

Twitter finally feathers its nest with advertising (Update)

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(AP) -- Is Twitter the next Google, the next Pets.com, or something in between? It may have begun answering that question Tuesday, with its long-awaited first step into advertising.

The startup is trying to make money without alienating the tens of millions of people who have gotten used to tweeting and following friends, celebrities and others without commercial interruptions. Just as it has through most of its four-year existence, Twitter is treading cautiously.

The new ads, called "Promoted Tweets," will pop up only on searches at Twitter's Web site, and the messages will be limited to a small group of test marketers including Virgin America, Best Buy Co., Sony Pictures

and Starbucks Corp. Fewer than 10 percent of Twitter's users were expected to see the ads Tuesday, but the messages should start appearing on all relevant searches within the next few days.

The move heralds a turning point for Twitter, which has held off on selling ads even as its widening audience turned it into an obvious marketing magnet and investors poured \$155 million into the San Francisco company.

The last cash infusion seven months ago valued privately held Twitter at about \$1 billion, even though its only significant revenue had come from giving Google Inc. and Microsoft Corp. better access to its service. The technology powerhouses paid Twitter an undisclosed amount for that right.

Twitter's apparent ambivalence about making money reminded some Silicon Valley observers of the profitless Internet startups that wooed investors during the dot-com boom of the late 1990s, only to crash and burn at the turn of 21st century.

Comedy Central's Stephen Colbert even teased Twitter co-founder Biz Stone about the similarities during a television appearance last year.

"So, I assume that 'Biz' in 'Biz Stone' does not stand for 'Business Model,'" Colbert joked at the time.

The new advertising system should give a better inkling about whether Twitter will be more like Google or Pets.com, whose most valuable asset turned out to be a sock puppet.

Google itself took several years after its 1998 inception before it began selling short ads next to its search results, spawning one of the world's biggest marketing vehicles with ad revenue of nearly \$23 billion last

year.

Twitter already is parroting Google in some respects. That's not surprising given that Stone and fellow co-founder, Twitter CEO Evan Williams, briefly worked at Google after Williams sold his blogging company to the Internet's search leader in 2003. Twitter's chief operating officer, Dick Costolo, also worked at Google after selling another advertising service, called FeedBurner, to the company in 2007.

There's a twist to the way Twitter is using its search engine as an advertising springboard. Instead of displaying commercial messages on the margins of the search results, Twitter will blend them with the rest of the tweets and label them as promotions.

The ads will be confined to Twitter's standard 140-character limit so they can be passed along, or "re-tweeted," to other users. Twitter plans to pull Promoted Tweets that aren't attracting attention.

That will pressure advertisers to be pithy and creative, a priority that could make the marketing messages seem less intrusive, said Forrester Research analyst Josh Bernoff, co-author of "Groundswell," a book on social media.

"You want to create something that interests people rather than just screams at them," Bernoff said.

Michael Wilson, a Brigham Young University student who lives in Salt Lake City, is worried Twitter's advertisers eventually will dominate the service.

"I think it's going to be harder and harder to have your voice heard," he said.

That's also a concern for Michael Irizarry of New Rochelle, N.Y., who uses Twitter for personal musings and to promote his DJ business.

"It's more like Twitter is now here to advertise your product, instead of you actually tweeting what you're doing," he said.

Many companies already use their own Twitter accounts to connect with customers and offer discounts to people who follow them.

What remains to be seen is whether Twitter's new advertising system will prove effective enough to persuade companies to pay for a featured spot in the search results instead of just trying to reach people through the free communications channel, said Gartner Inc. analyst Andrew Frank. "The jury is still out on whether this will work," he said.

There's no doubt Twitter has turned into a mass medium. The Web site's worldwide audience has ballooned to 69 million people, up from 4 million people at the end of 2008, according to comScore Inc. Those figures don't include the visitors who use their mobile phones or third-party programs to tweet.

Twitter says it distributes about 50 million tweets per day, creating ample opportunities for more advertising once the company is comfortable enough to allow marketing messages beyond its search results. Twitter's engine processes about 30 million monthly searches in the U.S., comScore said, a pittance compared to the 10 billion handled by Google.

Eventually, Twitter hopes to insert advertisers into the "timelines" of messages that users see from the people they network with - when the message seems appropriate, Costolo said Tuesday at an advertising conference in New York. For instance, postings about the Academy Awards might provoke a "Promoted Tweet" about a new movie or

conversations about "American Idol" may spur ads about certain songs or recording artists.

Twitter also recently introduced a feature that allows its users to specify their location, opening another advertising opportunity.

The ability to interact more directly with consumers and solicit their feedback on how to improve their products and services is bound to appeal to advertisers, predicted Ian Wolfman, chief marketing officer at IMC2, a marketing agency whose clients include Coca-Cola Co. and Procter & Gamble Co. It's "something a TV ad doesn't do," he said.

Promoted Tweets evidently won't bring in much revenue either, for starters.

Virgin America, one of the advertisers that Twitter invited to test the concept, isn't paying for its first burst of promotional messages, according to Porter Gale, the airline's vice president of marketing.

Twitter declined to comment when asked whether it's charging the test group of advertisers. But Costolo made it clear that making money still isn't Twitter's top priority.

"Initially this is not about maximizing revenue," he said. "It is about getting it right."

More information: <http://blog.twitter.com/2010/04/hello-world.html>

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