

Startups Find Room to Run on Crowded Social Web

Olga Kharif, *BusinessWeek*
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A little more than a year ago, the young co-founders of social network games maker Playdom were sitting pretty. Hit games including Mobsters had helped make their software among the most popular on MySpace (NWS). "It was very happy. Every night we would gather around the Xbox," says co-founder chief product officer Dan Yue, 26.

Nights are no longer so relaxed for the Mountain View, Calif., startup, thanks to Facebook's popularity. The Playdom entrepreneurs, three of whom are in their twenties, spent most of 2009 transferring games to the hotter site. Since joining the company last year, CEO John Pleasants, a former executive at game giant Electronic Arts (ERTS), has increased head count to 400, from less than 50 a year ago. The company generated more than \$50 million in 2009 sales and expects revenues to double this year.

Playdom's co-founders—Yue; co-founder Chris Wang, 26; and Ling Xiao, 28-year-old vice-president of engineering and co-founder—are among the finalists in BusinessWeek.com's annual Best Young Technology Entrepreneurs showcase. Seven of the 13 startups on this year's list are building Web and mobile-device software that extend the capabilities of social networks, including Facebook and Twitter.

It's not surprising that many startups want to ride the coattails of popular social networks. Facebook's monthly U.S. traffic rose to 116 million unique visitors in March, nearly double that of a year ago, according to market researcher comScore (SCOR). Unique U.S. visitors to Twitter increased 140% in March, compared with the year before, comScore said. The rapid ascent of traffic to social networking sites can draw lots of attention for startups that offer new tools or diversions to their members. "Facebook and Twitter have become platforms in the same way Microsoft's (MSFT) Windows became a platform 20 years ago," says Augie Ray, an analyst at Forrester Research (FORR). "There are huge opportunities in social media."

Take Foursquare, a New York-based startup that's built a wildly popular location-based software game. About 1 million users have downloaded Foursquare's software onto smartphones, using it to broadcast information about bars, restaurants, and other public places they're visiting to friends in their social networks. Merchants now offer more than 2,100 specials to the patrons who most use Foursquare to "check in" at their establishments. Businesses don't yet pay to reach

Foursquare's users but "eventually, the plan is to charge for it," says co-founder Naveen Selvadurai.

Posterous: business ads will pay

Posterous provides an Internet service that lets users create personal Web sites featuring photos and videos, simply by e-mailing those files to Posterous. Users can also use the service to post to Facebook and Yahoo!'s (YHOO) Flickr photo-sharing site.

For now, the service is free to use. Later this year, Posterous plans to introduce a paid version, which would let businesses create marketing campaigns and place ads on Posterous-hosted Web sites, according to co-founder Sachin Agarwal. Satish Dharmaraj, a partner at Redpoint Ventures, which invests in Posterous, says he could "easily imagine a business paying \$50,000 to \$100,000 to run a campaign."

Sawhorse Media produces the Shorty Awards, an awards ceremony for Twitter users. The company was profitable in 2009, according to CEO Greg Galant. Sawhorse solicits ideas from more than 300,000 Twitterers to honor the best individual posters and organizations on the microblogging site, inviting winners to New York to make 140-character acceptance speeches. FedEx (FDX) and Pepsi (PEP) are among Sawhorse's sponsors for the event. "We are figuring out who matters on the real-time Web," says Galant.

There are risks to riding the success of Facebook and Twitter. Alterations in a social network's popularity can compel startups that write applications or features for it to change plans. As Facebook grew, Playdom had to shift development to that site in order to compete with larger social games developers such as Zynga.

Social networks can build apps, too

Because Facebook and Twitter are themselves still honing their business models, the strategies of startups that leverage their audiences can quickly be unsettled. On Apr. 13, Twitter said it would start placing ads, called "promoted tweets," on its site from Starbucks (SBUX), Best Buy (BBY), and other companies.

Big social networks may be poised to build features that compete with smaller startups' applications—the bite-sized programs that people load onto their Facebook profiles or mobile phones. Twitter on Apr. 9 said it would acquire atebits, maker of the popular Tweetie app that lets users read the short, 140-character posts on Twitter from their Apple (AAPL) iPhones. Tweetie competes with other tweet-reading applications.

Twitter spokesman Sean Garrett said in an e-mail that the company told developers at its Chirp conference on Apr. 14 that it's trying to share more information about features it plans to build so that independent software developers can avoid overlapping the company's efforts.

For its part, Facebook may add location-aware features to its Web sites, moving in on Foursquare's territory, according to analysts. "If Facebook decided to make a major play in geo-location space, it could shake up their world," says Forrester analyst Ray. Facebook spokesman Larry Yu says the company is "looking at how to let people incorporate location-based information into the service, but we don't yet have anything to formally announce."

Startups hoping to capitalize on opportunities offered by the social Web aren't likely to be easily deterred. Building companies on top of social media sites "represents a great deal of money," says Forrester's Ray.