



Executive Book Summaries®

www.summary.com

Viral Loop

From Facebook to Twitter, How Today's Smartest Businesses Grow Themselves

THE SUMMARY IN BRIEF

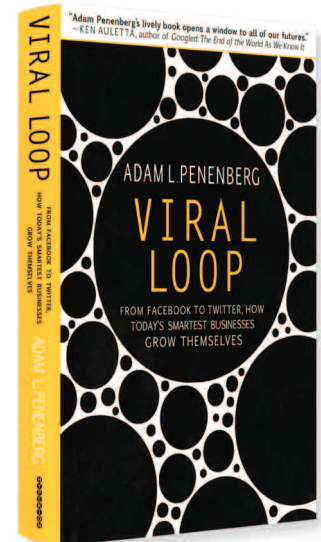
Many of the most successful Web 2.0 companies, including MySpace, YouTube, eBay, Twitter and Flickr, are prime examples of what journalist Adam L. Penenberg calls a “viral loop” — to use it, you have to spread it. After all, what’s the sense of being on Facebook if none of your friends are? The result: Never before has there been the potential to create wealth this fast, on this scale and starting with so little.

Penenberg recounts the fascinating stories of the entrepreneurs who first harnessed the unprecedented potential of viral loops to create successful online businesses — some worth billions of dollars — that we have all grown to rely on. The trick is that they created something people *really* want, so much so that their customers happily spread the word about their product for them.

All kinds of businesses — from the smallest startups to nonprofit organizations to the biggest multinational corporations — can use the paradigm-busting power of viral loops to enable their business through technology. This summary can help any entrepreneur or business uncork viral loops to benefit their bottom line.

IN THIS SUMMARY, YOU WILL LEARN:

- What you need to know about today’s Internet.
- How to build a flourishing business from scratch with no advertising or marketing budget.
- How to sell your product without a sales force.
- How to get venture capitalists to line up to throw money at you.
- How the most successful digital businesses succeed.



by Adam L. Penenberg

CONTENTS

Tupperware and Ponzi Schemes

Page 2

The First Online Viral Expansion Loop

Page 3

Viral Video as Marketing Strategy

Page 4

eBay and the Viral Growth Conundrum

Page 5

Flickr, YouTube, MySpace

Page 6

Tweaking the Viral Coefficient

Page 7

The Search for a New Ad Unit

Page 8

THE COMPLETE SUMMARY: VIRAL LOOP

by Adam L. Penenberg

The author: Adam L. Penenberg is a journalism professor and assistant director of the Business and Economics Program at New York University. He has written for *Fast Company, Inc., Forbes, the New York Times, Wired* and *The Economist*.

From *Viral Loop: From Facebook to Twitter, How Today's Smartest Businesses Grow Themselves* by Adam L. Penenberg. Copyright © 2009 Adam L. Penenberg. Summarized by permission of the publisher, Hyperion. Available wherever books are sold. 274 pages, \$25.99, ISBN 978-1-4013-2349-3. To purchase this book, go to www.amazon.com or www.bn.com.

Summary copyright © 2010 by Soundview Executive Book Summaries, www.summary.com, 1-800-SUMMARY, 1-610-558-9495. For additional information on the author, go to <http://www.summary.com> or www.viralloop.com.

Introduction

It's possible to build a multi-million or even billion dollar business from scratch simply by designing a product the right way. No advertising or marketing budget, no need for a sales force and venture capitalists will kill for the chance to throw money at you.

This may sound too good to be true, but some of the most iconic Web 2.0 companies fit this description. Their customers happily spread their product for them through their own social networks of friends, family, colleagues and peers. That's one of the beautiful things about Web 2.0: You can nurture a business like never before and achieve almost cosmic valuations in record time.

These companies are powered by something called a "viral expansion loop," which is accomplished by incorporating virality into the functionality of a product. In plain English, it means a company grows because each new user begets more users. Just by using a product they spread it.

PART I: VIRAL BUSINESS

Tupperware and Ponzi Schemes

Half a century before anyone heard of Facebook or MySpace, Tupperware — the kitschy plastic food-storage-container company — was tapping into vast social networks of women to generate a massive viral loop.

