REAL-WORLD CASE

# Social Status: The Rise and Fall of MySpace

### challenge

Staying competitive when you're the leader in a rapidly changing market

### solution

Stay the course, keep current customers happy, and hope for the best

How does a company that has established clear market dominance keep ahead in a rapidly changing field? When your current customers and business model depend on one model, how do you respond as competitors introduce new business models? It's one of the toughest questions facing entrepreneurial companies, and sometimes even the biggest, most well-funded aren't immune from the challenge.

The rise and fall of the MySpace empire took only six years to play out. Ultimately, the same business strategy that drove it to the top of the social networking world led directly to its failure.

Prior to MySpace, the first social networking site to really prove the power of harnessing individuals' own social circles was Friendster. Launched in 2002, Friendster was based primarily in Asia and was backed by some of the leading venture capital firms in the world. It quickly became a powerhouse, and Google offered to buy it for $30 million in 2003. Friendster turned the offer down.

Meanwhile, MySpace quickly began challenging Friendster. Still a relatively early entrant in the new social networking market space, by 2004 it overtook Friendster, and by 2005 MySpace was considered the world's top social network program. News Corporation acquired MySpace for $580 million that year,[1] expecting it to generate more than $1 billion in annual revenue.[2]

At first, things looked good for MySpace. At the time of its acquisition, MySpace was the fifth-ranked Web domain in terms of page views (putting it in the league of Web giants Yahoo!, Google, and AOL),[3] it had five times the traffic of Facebook,[4] and by 2006 it outranked Google as the most visited website in the United States and had acquired its 100 millionth member.[5] That year, MySpace inked a $900 million advertising deal with Google. It was *the* social network, valued at an astonishing $12 billion in its heyday.[6] The prospects seemed limitless.

MySpace was so powerful that Friendster, based in Kuala Lumpur, increasingly focused its growth in Asia, pulling back on its presence in the United States.

Yet MySpace wasn't watching the competitive and strategic landscape carefully. Because MySpace was easily open to all—anyone could join, and there were few privacy controls—it faced criticism on a number of fronts, including

1. "News Corporation to Acquire Intermix Media, Inc." *News Corporation*. July 18, 2005.
2. "Special Report: How News Corp got lost in MySpace," by Adegoke Yinka. *Reuters.com*. April 7, 2011.
3. "News Corporation to Acquire Intermix Media, Inc."
4. "The Network Effect: Facebook, LinkedIn, Twitter & Tumblr Reach New Heights in May," by Andrew Lipsman. *The ComScore Blog*. June 15, 2011.
5. "MySpace Signs 100 Millionth Member," by Mark Sweeney. The *Guardian*. Aug. 9, 2006.
6. "MySpace loses 10 million users in a month," by Emma Barnett. *Telegraph.co.uk*. March 24, 2011.