

New owner is preparing Myspace for a remodel

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Just a week after acquiring Myspace, Orange County, Calif., brothers Tim and Chris Vanderhook strolled through the firm's Beverly Hills headquarters and settled into a corner office with a stunning view of the Hollywood Hills.

It could not have been a better backdrop for the duo who see Myspace's future in Justin Timberlake, Hollywood producers and rock bands.

"We are going to make [Myspace](#) cool again," said Tim, the chief executive of Specific Media.

The little-known online [advertising company](#) from Irvine, Calif., paid \$35 million for Myspace, once the world's largest social network worth \$65 billion. The stunning purchase threw the brothers onto the national stage.

But as the Vanderhooks settle into their new digs, analysts are questioning how the brothers can resuscitate a business that has been spiraling downward for years.

"I see a long, steady death for MySpace," social media analyst Shel Israel of SI Associates said. Myspace, like other older Internet companies, he said, "failed to listen to their users and missed fundamental changes in the marketplace."

The Vanderhook brothers insist they can return Myspace to glory.

"Thirty-five million unique users in the U.S. every single month come to it," Tim said. "That is a massive property online."

Debra Williamson, an analyst for online research firm EMarketer Inc., says the Vanderhook brothers may have a better chance than [News Corp.](#) because they will be able to respond more quickly to market demands than a slow-moving global conglomerate.

Still, retaining current advertisers and recapturing those who have left will be a struggle, Williamson said. "No advertiser wants to be associated with a property that was last year's news."

The brothers - pioneers in online advertising - have seen prospects in unlikely places before. When just out of high school, 18-year-old Tim saw the emerging [Internet industry](#) and jumped at the opportunity.

"Tim had this idea ... look they have websites; they have ads on the top of them; we can probably buy and sell these things," said Chris, 32, who is chief operating officer.

In 1999, the brothers, including Russell, who is the senior vice president, began selling online ad banners from their family's Yorba Linda home.

"Literally, we researched the market for like four hours on a dial-up modem," before launching the business, Chris said. "We started just calling people ... and it started to work."

The brothers said the impetus for starting the company was not to make millions of dollars but simply to have enough to replace their rundown cars.

Twelve years later and now driving a Maserati and an Audi, Tim and Chris run the ninth-largest U.S. online ad network, reaching 76 percent

of Internet users in June, according to measurement firm ComScore Digital Analytix.

The company makes money by renting ad space on websites and then placing targeted ads in that space for a fee. It has 500 employees but Specific declined to disclose any financial details. The brothers say the company is profitable.

About a year ago, the Vanderhooks set their sights on transforming their business into a digital media company that would enable the brothers to produce Web content and sell services to consumers, not just ads for businesses.

In October, Specific acquired BBE, an online video producer and on June 29, Myspace became a big piece of the transformation.

"We wanted to truly be something bigger," Tim said.

Founded in 2003, Myspace was once the preeminent social network. The site helped launch music careers and became coveted by millions who flocked to find bands and online friends. News Corp. shelled out \$580 million for the website in 2005.

But in the finicky online world, times change fast.

As Facebook rose, Myspace dwindled. Myspace notched 35 million U.S. viewers in May, down more than half from a peak in October 2008, according to ComScore. EMarketer projects ad revenue this year will be down \$104 million compared with 2010.

Ads - and lots of them - contributed to the downward spiral, as News Corp. focused more on wringing more revenues from its new purchase than user experience, experts say. By the time a redesign came around

last year, it was too late.

"You had a media dinosaur buy the hottest thing, and frankly they didn't know what to do with it," said Michelle Manafy, co-editor of the book "Dancing With Digital Natives."

For Myspace, which has been often criticized for a lack of vision, the first step in the difficult turnaround effort will be deciding what it is going to be, said principal analyst Brian Solis of research advisory firm Altimeter Group.

"What makes Myspace worthy of investment when I can also have Myspace on Facebook, Google+ or Twitter?" Solis said. "It must be something more than a social network or a place for friends. That train already left the station."

The brothers declined to provide many details on how the company would turn around Myspace, preferring instead to reveal them in a news conference they plan to hold later this summer.

But generally Myspace will be a place to interact with celebrities and artists and to view content produced exclusively for Myspace, the brothers said.

"There is broadcast networks. There is cable networks. We think there is going to be digital networks also, and that is what we want to be," Tim Vanderhook said. "What you are going to see from an entertainment perspective is high-quality television content, but it is going to be exclusive and unique to the Web."

The brothers say that there will be a bigger focus on music, in part by using targeting technology to better promote up-and-coming artists to viewers, and that a cluttered website will be simplified.

Signing up Timberlake to its venture was seen as a coup. Timberlake, who took a minority stake in Specific, will have his own office and staff at Myspace. The pop star is expected to help Myspace beef up its music service.

The high-profile singer and actor "has got a ton of ideas that we are in the middle of harvesting," Tim Vanderhook said. A Timberlake spokeswoman did not return emails seeking comment.

Combining an online ad network, an original entertainment company and a social network into one could become a cash cow for Specific because of the vast possibilities for tailor-made advertising, said Lars Perner, a marketing professor at the University of Southern California.

"That is a gold mine for analyzing and finding out your interests," he said.

But the deal's greatest appeal, the Vanderhooks say, is to shatter conventional wisdom and stop the online cycle of boom and bust.

"The big thing is taking a website that was once big, that became small and then making it big again," Tim said. "That has actually never been done online, and what we want to do is make history."

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