted by its recent past but fiercely needing to believe that heady days lay ahead. In October 2003, the company was valued at \$53 million, even though it was a fledgling start-up with less than a dozen employees.

Since that time, Friendster has proven a disappointment, at least to many early users, who gripe that the site does not give much reason to return once the thrill of trolling profiles and seeing a representation of your social network wears off. In December 2003, Jonathan Abrams, the founder of Friendster and then the company's chief executive, acknowledged that this was the company's greatest challenge, but he parried questions about the company's plans to start making money by telling a reporter to "watch and see over the next few months."

Thirteen months later, those running Friendster offered the same refrain: stay tuned. Martha Danly, a spokeswoman for the company, said it would be "another four to eight weeks" before either Mr. Abrams or the company's new chief executive, Scott Sassa, would speak with the media.

"They've gone dark for the last six to eight months," said Ms. Danly, who described herself as an outside marketing consultant. "They're reorganizing. They're getting prepared to launch some things."

Mr. Pincus, the investor, drew an analogy between the rollout of social networking sites and television, where a few must-see new shows emerge each fall.

"Friendster had their season, they were the hot new kid on the block that everyone

wanted to check out, but you need to build long-time utility for people to stay there."

That sentiment was echoed by a Friendster employee who recently left the company. "The service was growing faster than we could keep up with, so we spent all this time making sure the service was stable," said the former employee, who spoke on the condition of anonymity. "A lot of people were frustrated because we weren't rolling out a lot of features but instead working on infrastructure."

Reid Hoffman, another early Friendster investor, agreed that the company frittered away its sizable head start over the competition. Last summer, the company hired Mr. Sassa, a move that Mr. Hoffman said he believes will stabilize the company. Mr. Sassa, a former NBC executive, took over from Timothy Koogle, an early Friendster investor and former Yahoo chief executive, who ran the company after the board lost faith in Mr. Abrams.

"Three C.E.O.'s has meant three strategies, and radical changes in strategies before any other strategy has had time to work," said Mr. Hoffman, who is also a founder of LinkedIn, a networking Web site for business professionals. "That's caused a fair amount of dissatisfaction among employees. Our hope now is that Sassa can start delivering some results."

For his part, venture capitalist John Doerr, a Friendster board member and a partner at Kleiner Perkins, said that he and his partners were still optimistic about the roughly \$5 million they had invested in Friendster.

"We couldn't be more pleased with the job Scott Sassa has done since coming on board," said Mr. Doerr, whose early investments include Google and Amazon.com. "He has figured out how to make a business of this."

Mr. Doerr would not provide details about Friendster's business plan except to say that the company would announce a partnership deal in February that "I can only describe as huge." And he said last week that Friendster would "reach profitability within the next 90 days." There is no cost for joining or browsing Friendster; advertising on the site generates most of the company's revenues.

"People lose sight of the fact that Friendster is still the largest of the social networking services, and the clear leader in terms of users and time spent on the site," Mr. Doerr said.

That statement may be only partially true, and therein lies one of the company's major challenges. Friendster can boast more registered users -- 16 million -- than the 7.6 million who have registered at MySpace. But data provided by Nielsen/NetRatings and comScore MediaMetrix, two firms that measure domestic Internet traffic, tell a different story.

More than five times as many people visited MySpace as Friendster in December, according to Nielsen/NetRatings -- and they spent far more time there. The average visit to Friendster was less than 17 minutes, the rating service found, compared to 78 minutes at MySpace. And MySpace logged more than 2 billion page views last month, according to MediaMetrix, compared to 152 million page views at Friendster.

"It's unique visitors and page views that drive your revenues, not registered users," said Chris DeWolfe, chief executive at MySpace in Los Angeles. MySpace opened in September 2003, by which time Friendster already signed up millions of registered users.

MySpace began primarily as a music site where users, after posting a profile, could organize around favorite bands, hear snippets of new songs and find out who was playing where and when. MySpace now hosts sites for 110,000 musicians, and the rock group R.E.M. is among the bands that have used the site to pre-release new albums. Users can converse via instant message, play games, contribute to blogs or browse through a range of local cultural events.

"I had never been interested in investing in a social networking site," said Geoffrey Y. Yang, a venture capitalist with Redpoint Ventures, who said he is days away from investing in MySpace. "But these guys in a sense are trying to be an MTV for the Internet, where social networking is just a key piece around which everything else revolves rather than social networking per se."

Google, which introduced a Friendster-style service last January dubbed Orkut, presents another challenge to Friendster. Marissa Mayer, who manages Orkut, acknowledged that it and Friendster have "similar capabilities and similar limitations," but she said Google had been "blown away" by the success of the service only 12 months after it was introduced. Google still earns no revenues on Orkut, Ms. Mayer said.

Orkut began as a plaything for Silicon Valley's digerati but, oddly enough, has morphed into a site where the primary language is Portuguese. Nearly two in three registered Orkut users hail from Brazil; Americans account for only one in 11 registered users. Similarly, Friendster is wildly popular among 18 to 21 years olds living in Indonesia, Singapore, Malaysia and the Philippines, who account for a huge portion of Friendster's most active users.

"Lots of early adapters here in the U.S. no longer have this obsessive, 12-hour-a-day obsessive interest that they did when Friendster originally hit," said Danah Boyd, who is studying Friendster as a Ph.D. student at the School for Information Management and Systems at the University of California, Berkeley.

The problem, Ms. Boyd said, "is they haven't built anything new that gives people a reason to spend more time at the site."

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