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Free the content! Power to the people!

The love affair between Google and the advertising world is old news, but still the company's results never cease to amaze. And so a positive earnings "surprise" from Google, prompting its shares to surge by some 20% (as if these were undervalued), is notable not only in its contrast to lackluster capital markets and even more pronounced softness in traditional media, but as further evidence of the robust advertising engine that is the Internet. The increasing gravitation of advertisers towards the web – with its large but easy to target audience, easily tracked responses, and accurately assessable ROI – has led research firms to forecast 23% growth in U.S. Internet ad spending this year (eMarketer), to more than \$25 billion, and a continuation of double-digit growth rates into the next decade. According to analysis by Veronis Suhler Stevenson, U.S. Internet ad spending will exceed that of all other media by 2011. In this context, we make special note of what has been a nearly unprecedented proliferation of new Internet platforms in the past 6-12 months that in key ways seem to replicate the Google formula with tremendous popular results. Although at no cost to the user, we should expect significant revenues to follow, in fulfillment of advertising growth prophecies indicated.

To be sure, none of these services are search engines properly speaking, but all offer their wares according to a similar blueprint:

- user-generated content (the lowest-cost content available)
- searchable, targeted, and easy to manage content
- remotely and centrally stored, universally accessible
- absolutely free of charge

These new web services now seem to cover the mass market at every turn not only with content, but also portable widgets, enabling technologies, and feature-rich web destinations in fields as widespread as blogging, music, and social networking. Moreover, venture capital is taking note, and funding. Here is a sample cross-section:

- **Imeem.** With the full support of the major music labels and countless independents, this music discovery and social networking site offers free access on demand to millions of

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tracks through almost as many playlists supplied by its rapidly growing user base. Imeem also provides free access to videos, blogs, and user generated news items related to the nearly endless library of worldwide artists featured on its site. According to compete.com, there were more than 10 million unique visitors to Imeem in March 2008. Its latest round of institutional finance was reported in the current month, provided by Sequoia Capital and Morgenthaler Ventures.

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- **Twitter.** “What are you doing?” In response to this inquiry, Twitter’s rapidly growing user base posts blurbs about no topic that is too trivial or complex. Users may also follow their friends with automated alerts, and are able to search through all of the site’s public “tweets.” Twitter is not merely a teen sensation either, but now involves corporations, news outlets, celebs, and even presidential candidates. This month the company has rolled out its Twitter Japan service in response to existing English language popularity there. According to compete.com, Twitter’s traffic had nearly doubled in the recent calendar quarter, to roughly 1 million monthly uniques as of March... but this is probably a significant underestimate as there are numerous ways to access Twitter outside of the core website. Institutional funding so far has been provided by Union Square Ventures and Charles River Ventures.
- **Meebo.** With a single account, Meebo users have immediate access to all of their instant messaging accounts – including AIM, Yahoo! Messenger, Google Talk, and Windows Live Messenger. All contacts across all networks can be seen in a single list, and the look and feel is that of desktop client, with click and drag features, widgets, chat rooms, and a variety of other easy to use consumer applications. By some estimates, Meebo users exchange more than 60 million instant messages daily, and, as in the case of Twitter, it would be imprecise to rely strictly on Meebo’s web traffic figures. Funding was supplied by Draper Fisher Jurvetson and Sequoia Capital.

While these are only a few indicative examples, the list goes on and on. Other popular destinations include Seesmic (video widgets for social networks) and Tumblr (a multi-media long-form blogging website). Likewise, “older” platforms such as Pandora and Last.fm,



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both of which are based on similar principles of user-controlled content that is searchable and easy to manage, remotely stored, and universally accessible, remain enormously popular (roughly 2 million and 1.5 million respectively, based again on compete.com stats). And, of course, there is YouTube...

Though many of the listed web destinations are, for the time being at least, chasing audience rather than revenue – as evidenced by minimal or outright absence of advertising on many of these free consumer services – the Google results and aggregate industry data give comfort that revenue cannot be far behind. As advertising technologies and models also evolve and become more sophisticated with time, the form of ads may not necessarily be traditional banners...but in any case the substantial numbers of non-paying users should lead to advertising revenue opportunities that a necessarily smaller number of paying subscribers could likely not replicate.

It is by the same token, perhaps, that beyond the newly evolving music, social networking, and other user-created and controlled content platforms described, the web has quickly become the home of free content even for services that until recently came with a subscription fee. To wit, major newspapers have made their daily product available online, at no cost, and network television rebroadcasts its weekly episodes on demand through the web... to cite only two of the more obvious traditional media examples. Many of us probably did not think it likely, even a few years ago, that we would see television reruns on demand without paying for DVR service or spending money on DVDs. Some may not have imagined, say, a decade ago, when we were still writing checks for our favorite publications, that all news content would soon be free of charge... and that, in fact, the quality and quantity of this content would simultaneously improve.

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As we watch these trends continue – and there is little reason to forecast a reversal while the onslaught of new and improved free services shows no signs of slowing – anticipating an era when all content is offered profitably but at no cost to the audience, supported by advertising in a variety of forms and models, cannot be so far-fetched. And bringing the case back full-circle to the opening observation about Google's revenue "surprise," we note that Wall Street was caught off-guard largely by a negative Comscore report in advance of Google's positive announcement, which report, it turned out, was focused on the U.S. market only, a



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limitation that Google's actual results corrected. By the same token, the primarily U.S.-focused overview in this article probably understates the opportunity rather substantially.

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