Twitter, the social networking site based on 140-character text messages, 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 “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 2010, Twitter has failed to generate earnings as its management ponders how best to exploit the buzz and user base it has created.

Twitter began as a Web-based version of popular text messaging services provided by cell phone carriers. Executives in a podcasting company called Odeo were searching for a new revenue-producing product or service. In March 2006, they created a stand-alone, private company called Twitter. 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. This social network messaging service to keep buddies informed is a smash success.

Coming up with solid numbers for Twitter is not easy because the firm is not releasing any “official” figures. By September 2010, Twitter, according to comScore, had around 30 million unique monthly users in the United States, and perhaps 96 million worldwide, displacing MySpace as the number three global social network (behind Facebook and Microsoft’s Live Profile).

The number of individual tweets is also known only 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 Iranian rebellion in June 2009, there were reported to be over 200,000 tweets per hour worldwide. In October 2010, Twitter was recording over 1.2 million tweets a month. On the other hand, experts believe that 80 percent of tweets are generated by only 10 percent of users, and that the median number of tweet readers per tweet is 1 (most tweeters tweet to one follower). Even more disturbing is that Twitter has a 60 percent churn rate: only 40 percent 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. On the other hand, celebrities such as Britney Spears have hundreds of thousands of “friends” who follow their activities, making Twitter a marvelous, free public relations tool. Twitter unfortunately does not make a cent on these activities.

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 $35 million in a deal that valued the company at $255 million. The following September, 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!

So how can Twitter make money from its users and their tweets? What’s its 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 (eyeballs per day). The value proposition is “get it now” or real-time news on just about anything from the mundane to the monumental. 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 landing of a passenger jet in the Hudson River, the Iranian rebellion in June 2009, or the political violence in Bangkok and Kenya in May 2010.

How can these assets be monetized? Advertising, what else! In April 2010, Twitter announced it s first
foray into the big-time ad marketplace with Promoted Tweets. Think Twitter search engine: in response to a user’s query to Twitter’s search function for, say netbooks, a Best Buy ad for netbooks will be displayed. The company claims Promoted Tweets are not really ads because they look like all other tweets, just a part of the tweet stream of messages. These so-called “organic tweets” differ therefore from traditional search engine text ads, or social network ads which are far from organic. So far, Best Buy, Bravo, Red Bull, Sony, Starbucks, and Virgin American have signed up. If this actually works, thousands of companies might sign up to blast messages to millions of subscribers in response to related queries.

A second Twitter monetization effort announced in June 2010 is called Promoted Trends. Trends is a section of the Twitter home page that lets users know what’s hot, what a lot of people are talking about. The company claims this is “organic,” and a true reflection of what people are tweeting about. Promoted Trends are trends that companies would like to initiate. A company can place a Promoted Trends banner on the bottom of the page and when users click on the banner, they are taken to the follower page for that movie or product. Disney bought Promoted Trends for its film Toy Story 3, according to Twitter.

In July 2010, Twitter announced its third initiative of the year: @earlybird accounts, which users can follow to receive special offers. Walt Disney Pictures has used the service to promote The Sorcerer’s Apprentice by offering twofers (buy one ticket, get another one free). The service could work nicely with so-called real-time or “flash” marketing campaigns in entertainment, fashion, luxury goods, technology, and beauty products. So far, Twitter has over 50,000 @earlybird followers and hopes to reach “influentials,” people who shape the purchasing decisions of many others.

Another monetizing service is temporal real-time search. If there’s one thing Twitter has uniquely among all the social network sites, it’s real-time information. In 2010, Twitter entered into agreements with Google, Microsoft, and Yahoo to permit these search engines to index tweets and make them available to the entire Internet. This service will give free real-time content to the search engines as opposed to archival content. It is unclear who’s doing who a service here, and the financial arrangements are not public.

Other large players are experimenting. Dell created a Twitter outlet account, @DellOutlet, and is using it to sell open-box and discontinued computers. Dell also maintains several customer service accounts. Twitter could charge such accounts a commission on sales because Twitter is acting like an e-commerce sales platform similar to Amazon. Other firms have used their Twitter followers’ fan base to market discount air tickets (Jet Blue) and greeting cards (Somecards).

Freemium is another possibility: ask users to pay a subscription fee 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 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 (QuickBooks and Mint.com), 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. Twitter is a fabulous listening post on the Internet frontier.

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 and may not ever show a profit for its $160 million investment.

CASE STUDY QUESTIONS

1. Based on your reading in this chapter, how would you characterize Twitter's business model?

2. If Twitter is to have a revenue model, which of the revenue models described in this chapter would work?

3. What is the most important asset that Twitter has, and how could it monetize this asset?

4. What impact will a high customer churn rate have on Twitter's potential advertising revenue?