In 1949, Earl Silas Tupper's "Poly-T" bowls and tumblers were available at Bloomingdales, Gimbels and Detroit's J.L. Hudson. Despite a national media campaign, sales of his eponymous tubs were disappointing.

Tupperware's unlikely savior was Brownie Wise, a single mother who worked as a distributor for Stanley

Home Products. Shortly after Tupper introduced his product to stores, Gary McDonald, a young salesman working for Wise, was browsing J.L. Hudson when he realized these plastic containers would be ideal for home demonstration.

By 1949, Wise established "Poly-T parties." Many of her dealers grossed \$100 a gathering and Wise distributed \$1,500 of Tupperware a week (worth almost \$14,000 today). Within a decade, Wise and her army of Tupperware ladies would move tens of millions of dollars' worth of merchandise every year via the Tupperware home party, the greatest viral network of its day.

Since then, Tupperware has grown into a global concern, with \$2.2 billion in revenue, encompassing cosmetics, kitchen tools, small household appliances and toys. Almost 120 million people in 100 countries will attend a product demonstration this year.

Charles Ponzi

The biggest viral schemer of all was Charles Ponzi, an Italian immigrant who registered a business in Boston called the Security Exchange Co. in December 1919. He claimed to have figured out a system to reap 400 percent profits by engaging in arbitrage with international postage relay coupons. These functioned like promissory notes that could be used by a recipient in one country to pay postage to another, since stamps could not be used to mail letters across borders. Because the same coupons could be purchased in Italy for a fraction of what it cost in the United States, Ponzi surmised he could pocket the difference. He printed certificates promising investors 50 percent interest on their money in 45 days. But he never bought more than a handful of coupons.



1-800-SUMMARY
service@summary.com

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions starting at \$99 per year. Copyright © 2010 by Soundview Executive Book Summaries.

Available formats: Summaries are available in several digital formats. To subscribe, call us at 1-800-SUMMARY (240-912-7513 outside the United States), or order online at www.summary.com. Multiple-subscription discounts and corporate site licenses are also available.

Rebecca S. Clement, Publisher; Sarah T. Dayton, Editor in Chief; Andrew Clancy, Senior Editor; Edward O'Neill, Graphic Designer; Chris Lauer, Contributing Editor

Instead, the penniless Ponzi used them to justify his swindle. A month and a half after starting, he redeemed his first certificates. When early adopters got back their money plus 50 percent, they spread the word. Like any con man, Ponzi knew that greed was an effective viral mechanism.

Although money was going out to pay back those with certificates, it was coming in even faster. By February 1920, Ponzi had accumulated \$5,000; a month later he banked \$30,000. On May 1, he had \$420,000 and by July he had amassed millions, all the product of a viral expansion loop, with each investor yielding two, three or more investors.

It all came to a head in August 1920, when Ponzi was arrested on charges of larceny after an auditor estimated that he owed \$7 million yet had less than half that in the bank. Even then he was pulling in \$250,000 a day, which would have meant his revenues would have topped \$91 million in the first year of operation — almost \$1 billion in current dollars — before it crashed and burned. ●

The First Online Viral Expansion Loop

For six weeks in 1992, Marc Andreessen, a 21-year-old computer science student at the University of Illinois, and Eric Bina, a programmer at the National Center for Supercomputing Applications (NCSA), ensconced themselves in the basement of the school's Oil Chemistry Building. They pounded out code from dawn to dusk to dawn again.

They christened their browser “Mosaic” after Andreessen laid out the graphics as a mosaic of icons for users to point to and click on.

On the morning of Jan. 23, 1993, Andreessen posted a message to several online bulletin boards, which read, in part:

By the power vested in me by nobody in particular, alpha/beta version of 0.5 of NCSA's Motif-based information systems and World Wide Web browser, X Mosaic, is hereby released.

Cheers,

Marc

X Mosaic (they later dropped the X) was the Internet's first smash hit, with enthusiastic early adopters conjuring a powerful word-of-mouth marketing campaign. Companies inquired about licensing the browser or hoped to commercialize it. Within six months of its release, the Unix version of Mosaic, by Andreessen's

Network Effects

With Mosaic, Marc Andreessen had uncorked a “network effect,” a term first used to describe the spread of the telephone in the early years of the 20th century. Simply put, the more people who own a telephone, the more valuable an added line is to each person already on the network. The potential number of connections grows exponentially in relation to the number of people on the network.

count, had 100,000 users.

