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# STEP 2.0: PROFITS

## WEB STARTUPS SCRAMBLE TO MAKE MONEY

By BRIAN GARRITY and HOLLY M. SANDERS

*Last Updated: 5:03 PM, November 10, 2008*

*Posted: 4:37 AM, November 9, 2008*

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It's a dilemma that even a whiz kid like Facebook's Mark Zuckerberg might not be able to figure out: How can a Web site make money as online display advertising growth slows?

Buzzy Internet companies like Facebook are scrambling to find fresh ways to generate revenue amid signs that online advertising - the lifeblood of so-called Web 2.0 companies - could contract with the swooning economy.

Adding to the sense of urgency are venture capitalists and strategic investors who are tightening the purse strings as they become less willing to write blank checks to bankroll startups.

Indeed, venture capital firms like Sequoia Capital, which provided seed money to YouTube and humor Web site Funnyordie.com, are

telling the companies in which they invest that the good times are over, and are calling for startups to tighten their belts.

Such warnings mark a turnabout for Web 2.0 companies, that new breed of digital-content companies that emerged after the dot-com bubble burst. With an emphasis on social networking, Web 2.0 companies claimed they'd make their money through display advertising that would be read by millions of users visiting these sites from multiple platforms.

However, as the economy has slowed and advertisers have pulled back on their spending, there has been much hand wringing in tech circles over the lack of revenue being generated by some of Web 2.0's heaviest hitters, including Facebook, Twitter and YouTube, which is owned by Google.

For his part, Zuckerberg defends his company's revenue strategy, saying at a Web 2.0 confab in San Francisco last week that Facebook generates "hundreds of millions" in ad revenue.

"We're not as focused on optimizing revenue," he said. "Some people take that to mean we don't have a revenue strategy. That's completely wrong."

In response, a number of leading Web 2.0 companies have recently launched a mix of advertising and commerce experiments to expand their revenue sources.

Among them:

- \* YouTube recently rolled out click-to-buy deals with Universal Music, EMI and Electronic Arts that allow users to link to Amazon and iTunes to buy music, movies and games related to the content they are watching.
- \* MySpace (a unit of News Corp., which also owns The Post) announced a deal with online-ad technology specialist Auditide and MTV Networks to tag advertisements to clips of shows like "The Colbert Report" that are uploaded to the site by users.
- \* MySpace Music, a joint venture between MySpace and the major music labels, has unveiled a number of new sponsor deals, including homepage takeovers, ads that wrap-around media players and sponsored giveaways of music downloads.
- \* Photobucket, another News Corp.-owned picture site, is offering users the ability to brand their profile pages using images from sponsors like Disney.
- \* Slide, a company that creates online applications for Facebook and other social-networking sites, is selling branded versions of popular applications of popular applications like "Super Poke" to companies like Unilever and Conagra, said Sonya Chawla, Slide's senior director of advertising.

Jay Bhatti, co-founder of Spock.com, a specialized search engine for finding information about people, sees companies like Facebook frantically working to come up with revenue streams outside of advertising. One such tactic is charging for premium accounts that come with snazzier services, he said.

"Social networking does not lend itself to having a huge ad-supported model," Bhatti said.

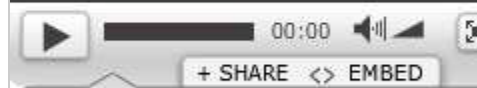
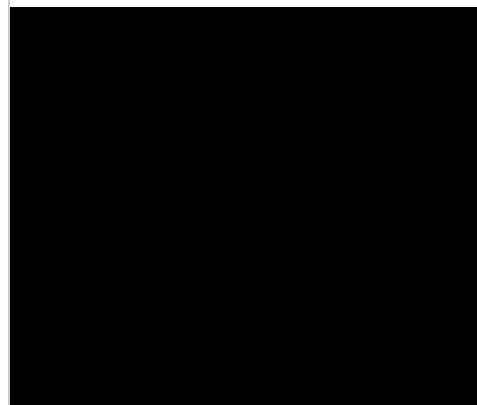
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