Hey, Come To This Site Often?
MySpace's networking portal has a cool factor MSN and Yahoo! can't match -- yet

The first thing Brian Carley does when he gets into his Manhattan office is log onto MySpace.com (MIX), a Web site where millions of people have created their own home pages featuring photos, music, and more. The 27-year-old Internet designer and musician sips his coffee and spends about 30 minutes browsing the site. He checks out the page for his band, The Moirai, scanning fans' comments. Clicking on their images, he zips off to fans' sites, reading their blogs or listening to their favorite tunes. He checks up on a former girlfriend or two and pores over the stories of complete strangers. Carley spends about an hour a day on MySpace -- more than he does watching TV. "It's kind of like watching a train wreck," he says. "You can't look away."

Thanks to its addictive appeal, MySpace has become one of the hottest properties on the Web. Only 20 months old, it already has 14 million unique visitors a month, according to market researcher comScore Media Metrix. That makes it far and away the most popular of what are known as social-networking Web sites. Friendster Inc., started three years ago and at one time the clear leader, has a mere 1 million unique monthly visitors. "We're crushing it," says MySpace Chief Executive Chris DeWolfe, 39.

The draw? It started with music. DeWolfe's co-founder is president Tom Anderson, a 29-year-old musician and entrepreneur, and from the beginning the
site has catered to musicians. Bands can create home pages, with photos, tour dates, and as many as four songs -- all for free. Marquee names like the Black-Eyed Peas, My Chemical Romance, and ex-Smashing Pumpkins leader Billy Corgan joined. That pulled in fans and their friends, who all found that MySpace offered loads of options that other sites lacked. Now, MySpace has become something akin to the hottest bar in town, teeming with musicians and models.

FINE BALANCE

The question is whether DeWolfe and Anderson can turn all of this cachet into cash. Hot bars, after all, come and go. Crowds can leave just as quickly as they arrive. Complicating matters, there's rising competition from other startups like Thefacebook, a college-focused site that just raised $13 million in venture money, and giants Yahoo! (YHOONASDAQ), Microsoft (MSFT), and America Online (TWX), all of which are moving into social networking. MySpace is trying to fend off rivals and scoop up ad revenues, all while keeping its sense of cool. It's a fine balancing act, but the founders make no secret of their ambitions. "From the very start, we set out to create the next major portal, the next major destination on the Web," DeWolfe says.

Whichever company wins, it's clear that social networking is becoming a cultural phenomenon. It's evolving into a new form of media, part entertainment and part communications. Carley watches the drama of other peoples' lives on the Net, rather than on TV. At the same time, he and his friends communicate with each other in new ways, posting blog items on their MySpace pages and instant messaging when they spot a friend online. Carley recently found out that a former girlfriend was in a new relationship and moving to California by reading her MySpace site.

Advertisers are taking note. One powerful draw is that MySpace is chock full of 16- to 34-year-old consumers, one of the most sought-after and elusive demographic segments. Target (TGT) and Procter & Gamble (PG) have run ad campaigns on the site. NBC's new comedy show, The Office, made its debut on MySpace. And Interscope Geffen A&M Records (V) has launched new albums from Nine Inch Nails, Beck, and Queens of the Stone Age on the site. "They were the biggest debuts in each band's history," says Courtney Holt, director for new media at the record label. "We take MySpace very seriously."

So effective is the site at connecting with fans that some musicians think MySpace and sites like it could change the dynamics of their industry. Record labels have been essential because they know how to market and promote their artists. But these days, why should bands bother with the middleman? They can post their tour dates on MySpace, put up music samples, and correspond via e-mail directly with fans. "Now that MySpace is here, bands don't necessarily need a label to be heard," says Corgan. Labels could end up pursuing musicians, rather than the other way around. In fact, Britain's Engineer Records tracked down and signed The Moirai specifically because of their popularity on MySpace.

The big portals want in on the action -- and they have strengths MySpace lacks. Yahoo, which has 176 million active registered users, is testing a social-networking site called Yahoo! 360 that it plans to debut this fall. Microsoft's MSN launched a similar site, dubbed Spaces, in April -- and signed up 10 million users in a matter of weeks. MSN's strategy is to offer people e-mail, instant messaging, and social networking all in one place. "We saw how quickly Friendster was eclipsed by MySpace," says Troy Young, vice-president of interactive strategy at Organic, an online advertising and marketing firm. "Now MySpace will face competition from Microsoft, which can roll all sorts of tools into social networking."

MySpace certainly can't match Microsoft or Yahoo for cash. The upstart recently raised $5 million from venture firm Redpoint Ventures. Yet it may be stretched if it needs to put substantial amounts of money into acquisitions or product development. Intermix Media Inc., a publicly traded tech company, owns just over 50% of the company. But Intermix is unlikely to be able to issue debt or equity because New York Attorney General Eliot Spitzer is suing the company for allegedly installing software for pop-up advertisements onto people's
computers without their knowledge. MySpace, which won't discuss its financials, could go public itself or sell out to a larger company if it needs capital.

**USER FRIENDLY**

MySpace's future may not depend on major capital investments. It has flourished because it gives members plenty of tools to customize their Web sites. That has allowed its users' personalities to come through. Friendster, with its smiley-face logo, has focused on fostering safety and trust. MySpace lets members post loads of photos, music videos, blogs, and links to thousands of other people. The results can be sophomoric or salacious, but they're riveting in the same way reality-TV is. "The key to MySpace is that it's controlled by the user. Friendster is a much more controlled environment," says Joel Bartlett, an organizer for People for the Ethical Treatment of Animals (PETA), which has a presence on MySpace, Friendster, and two other social-networking sites.

MySpace's future ultimately rides on intangibles that transcend technology and focus groups. "The world is all about energy. If you can generate energy, it will ultimately translate into money," Corgan says. Yahoo and MSN may struggle to generate that kind of energy as they roll out their social-networking sites. Because it's little MySpace that's throwing the hottest party on the Net. At least for now.

By Steve Rosenbush in New York