

briefings within days of each other.

The briefings—one for Silicon Valley reporters, the other for a roomful of pinstriped ad execs not far from Madison Avenue—set the stage for what is shaping up as the first great battle for the future of advertising on the web. The stakes are high: Up for grabs are not only ad buys worth tens of billions of dollars a year but also the very model that will control the web-ad business itself.

While the Internet has vacuumed the value out of all manner of industries from music to retail, none has been sucked drier than ad-supported media, where consumers increasingly expect to get everything free. Sponsored ads are the last revenue stream in a world where readers and viewers no longer want

to subscribe. Yet while money has been pouring out of print and TV and into online advertising—a \$21.4 billion business expected to double by 2011—there's scant evidence that those online ads are finding their mark.

Google may be the exception. It specializes in search ads—those little text boxes that pop up and recommend Kauai vacation packages when you Google, say, “Hawaii vacation.” Search ads account for some 40% of online advertising, but they work. They drive revenue—Google's search ads deliver click-through rates just over 5%, according to Nielsen Online, compared with rates of 0.2% for

online ads in general—and they are the main reason Google's market cap is a dizzying \$219 billion.

It's the other 60% of online ads—classified and banner ads—that are the problem. There's hardly any money in classifieds anymore. Craigslist seems to have cornered that market, and it offers them free, much to the consternation of local newspapers. And so-called brand ads—blinking banners across the top of the screen and the like—are irritants most users train themselves to ignore.

Imagine, then, what an online entity that commands the attention of tens of millions of users—say, Google or Facebook—could do if it managed to transform brand advertising from a nuisance to something people actually could use—or, God forbid, actually like. Facebook was the first to try to crack the problem.

The tale of how Mark Zuckerberg launched Facebook while an undergrad at Harvard and grew it into a business valued at \$15 billion is already a bedtime story for Silicon Valley toddlers. What matters to advertisers, though, is that he has created a self-contained universe—a “walled garden,” in the jargon of the trade—that now encompasses 50 million people. Facebook users happily offer up priceless demographic data on their home pages: name, birth date, gender, marital status, political orientation. Best of all, the network encourages friends and acquaintances to form links and stay apprised of one another's activities through a “news feed”—a kind of personal wire service that lets you track the updates your friends are making to their pages.

That is the network that Zuckerberg has opened up for advertisers with his new service, Facebook Ads. Now, whenever Facebook users rent movies at Blockbuster.com, say, they are asked whether that information can be shared with

**FACEBOOK'S
PLAN TURNS
MEMBERS'
FRIENDS INTO
PITCHMEN.**

Tale of the Tape

Here's how Facebook and Google's new social media models compare. —Lindsay Blakely

facebook	Google™
KEY PARTNERS Microsoft, Coca-Cola, Blockbuster, Sony Pictures, Verizon, the <i>New York Times</i>	KEY PARTNERS MySpace, Bebo, LinkedIn, Ning, Friendster
50 MILLION TOTAL USERS	200 MILLION TOTAL USERS
APPLICATION STRATEGY The “walled garden.” Software developers write widgets in a language that works only on Facebook, but if they play their cards right, they can reach millions of users—and keep the revenue their apps generate.	APPLICATION STRATEGY Google's OpenSocial offers widget programmers an opportunity to write one app that works across all participating social networks. As with Facebook, developers have access to user data and may get to keep the revenue.
AD STRATEGY Facebook Ads turn friends into pitchmen. With your permission, the news that you have purchased a product or befriended an advertiser appears on your page—and all your friends' pages.	AD STRATEGY Still unclear, although developers would presumably have access to AdSense , Google's automated system for populating web pages with ads more or less relevant to the content of the page.