Even before finishing Mosaic, Andreessen and Bina had rounded up five NCSA colleagues to code versions for Windows, Mac and software to run a Web server. By the time Andreessen graduated in December, more than a million people were surfing the Web with Mosaic in Unix, Windows and Mac flavors. ●

The Spreadable Product as New Business Paradigm

To understand how a viral expansion loop works, there's no better place to begin than with Andreessen's latest company, Ning. The company has been growing automagically from the moment it launched its “Social Networks for Everything” — a free platform for do-it-yourself social networks — in February 2007. Within four months there were 60,000 Ning nets, and by six months, 80,000. At year's end there were 150,000, and roughly 325,000 of them 18 months into its run, increasing by about 2,000 a day.

As of April 2009, Ning counted almost 29 million users (adding 2 million a month), more than 1.3 million social networks (with 3,500 new groups being formed each day) and 2.7 billion page views the previous month. By the end of 2009 it estimated it would have more than 60 million members and close to 3 million groups.

Ning's ‘Viral Coefficient’

Someone setting up a social network has no choice but to invite friends, family, colleagues and like-minded strangers to sign up, and each new member brings others. That pushes Ning's “viral coefficient” — the number of additional members each person brings in — way above 1. That's key, because if the virality coefficient is 1.0, the startup will grow, but at a linear rate, eventually topping out. Above 1.0, it achieves exponential growth.

With Ning, Andreessen estimates the viral coefficient

is a whopping 2.0: Each person who signs up is worth, on average, two people (compounded daily). The next day he or she brings in four members; on day three, eight; within a week, 128 people, each worth double his or her weight in virtual clones. That is how Ning has been able to double in size roughly every five months. ●

PART II: VIRAL MARKETING

The Perpetual Viral Advertisement

Until Sabeer Bhatia and his partner Jack Smith created the first webmail service, no one had ever thought of incorporating viral marketing into the actual product. In February 1996, Bhatia was pitching JavaSoft, a set of developer tools, to venture capital firm Draper Fisher Jurvetson (DFJ). Bhatia mentioned an additional application: webmail, which users of JavaSoft could use to communicate with one another.

DFJ co-founder Steve Jurvetson was amazed no one had thought of it before. He advised Bhatia to forget about JavaSoft — webmail was the killer app.

Hotmail

They launched Hotmail on Independence Day 1996. Smith counted 100 registrations in the first hour. After lunch, he tallied a total of 200 sign-ups. People were talking about it, and letting their friends and family in on the deal via e-mail.

Growth was robust but not staggering for the week. At their next meeting at DFJ, Tim Draper pushed the two young entrepreneurs to insert a tagline into each message: “Get your free e-mail at Hotmail.” The next day they agreed to do it. The impact was almost instantaneous. Within hours Hotmail’s growth took the shape of a classic hockey stick curve. They started averaging 3,000 users a day, compounded daily.

By Labor Day they registered 750,000 users and within six months they were up to 1 million. Five weeks after that they hit the 2 million user mark, adding more than 20,000 sign-ups a day. Through it all, Smith, using little more than virtual spit and glue, kept Hotmail afloat.

On Dec. 31, 1997, a few days after his 29th birthday, Bhatia closed a deal with Microsoft and sold Hotmail. Microsoft transferred ownership of 2,769,148 shares of stock, worth almost \$400 million.

In 2005 Hotmail was folded into Windows Live and continues to be one of the most popular webmail programs in the world. ●

When the Audience Decides What’s Good

Broadband allows webizens to consume Web content instantly, and when users decide something is good, they share it with their network of friends via e-mail, embedding a link in their blog or by posting on a discussion thread. Without gatekeepers to filter content, the audience attains a power never before seen.

With billions of videos streamed online, it’s not surprising new businesses are sprouting up around this digital efflorescence. Each day on YouTube, millions of video views are delivered and thousands of clips are uploaded. Apple’s iTunes Music Store sold 12 million video clips for \$1.99 each in its first few months. These aggregators are fast becoming the central nodes of an entirely new video marketing and distribution system, one far from Hollywood’s control.

