Widgets Become Coins of the Social Realm

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It's all the rage on the Web these days: Design a program that creates a slide show, or shows on a map what countries you've visited. Then allow people to post these little add-on services to their online social-networking profiles, free.

Advertising companies are thinking of ways to use those programs to make money, a few cents at a time.

Almost everything on the Internet is fast becoming a moneymaking opportunity through advertising. Ads built into social networks are expected to bring in $900 million in revenue this year and $2.5 billion by 2011, according to a study by eMarketer. Microsoft last week announced a $240 million investment in Facebook, the second-largest social networking site, with the intent of collecting ad revenue. Facebook is expected to announce an expanded advertising program next week. MySpace has a $900 million advertising deal with Google, which this week created a consortium of social-networking sites that could expand their ability to advertise.

Smaller companies such as SocialMedia, RockYou and VideoEgg are also trying to get their pieces of the action, primarily by enabling developers of add-on services -- called "widgets" -- to sell advertising.

Companies seeking to advertise their products can sign a deal with a company like AdBrite, which places ads on various widgets.

To a consumer, the process is essentially a quid pro quo. In exchange for using a widget, which might be a game or an interactive tool, a user must agree to allow the designer of the widget access to the information on their social-networking profiles. Ad companies can then mine personal data from the profiles and target their messages. So, for example, if someone says his or her favorite band is the Shins, that person is considered likely to buy a Shins T-shirt and music by similar bands.

"Advertising and sponsorship are clearly where the money's coming from," said Steve Anderson, founder of Baseline Ventures, which invests in tech start-ups, including widget developer Weebly. "Advertising on a widget allows you to pull together things like age, demographics, geographic information, and the new holy grail: who users' friends are."

There are several challenges to this type of advertising. First is figuring out the best pricing model, since the effectiveness of the ads is unproven. It can be hard for advertisers to control where their ads appear, and they run the risk of turning off their audience by marring the social-networking experience with too many ads. Also, not all social networks allow independent advertising. To advertise on MySpace, for example,
marketers must buy space from the site itself.

"The advertising model in widgets is still very, very early," said Debra Aho Williamson, an analyst at eMarketer. "It's a lot of throwing pie against the wall and seeing what sticks."

Right now, much of the advertising is self-referential; widgets often advertise on one another in an attempt to drive more traffic to their sites.

RockYou, which has developed more than a dozen programs, including one for a popular slide show, has attracted advertisements from other widgets, said the company's chief technology officer, Jia Shen. It has even begun selling ads on behalf of other widget designers, he said.

Seven thousand applications have been built on Facebook's platform, and about a hundred are added daily.

Some companies use the widgets themselves as vehicles for advertisements. One such company is Gydget, which creates applications that look like interactive postcards for artists and sports teams. Fans of a team or artist can post a widgets, which in turn flashes updated ticket information, retail offers, photos and other tidbits. Gwen Stefani fans, for example, can watch her music videos in Gydget's program.

"It's a word-of-mouth type vehicle," said Gerardo Capiel, founder and chief executive of San Francisco-based Gydget. "It's about using your loyal customers or fans to essentially market you on social networks."

Not many traditional advertisers have turned to this form of advertising. Some industry experts say this is in part because they don't have the same control over what shows up on the sites they advertise on.

"Advertisers want their ads to show up on pages that are clean and brand-consistent, but they might show up on a page that's not," Anderson said.

There is also some skepticism about how to judge the effectiveness of the ads, and the wide variety of pricing models in this sector reflects that, some analysts said.

Some ad networks still use traditional pay-per-view models. VideoEgg, for example, has advertisers pay $7 per thousand impressions, then shares 60 percent of that revenue with the Web sites that publish the ads. SocialMedia receives 10 cents for each click on an ad and 50 cents for each time a user installs a widget; most of the revenue goes to Web site publishers. AdBrite allows advertisers to choose whether to price by impressions or clicks.

These companies have yet to figure out how to mine the massive amount of information they collect, then deliver ads that speak to their users, analysts and developers say.

"We have done some limited targeting, but there's so much data that we're still trying to figure out what to do beyond the obvious," said Narendra Rocherolle, co-founder of San Francisco-based fbExchange, an online ad company. Advertising also needs to tread delicately on users' privacy and the sensitivities of those who may not want to thing that their profiles are being watched by corporate America.

Ad networks "have to walk that tight walk where they can make great services for members without making them feel like they're selling them out," said Tracy Ryan, associate professor of advertising research at Virginia Commonwealth University.
RockYou's Shen said the greater challenge, however, is designing the programs people want to use so much that they'll accept the advertising that goes with it.

"What we can do with the data is pretty clearly communicated," he said. "The honest answer is that users that use social networks pretty much don't care about that stuff. Privacy is not nearly as much a concern as being able to use a cool application."