

Looking to quell critics, Twitter ramps up business model

August 10 2011, By Peter Delevett

It's among the most recognized brands on the Internet and a bona fide cultural phenomenon, with as many as 400 million monthly users and a brand-new \$800 million funding deal - one of the largest ever.

It's also been the scene of recent high-level comings and goings and enough gossip to fuel a soap opera. And when it comes to users, estimated revenue and general buzz, [Facebook](#) is eating its lunch.

So whither Twitter, the high-flying social media network whose legions of die-hard fans are nearly equaled by its skeptics? Can the microblogging site become a big business, or does the turmoil at the top in the past few months reflect a company in trouble?

"Ever since we started Twitter, there's been chatter, and from the beginning it's been negative," said Biz Stone, one of its three co-founders - and one of two who've left since the spring. "I believe that when people are talking about your product or company, it signals that they care."

He and other Twitter insiders insist the co-founders' musical chairs - Jack Dorsey's 2008 replacement as CEO by [Evan Williams](#), Williams' own loss of the top job last fall, Dorsey's March return as executive chairman, Williams' simultaneous departure and finally Stone's exit to join Williams at a new venture - is little more than the natural shuffling of personnel as the company evolves.

They also say a focus on the founders overlooks the bench of executive

talent new CEO Dick Costolo has recruited from the likes of Google, [Pixar](#), [eBay](#) and Palm.

Still, the company's leaders face weighty challenges: how to better make money from the service's voluminous and fast-growing user traffic; how to banish for good the notorious "fail whale" icon that appears when the site is overloaded; and how to help users better navigate some 200 million daily "tweets."

Bill Reichert, a [venture capitalist](#) at Garage Technology Ventures, is among those who doubt they can pull it off.

"It's hard to find any other company that has been so successful by some measures be so incredibly lacking in innovation for so long," he said.

"Twitter is no longer cool or exciting. It's just there, like texting. Only I pay for texting."

But while Reichert believes the company should sell itself to someone who can better turn its data stream into new products and services, Costolo and the board have doubled down, largely out of faith that Dorsey - who conceived of and first developed Twitter - can lead it to glory.

Costolo, a former improv comic and Google veteran who joined Twitter in fall 2009 and a year later supplanted Williams as chief executive, recently outlined his and Dorsey's vision of Twitter as "the world in your pocket."

At a technorati-laden conference in Aspen, Colo., he talked of billions of tweets being delivered via computer, smartphones and even TV, with improved search features enabling users to troll the stream for information - and enabling advertisers to reach those users unobtrusively.

Costolo added that he wooed Dorsey to return in March in part to help settle internal debates over what Twitter should aspire to be: "It's helpful to have the inventor of the product in the room."

Dorsey has likened being ousted by Williams in 2008 to "getting punched in the stomach," but Stone and other insiders say there's no personal animosity among the founders - just differing tactical visions for how the company should fulfill its destiny.

"It's weird, because they're such similar guys, such similar product visionaries and super-hard workers," Stone said of Dorsey and Williams. "They just have slightly different approaches to things."

Board member Peter Fenton, a partner at Benchmark Capital, said he's not concerned about Twitter's public growing pains. "The principals have been able to park their egos at the door. There's no lawsuits around Twitter," he said in a subtle reference to the suits involving Facebook's founding.

He also said the turnover is par for the course at a growing startup, noting that in the past two years, the company's payroll has shot from 25 to more than 600.

Twitter last month marked its fifth anniversary by tweeting that it had added 600,000 users just in the previous day. Traffic has doubled since January, and Costolo says that according to data from Google Analytics, 400 million unique visitors used the site in June.

The most recent figures from tracking service comScore Media Metrix are more modest, yet still robust, showing that nearly 145 million people worldwide visited Twitter.com that month.

Then again, according to comScore, Facebook in June garnered 161

million visits in the United States alone.

Despite Facebook's bigger membership base, some users say Twitter gives them better access to newsmakers they care about.