The big studios may increasingly find themselves competing with films made by the masses. Part of the issue is lowering the transaction cost for making and distributing programs and films, and part of it is the low cost of user-generated content (usually free). It’s completely disintermediating. That process of cutting out the middleman has the potential to upend the balance of power that has governed the film industry for decades. ●

Viral Video as Marketing Strategy

Mint-maker Mentos was in a rut. A unit of Italian confectioner Perfetti Van Melle, Mentos spent \$20 million a year on marketing, most of it on famously campy “freshmaker” TV commercials that had run for the previous 15 years.

Vice President of Marketing Pete Healy believed Mentos needed to, as he put it, “reassess, redefine and reposition its brand.” This prompted him to sit down in 2008 with other executives for a brainstorming session to personify what the product was all about. And what celebrity was most like Mentos? They decided on Adam Sandler, former *Saturday Night Live* cast member and star of such cinematic shtick as *Happy Gilmore* and *The Waterboy*. In April 2006, a Web video of two goofy guys creating a replica of the Bellagio Fountain in Las Vegas out of nothing more than Mentos and bottles of Diet Coke went viral, downloaded by millions, spawning thousands of imitators and attracting intensive media coverage, and it hit Healy. “What could be a better fit than Adam Sandler and Mentos geysers?” he asked himself. “It reflected our personality.”

What followed was a marketing coup that has become a textbook example of how a company can harness the power of viral videos, where the standard 30-second TV ad, which is waning in influence, is replaced by the audience. Because in this new world of collective curation, they and they alone decide what's good and what should be watched while the traditional gatekeepers — television networks, movie studios and the news media — are pushed to the sidelines. This democratization of content is made possible by the advent of cheap video cameras, camcorders, even cell phones that capture user-generated infotainment, aided by powerful, affordable software to shape it, and distributed via a massive digital infrastructure with ample bandwidth. The technological zeitgeist is equal parts human, however, as netizens blog about what interests them or disseminate links to everyone in their e-mail and IM address books. Meanwhile, user communities have sprouted up on people portals like MySpace, Flickr and YouTube. ●

PART III: VIRAL NETWORKS

eBay and the Viral Growth Conundrum

Musing over the ideal market mechanism, Pierre Omidyar, a young, French-born Iranian American computer programmer, came up with the concept of an auction. The emerging Web, he realized, was the perfect place to hold it. There could be complete transparency, equal access for all and the price of a good or service would be whatever the highest bidder was willing to pay.

Over Labor Day weekend 1995, Omidyar cobbled together freeware he scooped up from around the Internet with his own homemade brew of applications. His little free-market experiment would soon prove so popular it would outstrip technology's ability to keep pace.

Five months after he unveiled AuctionWeb, his hosting company, complaining the site was bogging down its entire network, raised his monthly fees from \$30 to \$250. Omidyar had no choice but to charge for the service. Wisely, he let sellers continue to post items for free. If, and only if, it concluded with a sale, AuctionWeb would skim 5 percent for items priced under \$25 and half that for anything over.

Soon after, envelopes brimming with cash and checks arrived at his Bay Area home. In his first month he took in enough in dimes, quarters and dollars to cover the \$250 hosting fee. A month later Omidyar collected \$1,000; in April he received \$2,500. May's tally was \$5,000. May's revenues doubled again to \$10,000, and

Open Water

One early indication that homespun digital could deliver Hollywood-worthy numbers was the 2003 release of *Open Water*, a psycho-thriller with a cast of two, a crew of three and a pack of sharks. Chris Kentis, who had been cutting film trailers for a production company, pounded out a script, auditioned actors, bought two digital video cameras and shot the movie over the course of two years, mostly on the open ocean.

With low expectations he submitted it to Sundance. Not only was *Open Water* accepted, it attracted a distribution deal from Lion's Gate and, later that year, opened at 2,700 theaters across the United States. Made for \$130,000, it grossed \$30 million at the domestic box office and close to \$100 million worldwide.

Omidyar quit his day job to work full-time on his fledgling business.

Going Public

On Sept. 1, 1997, AuctionWeb unveiled its revamped site, renamed eBay, running on an entirely new scalable architecture.

