

You approved each of the managers' action plans, and a year later most of the managers were reporting that their initiatives had been successful in addressing the problems and opportunities they had identified a year ago. However, overall company performance continues to be

lackluster and shows no signs of improvement. You are confused and starting to question your leadership capabilities and approach to change. What are you going to do to improve the performance and effectiveness of your company?

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Years of Chaos and Fail Whales Didn't Stop Twitter. Now the Company that Couldn't Kill Itself May Be About to Take Flight.

Life inside successful Web startups—especially the really successful ones—can be nasty, brutish, and short. As companies grow exponentially, egos clash, investors jockey for control, and business complexities rapidly exceed the managerial abilities of the founders.

Venture capitalist Peter Fenton calls this phenomenon “the violence of a startup.” And nowhere has the violence been fiercer, or more public, than at a company Fenton invested in and has helped to guide: Twitter.

Throughout its first five years of existence, Twitter always seemed on the verge of committing some excruciating form of startup *seppuku*. There were constant service outages (epitomized by the ubiquitous “fail whale” cartoon message), an embarrassing security breach in 2009 that released a torrent of internal documents, and nonstop departures of key employees. The *pièce de résistance* was the turmoil at the top: Twitter had three chief executive officers in as many years. That drama culminated with the promotion of serial entrepreneur and former Google executive Dick Costolo as CEO in 2010 and the return last year of one of Twitter's founders, Jack Dorsey, as executive chairman and product chief.

Now something freakish is happening in San Francisco. Twitter, which for years treated the responsibility of earning money as an annoying distraction, may be turning into a viable business. The

company has added seasoned executives, pushed its unique symbology like the hashtag (#) and at-symbol handle (@) into the mainstream, and rolled out new advertising products to the delight of big brands such as General Motors and Budweiser, which advertised heavily on the microblog service during this year's Super Bowl. Twitter is on pace for revenue of \$260 million in 2012, according to research firm eMarketer. That may be an insignificant fleck on the windshield of rivals Google and Facebook, but it's a sign that Twitter is becoming a plausible contender for the online budgets of the world's top advertisers. “Our ad business is only about 18 months old,” says Satya Patel, Twitter's product vice president and, like about 90 of its colleagues, a former Googler. “2011 was the year we began scaling it. And 2012 is the year when we demonstrate that it's a juggernaut.”

In the past, Twitter's too-cool-for-revenue attitude enhanced its Silicon Valley mystique. The company still tries to maintain that ethos—its stated mission is “to instantly connect people everywhere to what is most meaningful to them.” But really it's jumping headlong into competition for advertisers' Internet budgets. Twitter has also aligned itself closely with Apple, thanks in part to the connections of its chief financial officer, Ali Rowghani, a former CFO of Pixar Animation Studios, the late Steve Jobs's other company. Apple has

coded quick access to Twitter into the operating system of the iPhone, iPad, and soon, its desktop PCs and laptops. This will make it far easier for users of Apple devices to join Twitter and reflexively contribute to the service.

Then there's Twitter's management of the hashtag, which is increasingly trumping the clunkier Web URL and even the Facebook profile page as a short, handy identifier for companies and politicians. Before the State of the Union address in January, the White House released a transcript of the speech annotated with hashtags for different subjects. During this year's Super Bowl, 8 out of 42 TV advertisers included a Twitter hashtag in their commercials. Last year only one, Audi, did so.

Brands are using the hashtag in part because it links them directly to an intense and nonstop online conversation. Although still relatively small with 100 million active users (compared with Facebook's 800 million-plus members), Twitter has become the pulse of a planetwide news organism, hosting the dialogue about everything from the Arab Spring to celebrity deaths.

Costolo, 48, is as responsible as anyone for Twitter's maturation. He expanded headcount from 45 to nearly 900 and helped his team develop an irony-free—or at least less ironic—sense of mission. Asked for the

millionth time about Twitter's plan to increase revenue, Costolo says he will "probably continue to be more patient than people would expect me to be," adding that he has no immediate plans for an initial public offering. A former member of a Chicago improvisational troupe, he's also known for his self-deprecating sense of humor. Talking about the challenges Twitter faces in blocking spammers who might scare off business, he says, "We can learn from those who came before us and the kinds of things that they went through. I think that will ameliorate some of the concerns that advertisers have." He pauses for a moment. "That was a good use of the word 'ameliorate,' by the way. Don't you think? Right? Someone has to give me credit!"