"Twitter has a meaningful impact on my life," said Jay Marcyes, co-founder of San Francisco social media startup Plancast, who met his business partner when both were following tweets by the same angel investor.

Even so, "there are still aspects of the experience that are broken," acknowledged Mike Abbott, who helped create Palm's operating system before joining Twitter last summer as head of engineering.

As part of making the product more useful, Twitter recently tweaked its search function to show users more relevant results from the data stream. "Let's say you take Caltrain," Abbott said. "How do you know which accounts to follow so when there are delays, you know why?"

Suggesting whom users should follow is also part of the company's evolving advertising strategy. Another part is "promoted tweets," which lets advertisers insert product blurbs in the same 140-character-or-less format by which users communicate with each other.

While some devotees have complained about the rise of promoted tweets, Adam Bain, the company's president of global revenue, said the messages have proved far more likely than banner ads to coax viewers to click for more information.

"We get a lot of people asking why we aren't just full-on blasting users with ads," said Bain, who joined Twitter last fall from News Corp. "That's not the Twitter way."

Research firm eMarketer has estimated Twitter will reap \$150 million in advertising revenues this year. Again, though, that's just a fraction of Facebook's projected \$4 billion.

Costolo declined in Aspen to say whether the company makes money, though given its ongoing investment in infrastructure and personnel, it seems unlikely.

And while many observers have wondered if Twitter will join other social media companies that have recently gone public or filed plans to, last week's hefty venture capital infusion - half of which will let Twitter employees and investors cash out some of their shares - will reduce pressure on Costolo and the board to move toward an IPO.

To keep users and advertisers happy, Twitter's been pumping resources into reliability. Abbott says the engineering staff has tripled since he joined and makes up more than half of the company's workers. "The Super Bowl this year was the first one in company history that everything worked great," he said.

Michael Fauscette, a software industry analyst with International Data Corp., calls Twitter "an interesting problem," noting that among the challenges it faces is a popular new social network, [Google+](#), launched by the search giant to combine elements of both Facebook and Twitter.

While he concedes that Twitter seems to be more popular than ever with users, Fauscette said the business model remains perplexing.

"At some point, you've gotta fish or cut bait," he said. "When can they articulate the vision that makes me go, 'Oh, I get it'?"

Stone, like others in the company, preaches patience.

"Sometimes, if you're gonna do something awesome and do it right, it takes time," he said. "I think that this team is gonna pull it off, and it's going to be one of those, 'How'd they pull it off?' moments."

TWITTER BY THE NUMBERS:

Here are some statistics about Twitter's recent growth:

-400 million: Number of monthly users

-200 million: Number of daily "tweets"

-224: Number of tweets sent on July 15, 2006, the day the service opened

-600: Number of employees

-25: Number of employees two years ago

-\$150 million: Advertising revenues research firm eMarketer estimates Twitter will reap this year

-\$4 billion: eMarketer's estimate for Facebook's ad revenues this year

-\$800 million: Size of venture capital deal announced last week, led by Russian firm DST Global

BUILDING THE BENCH:

Over the past year, Twitter has invested heavily to beef up its executive team:

- Michael Abbott: Former senior vice president of software and services at Palm
- Adam Bain: Ex-News Corp. executive is Twitter's first president of global revenue
- Pam Kramer: Former E-Trade chief marketing officer
- Joel Lunenfeld: Ex-CEO of digital advertising agency Moxie Interactive
- Satya Patel: Former manager of Google's advertising products
- Mazen Rawashadeh: Ex-eBay official joined Twitter in March as vice president of operations
- Ali Rowghani: Former chief financial officer of Pixar Animation now holds same role with [Twitter](#)
- Katie Stanton: Erstwhile Obama administration innovation expert now heads Twitter's international strategy

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Citation: Looking to quell critics, Twitter ramps up business model (2011, August 10) retrieved 1 May 2024 from <https://phys.org/news/2011-08-quell-critics-twitter-ramps-business.html>

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