Omidyar hired Meg Whitman in March 1998 as eBay's CEO. Six months later eBay went public, its shares nearly tripling in its first full day of trading, resulting in a market cap of \$1.9 billion. By year's end, eBay's \$48 million in revenues was 10 times greater than the previous year's.

Eventually, like all viral loop companies, eBay hit a point of ultimate saturation. By March 2008, its revenues and profit were growing in the mid-teens, compared to the 30 percent growth it had grown accustomed to over the years.

Still it remains a formidable force with a market cap of \$40 billion, monthly traffic in excess of 100 million users and 14 percent of global e-commerce revenue. It's also a primary source of income for some 1.3 million people who are part of an entire economy that sprang up around Omidyar's perfect market experiment. ●

PayPal: The First Stackable Network

In 1999, the Web had been co-opted by e-commerce, with virtual stores of all stripes setting up shop, accepting Visa, MasterCard and American Express. The only way to settle a debt with a non-merchant, however, was to

Summary: VIRAL LOOP

snail-mail a check or money order, which ran counter to what the Internet was all about: instantaneous communication and convenience.

That's where the mobile cash concept of Stanford Law School graduate Peter Thiel, computer scientist Max Levchin and their partner Reid Hoffman came in: It filled a void that technology had created but had not yet filled.

Thiel, Levchin and Hoffman called their product PayPal and on the strength of their futuristic vision Thiel raised \$4.5 million in first-round financing from Nokia Ventures and Deutsche Bank.

PayPal and eBay

Most eBay sellers believed credit cards weren't worth the hassle or expense. But PayPal was free and didn't lay responsibility for fraud on its users. Several thousand eBay auctioneers embraced PayPal, adding clickable links to the home page or writing detailed descriptions of the service so buyers could sign up.

By the end of December, less than two months after an initial e-mail seeding, there were 12,000 PayPal accounts. With 10 million registered users on eBay and registrations more than tripling each year, the virtual mega-garage sale site offered almost limitless possibilities.

By mid-2000, PayPal was grabbing 70 percent of all transactions on eBay. Being viral, it grew simply because it had already grown. Simultaneously, PayPal transitioned users away from credit cards, which cost PayPal a minimum 2 percent fee on every transaction, and to interest-bearing bank accounts, and began levying a 1.2 percent fee on sales, which was still far less than what Visa charged. PayPal was on the road to profitability, while its competitors crashed and burned.

The company was on its way to 200 million PayPal accounts worldwide. PayPal's stock debuted at \$13 on Feb. 15, 2002, and, after a wild ride, closed the day at \$20.09, giving the company a valuation of \$800 million. As the NASDAQ cratered, PayPal's stock continued to edge up. The market valued PayPal at \$1.2 billion. After some hemming and hawing, eBay agreed to buy PayPal for \$1.5 billion.

The day that eBay took over, Thiel, Levchin and Hoffman, who collectively took in more than \$100 million, walked away from the viral company they had started just a few years earlier. ●

Flickr, YouTube, MySpace

The first viral network to stack atop the expanding blogosphere was Flickr, the popular photo share site and

community. In early 2004, Flickr co-founders Caterina Fake and Stewart Butterfield created a primitive social network with photo share capability and incorporated tagging to better organize photographs.

Fake made it a point of introducing everyone who entered the site to someone else. As the blogosphere exploded, so did Flickr. Every blogger who used it acted as an advertisement, since to view pictures readers had to click to Flickr.

Its growth quickly accelerated to 30 percent to 50 percent month over month, a product of the social and conversation-fueled viral loop that was created. The more blogs that displayed photos that were stored and shared on Flickr, the more people were exposed to Flickr. This led to more blogs and more blog readers adopting the service.

Soon, the site that Butterfield and Fake had started had become the fifth most popular site on the Internet, generating revenue by charging a fee to heavy users wanting to store a lot of photos. A year after launching, the couple sold Flickr to Yahoo. Six months after that, the site hosted its millionth photo. Five years later, it was approaching 3 billion images.

Although Flickr might be a billion-dollar business today, Fake says she has no regrets selling out for \$40 million.

MySpace

After the blogosphere propelled Flickr's viral loop, the next stackable ecosystem to arise was MySpace, launched six months after Flickr.