After joining Twitter in late 2009 as chief operating officer, Costolo's first move was to go on a hiring binge, poaching talent from Google, News Corp., and Oracle. He later collaborated with Fenton and Bill Campbell, a famous Silicon Valley executive coach and Apple board member, to lure Dorsey back into an active role guiding product decisions. Having Dorsey, Costolo says, "clears away a lot of the contentious discussion you might have about whether you should zig or zag in respect to product decisions." Costolo also devised a six-hour leadership course, which he administers to senior executives four times a year, and directed one of the company's first engineers, Alissa Huskey, to lead a team to define Twitter's core values. The entire company eventually joined in and came up with a list of 10 principles, including "Grow our business in a way that makes us proud" and "Innovate through experimentation." That may sound like the worst kind of corporate offsite banality, but Costolo says it helped. "If you don't know where you're going, it seems like any road will take you there," he says.

Before Costolo became CEO, Twitter defined its business model more by what it did not want to do than what it did. In early 2009, it

rejected an entreaty by Microsoft to put ads alongside results from searches on the service because it had not decided on a course of action to make money. It also considered and rejected selling data to corporate users about their Twitter activity and who was following them, and shelved a short-lived effort to tweet Groupon-style discounts, concluding those were not big enough businesses.

Twitter still makes money with licensing deals—Microsoft pays to get a real-time feed of tweets for its search engine, Bing. But Costolo firmly established the company's primary identity as a communications tool that lets advertisers contribute content along with other users free of charge—and then pay extra to make their messages more prominent. The centerpiece of Twitter's plans, what Costolo calls "the atomic unit of our ad strategy," is the "promoted tweet," a message from an advertiser that appears near the top of a user's feed. Advertisers pay only when a user "engages" with the tweet—retweets it, say, or clicks on a link. The more people click on an ad, the more the ad appears. Twitter executives trumpet an engagement rate of 3% to 5%, compared with less than 0.5% for normal banner ads.

Costolo credits Ashish Goel, a Stanford University computer science professor and part-time Twitter consultant, with helping the company realize that tweets could double as ads. Goel had an important insight: Everyone on Twitter is a marketer who wants to promote a link, a piece of news, or a personal update. Twitter's strongest appeal to advertisers was to allow them to pay to add more heft to a standard message. Ads could then flow not only to the central Twitter website but to all of the various Twitter software programs on the Web and on mobile phones, some of which are administered by third-party companies.

After formulating its system, Twitter moved cautiously to roll it out. In 2010 it monitored how many ads it could show users before they became frustrated. It later dabbled

by opening advertising to Starbucks, Virgin America, Best Buy, and a few other big companies. For Walt Disney, then about to premiere *Toy Story 3*, Twitter developed the "promoted trend," which sits atop the list of popular topics on the main Twitter page for a full day and currently sells for about \$120,000 in the U.S. It also started selling "promoted accounts" to advertisers that wanted to pay to have their Twitter names featured to users, a surefire way to add followers.

In summer 2010, Costolo recruited Adam Bain, an easygoing News Corp. sales executive, to run Twitter's ad efforts. Bain was an unlikely choice; he hailed from Fox Interactive Media, whose banner ads on Myspace.com tended to be gaudy, disruptive, and annoying to users. (Remember those infamous "punch the monkey" ads?) Bain describes his decision to move to Twitter as a "Jerry Maguire moment," a workplace epiphany where he discovered a fundamentally better form of Web advertising. Banner ads, he realized, "forced bad incentives and bad behavior by marketers" because blinky, brash ads were the only ones that grabbed users' attention and elicited their clicks. Twitter had "cracked the code on a new form of advertising," where ads are treated like every other kind of content on the site.

Bain spent his first few months at Twitter outside the office, meeting with ad agencies and advertisers and listening to what they wanted from Twitter. He visited 140 chief marketing officers in 140 days, sometimes with Costolo in tow. (Get it? Tweets max out at 140 characters.) One of Bain's slides showed the path not taken: a clean Twitter website under assault from banner ads hawking lotion, handbags, and cell phones, which descend onto the page amid dramatic clouds of virtual smoke.

The message—Twitter was taking a more nuanced, user-friendly approach—resonated with ad executives. It also left them with questions. CEO Tom Bedecarre of AKQA, a San Francisco-based digital marketing firm, calls himself an admirer of Bain

and Costolo and a "drunk-the-Kool-Aid Twitter believer." But he also says Twitter will need to work hard to persuade the rest of the industry to learn how to exploit this new communications medium—right after they were forced to school themselves on the art of Facebook and Google. "Every time there is a new platform, there is a new thing you are measuring," Bedecarre says. "What's the value of a 'like' on Facebook? What's the value of a 'retweet'? I do think that's a challenge for advertisers."

