

Tweet Tweet:

What's Your Business Model?

Twitter, the social networking site based on 140-character text messages, is the latest in a series of unpredicted developments on the Internet. You can think of these as "Black Swan" events that have for the most part had very positive consequences. In fact most of the wildly successful Internet applications and e-commerce businesses were not predicted by the world's leading experts and technology gurus whom we expect to tell us about the future. Who could have pre-

dicted, for instance, that in 2009, in the United States, 167 million people would use search engines to conduct 10 to 14 billion online searches, 160 million would watch videos online, and 96 million would read blogs? Who knew that America's population was so starved for communication? No one, least of all the Internet technorati.

In 2009, social networking sites continue this long tradition of surprising everyone. Twitter is the buzz social networking phenomenon of the year. Like all social networking sites, such as Facebook, MySpace, YouTube, Flickr, and others, Twitter provides a platform for users to express themselves, by creating content and sharing it with their "friends", in this case "followers" who sign up to receive someone's "tweets." And like most social networking sites, Twitter faces the problem of how to make money. As of October 2009, Twitter has yet to take in a single cent in revenue as its management ponders how best to exploit the buzz and user base it has created.

Twitter began in 2006 as a Web-based version of popular text messaging services provided by cell phone carriers. There are around 3 to 4 billion cell phones worldwide, and SMS text messaging is the most popular service after voice. The idea originated in March 2006 within a podcasting company called Odeo as executives searched for a new product or service to grow revenues. Jack Dorsey, originator of the idea, along with other executives, bought out other venture investors in Odeo, and eventually split Twitter off from Odeo to become a stand-alone, private company called Twitter.com.



The basic idea was to marry short text messaging on cell phones with the Web and its ability to create social groups. You start by establishing a Twitter account online, and identifying the friends that you would like to receive your messages. By sending a text message called a "tweet" to a short code on your cell phone (40404), you can tell your friends what you are doing, your location, and whatever else you might want to say. You are limited to 140 characters, but there is no installation and no charge. Kaboom: a social network messaging service to keep your buddies informed. Smash success.

Coming up with solid numbers for Twitter is not easy because the firm is not releasing any "official" numbers. By September 2009 Twitter, according to some estimates, had around 20 million unique monthly users in the United States, and perhaps 50 million worldwide. Industry observers believe Twitter is the third largest social networking site behind Facebook and MySpace.

The number of individual tweets is also only known by the company. According to the company, by early 2007, Twitter had transmitted 20,000 tweets, which jumped to 60,000 tweets in a few months. During the Iran rebellion in June 2009, there were reported to be over 200,000 tweets per hour worldwide. On the other hand, experts believe that 80% of tweets are generated by only 10% of users, and that the median number of tweet-readers per tweet is 1 (most Tweepers tweet to one follower). In contrast, Britney Spears routinely generates over 100,000 followers to her tweets. Assuming there's about 20 million U.S. users, only 10% or 2 million will generate a tweet. Assuming these users generate 1 tweet a day, that would be 2 million a day, or 60 million tweets a month. This is probably a low estimate, but not by an order of magnitude. Even more disturbing from a value point of view is that Twitter has a 60% churn rate: only 40% of users remain more than one month. Obviously, many users lose interest in learning about their friends' breakfast menu, and many feel "too connected" to their "friends," who in fact may only be distant acquaintances, if that.

The answer to these questions about unique users, numbers of tweets, and churn rate are critical to understanding the business value of Twitter as a firm. To date, Twitter has generated losses and has unknown revenues, but in February 2009, it raised a \$35 million in a deal that valued the company at \$255 million. Investors included Jeff Bezos (Amazon founder), Benchmark Capital, and Spark Capital. Then in September 2009, Twitter announced it had raised \$100 million in additional funding, from private equity firms, previous investors, and mutual fund giant T. Rowe Price, based on a company valuation of a staggering \$1 billion! Quite a jump in seven short months.

So how can Twitter make money from its users, and their tweets? What's their business model and how might it evolve over time? To start, consider the company's assets and customer value proposition. The main asset is user attention and audience size (eye-balls per day). An equally important asset is the database of tweets that contains the comments, observations, and opinions of the audience, and the search engine that mines those tweets for patterns. These are "real-time" and spontaneous observations.

Yet another asset has emerged in the last year: Twitter is a powerful alternative media platform for the distribution of news, videos, and pictures. Once again, no one predicted that Twitter would be the first to report on terrorist attacks in Mumbai, the

How can these assets be monetized? Twitter could ask users to pay a subscription fee, especially for premium services such as videos and music downloads. However, it may be too late for this idea because users have come to expect the service to be free. Twitter could sell display ads or text ads on its screens, something it is testing in Japan. But social media sites are known to be poor advertising venues with very low response rates, although this could change with better targeting. Twitter could charge advertisers to pay a fee for inserting messages into individual tweets. Message your friend to meet you in Times Square, and the message contains an ad for a nearby restaurant. Possible. Twitter could charge service providers such as doctors, dentists, lawyers, and hair salons for providing their customers with unexpected appointment availabilities. But Twitter's most likely steady revenue source might be its database of hundreds of millions of real-time tweets. Major firms such as Starbucks, Amazon, Intuit (makers of QuickBooks and the Mint.com site), and Dell have used Twitter to understand how their customers are reacting to products, services and Web sites, and then making corrections or changes in those services and products.

The possibilities are endless, and just about any of the above scenarios offers some solution to the company's problem, which is a lack of revenue (forget about profits). The company is coy about announcing its business model, what one pundit described as hiding behind a "Silicon Valley Mona Lisa smile." These Wall Street pundits are thought to be party poopers in the Valley. In a nod to Apple's iTunes and Amazon's merchant services, Twitter has turned over its messaging capabilities and software platform to others, one of which is CoTweet.com, a company that organizes multiple Twitter exchanges for customers so they can be tracked more easily. Google is selling ad units based around a company's last five tweets (ads are displayed to users who have created or viewed tweets about a company). Twitter is not charging for this service. In the meantime, observers wonder if Twitter is twittering away its assets.

SOURCES: "Twitter Snags \$100 Million Investment, New Backers," by Alexei Oreskovic, Reuters, September 25, 2009; "Putting Twitter's World to Use," by Claire Cain Miller, New York Times, April 14, 2009; "Twitter Makes a Racket. But Revenues?" by Jon Fine, BusinessWeek magazine, April 9, 2009; "Firms Seek Profit in Twitter's Chatter," by Jessica Vascellaro, Wall Street Journal, March 26, 2009; "Twitter's Analytical Business Plan," by Taylor Buley, Forbes, February 15, 2009; "The Trouble With Twitter," by Ben Kunz, BusinessWeek.com, August 18, 2008.