On Aug. 15, 2003, MySpace went live. MySpace users could insert their own HTML code onto their profiles, making them customizable. Users could also post MP3s of their favorite bands, photos and videos. This led to MySpace being discovered by a powerfully viral segment of the population: teenaged girls, who joyfully shared coding tips with one another.

In October, MySpace counted 100,000 members, and soon more than 10,000 people a day were registering. The site quickly surpassed 1 million users, adding 20,000 more members daily. By May 2004, there were 2 million users, and four months after that the number doubled to 4 million.

When News Corp. bought MySpace for \$580 million in July 2005, it counted 22 million registered members, many of whom were spending hours on the site daily. A year later MySpace was home, by *Fortune* magazine's count, to more than 2 million bands, 8,000 comedians, and thousands of filmmakers, artists, poets, photogra-

Summary: VIRAL LOOP

phers and 100 million other social (network) strivers.

YouTube

But the viral network to eventually outdo the viral network it launched from was YouTube.

Until the site officially went live in November 2005 after six months of public beta testing, viewing video clips on the Web was often frustrating and inconvenient. It required a user to download one of the various players available. Because YouTube ran on Flash, an animation software, it provided a faster, one-click video experience even if the quality was low. MySpace members immediately gravitated to the service to embed links on their pages, which played the video clip YouTube hosted. These links not only spread the idea of posting a video clip on a MySpace page, it expanded YouTube's reach across the social network, exposing its millions of members to the site itself, creating a viral loop.

Once a viral network achieves a viral loop and a point of nondisplacement, it can't be stopped. By mid-2006, YouTube's reach surpassed MySpace's, even though YouTube was largely dependent on it, with 60 percent of its videos streaming from MySpace pages. Google walked away with the year-old site for \$1.65 billion in October 2006. ●

Tweaking the Viral Coefficient

Micheal Birch studied physics at Imperial College in London, where he met his future bride Xochi. After graduating in the early 1990s and working for six years as a database programmer for an insurance company, Birch and his wife set out to become entrepreneurs, remortgaging their modest home. Birch decided to create a viral business, something that would propagate from friend to friend without requiring a dime in marketing money.

They hit pay dirt in 2001 with their fourth business, Birthday Alarm, which began as a way to remind people of their friends' birthdays. In mid-2004, Birthday Alarm was reminding more than 1 million people a day about their friends' birthdays.

Bebo

Birch worked on the idea of a self-updating address book, applying everything he had learned along the way. He called it Bebo, a name he chose because it was short, snappy and utterly nonsensical, like Yahoo. He put the link up on Birthday Alarm, seeding it with just a few members, and it "went ridiculously viral." The viral coefficient: 2.5. One million people signed up, 300,000 of them on day nine alone. By the end of a month, he

had a few million members.

Birch and his wife spent three months redeveloping Bebo into a full-blown social network with profiles, pictures, blogs and an invitation system. It would be, at its essence, a community enabler, helping people to get to know one another without the societal constraints that characterized public interaction.

After two months, profiles began to fill up with photos, comments and overlapping conversations between friends. Bebo had finally attained a viral loop. From a base of 6 million users, the site was increasing page views by 10 percent a week. First, British youth discovered Bebo. Over the next several months it spread to Ireland, Scotland, New Zealand and Australia. Within 10 months, Bebo counted 24 million members leaving through 2.5 billion monthly page views.

With Bebo growing to 40 million users spending an average of 40 minutes a day on the site, the Birches sold the site to AOL on March 13, 2008, for \$850 million. The young couple that nine years earlier had mortgaged their home to finance their viral dreams walked away with \$595 million, which was more than News Corp. paid for MySpace. ●

Viral Clusters

The tale of Mark Zuckerberg has been told so often it's become part of geek folklore. Raised in a New York City suburb, Zuckerberg earned a reputation at Harvard as a prodigiously talented programmer.

It took about two weeks for Zuckerberg to code Thefacebook.com, which debuted on the evening of Feb. 4, 2004.

It was a simple, streamlined site. A Harvard e-mail address was required for registration, with profiles consisting of a photo, the student's major, favorite books, movies, music and a place to share pithy quotes. Students could friend other students by linking to their profiles and "poke" someone to indicate they had dropped in. After creating a few test profiles, Zuckerberg made ones for himself and his roommates. Someone suggested they post an announcement on the dorm mailing list, and dozens joined. Inside 24 hours, more than 1,200 students registered. Five days later the *Harvard Crimson* ran a story on Thefacebook.com, and by the end of the month three-quarters of the undergraduate population (about 7,000 students) had signed on.

Facebook

In 2007, Facebook made changes that spurred on a new wave of sign-ups. Facebook calculated that when

Summary: VIRAL LOOP

a new user made 10 friends, he or she would likely shift into becoming active on the site, and his or her networks of friends would continue to expand. To encourage this, the company added the feature “people you may know,” which immediately began to pay dividends. This small change led to a big uptick in Facebook’s viral coefficient.

Today, 15 million Facebook users update their status at least once a day. ●

The Search for a New Ad Unit

Google, which maintained a simple interface with a lone search box, introduced a new ad unit: keyword search. Social networking companies like Facebook and others are also seeking a new ad unit. The problem is that advertising on the traditional banner ad doesn’t work anymore.

Time, Not Clicks: The New Ad Unit

Andy Monfriend, founder and CEO of Lotame, a social media advertising and marketing firm, believes that the new ad unit for social networking is time — as in how long a user interacts with a certain ad.

Here’s how it works: A social network that deploys Lotame’s flagship product, Crowd Control, would furnish a user’s age, gender and zip code. It is barebones data, not personally identifiable information that could be used to find out a person’s true identity. Lotame then dispatches a cookie, which is a piece of software that can track movements online, to the user’s machine and notes his or her online behavior. If a client, say, Clinique, wants to target women in their 20s and 30s who have either blogged, uploaded, rated or shared content that indicates they are looking for beauty tips, Lotame can reach a million of them across 20 or more different sites. Suddenly you have a robust way of targeting. Lotame then sells an advertiser a block of time spent interacting with an advertisement over a certain period, covering a specific number of women that represent a demographic.

A Financial Incentive

Vasanth Sridharan of the blog Business Insider, suggested that users should receive a commission for acting as referral marketers, on the order of 5 to 10 percent on any purchases their friends make. This would offer users a financial incentive.

Treat users as partners. According to network theory, each has value to Facebook, and the more active a person is and the more active his or her network of friends

is, the more valuable he or she is. The user then becomes a willing participant in this marketer-consumer game.

If Facebook shared some of the bounty of advertising, users would gladly interact with the new ad unit no matter what form it came in. It would be truly innovative and a worthy extension of the social graph. ●

Viral Creatures on Viral Planet Earth

The greatest viral realm of all is Earth. And the modern, post-Internet definition of viral — a replication pattern transmitted from user to user — can even be retrofitted to describe how life took off on the planet. Because all life forms, whether they are humans, wombats or fire ants, are bred to spread. In essence, virality is imprinted into our DNA.

In 10,000 BC, approximately 1 million people roamed the planet. By 5,000 BC there were 15 million and by 1 AD perhaps 300 million. As such, our growth rate was fairly flat and humans’ viral coefficient barely exceeded 1.0.

Through the Middle Ages it took a millennium to add just 10 million people to the planet. Famine, war, poor living standards and pestilence prevented humans from scaling. Not until 1700, when the population reached 610 million, did the growth rate pick up, inching past 1 billion in the early 1800s and doubling within a century. Industrialization, trade and advances in agriculture and shipping all increased our viral coefficient. Today the world population exceeds 6 billion and is growing.

The human population growth rate mirrors the curves for companies like Hotmail, Ning, Facebook; peer-to-peer networks; and other viral-loop phenomena.

At our essence we are viral creatures. Creating viral-loop businesses is just a small part of what we do and who we are. ●

RECOMMENDED READING LIST

If you liked *Viral Loop*, you’ll also like:

1. **Reality Check** by Guy Kawasaki. Kawasaki was one of the original marketers on Apple’s Macintosh. He continues to be on the cutting edge of using technology to gain competitive advantage.
2. **Rethink** by Ric Merrifield. This book helps executives stop focusing on the “how” of getting things done and instead focus on the “what.” Merrifield offers techniques to help improve process management.
3. **Chaotics** by John Caslione and Philip Kotler. The authors explain that today’s economy is symbolic of the new reality, one that cannot be predicted. This book helps executives manage in the new world where dramatic highs and lows are commonplace.