While the New York Giants were beating the New England Patriots in this year's Super Bowl, a different kind of battle erupted on Twitter. General Motors, one of the game's largest advertisers, accompanied its five TV commercials with a wave of simultaneous promotions on Twitter, spending hundreds of thousands of dollars to get its tweets, with links to its TV spots, in front of users of the service. One of those ads, which depicted Chevy Silverado drivers who survive an apocalypse but mourn their absent friend, a Ford owner, set off a minor conflagration. Executives at Ford and GM, along with truck aficionados, waged a war of 140-character tweets over the relative doomsday-surviving attributes of the companies' respective full-size pickups. "At one point it was like the Hatfields and the McCoys online," says Joel Ewanick, GM's chief marketing officer, who gleefully monitored the action from a social media "war room" in GM's Detroit headquarters. "That was our intent. We wanted to give people something to talk about, and Twitter helped us do that."

Over the past six months, Twitter has tried to give advertisers such as GM a variety of new ways to spend money on the service. Last September it began allowing advertisers to send promoted tweets to targeted subsets of people even if they are not following those brands on the service. That same month it began accepting political ads from candidates and political action committees and designating them with a distinctive purple check

mark. On Feb. 28, Twitter announced it would also start sending promoted tweets to mobile phones, beating Facebook in the race to make money from exploding mobile Internet use. Later this month, Twitter will open the doors of its ad network to corner bakeries, taco trucks, and other small businesses, which will be able to funnel ads onto the service by submitting bids at Twitter.com without having to talk to a salesperson.

Silicon Valley is watching these plans closely to see whether Twitter can justify the \$8 billion valuation it got last summer after an investment by Russian venture capital firm DST Global. There are plenty of reasons for skepticism. Its users are accustomed to selecting whom they follow and what they want to see, and an influx of ads from companies could turn them off, a reaction Twitter engineers internally call "fatigue." The coming tools for small businesses could also pose a problem; such self-service systems tend to attract mischief makers who try to drive traffic to spam- or malware-laden websites. When Google rolled out similar tools for its system, AdWords, early last decade, spammers found cheap search keywords and put links to their websites next to results. Then they stocked those Web pages with worthless ads. Facebook has suffered from similar mischief. In January, Twitter acquired a security company, Dasient, to guard against such manipulation.

For now, many major advertisers are sampling Twitter with budgets far smaller than what they spend on Google or Facebook. In January, Nike sponsored a tweet inviting users to "make it count," a promotion foreshadowing the launch of its body-monitoring bracelet, FuelBand. In February, Walt Disney unveiled a campaign for the new Pixar film, *Brave*, with a promoted trend that invited users to recount their own stories of courage. Verizon Wireless, Subway, and Delta Air Lines have been active as well. "We want to be where our customers are," says John Harrobin, Verizon vice president of digital media

and marketing, who nevertheless notes that Facebook ads more often result in sales. Twitter users, he says, are more likely to click on ads and engage with the company's message, "so it's often the first place we use to dispense information."

In January, McDonald's demonstrated one of the risks of Twitter advertising. It rolled out a campaign with the innocuous hashtag #McDStories as part of an effort to promote tales about the farmers who supply the restaurant chain's produce. Critics of the company immediately co-opted the hashtag with stories of food poisoning, weight gain, and poor employee hygiene. Rick Wion, McDonald's social media director, says he's pleased with Twitter's ad tools and will continue to use them despite the potential for blowback. "We know that at times promoted trends can be used by critics to take potshots, but in every case where we've used them, the positive conversations and tweets from our customers far outweigh the negative."

Earlier this year, Newt Gingrich set up a petition on Facebook to reduce the price of gas to \$2.50 a gallon by supporting expanded North American oil drilling and the Keystone XL pipeline. His campaign then hawked links to the petition on Twitter. At the start of the Feb. 22 GOP debate in Arizona, the Gingrich campaign paid Twitter to ensure that a tweet with the petition's link appeared each time a user searched for "Newt Gingrich" and also for "Mitt Romney." With Twitter's ads, Gingrich at least momentarily pulled off a feat—eclipsing Romney's message—that political analysts concluded he failed to do in the debate.

Vincent Harris, an outside social media consultant to the Gingrich campaign, says he's spending about four times as much money on Facebook as on Twitter simply because he can reach more voters there. It's math: Facebook reaches 44.6% of the U.S. population and Twitter 9.1% according to eMarketer. Yet it's Twitter, Harris says, that's become an invaluable tool for shaping the

opinion of party insiders and pundits. "The beauty of Twitter's ad unit is that it's the best rapid-response tool that exists in politics right now," he says.

None of these advertisers are the unreserved evangelists Twitter might hope them to be. GM's Ewanick says his Twitter ads during the Super Bowl nearly doubled the carmaker's number of followers, to more than 80,000. He also says that maintaining a Twitter presence and supporting a Twitter ad campaign is more resource-intensive than running old-fashioned TV and print ads. All that engagement and authentic-seeming messaging can be exhausting. A company tweet "can't look like it came from some corporate thing," he says. Verizon's Harrobin says the wireless carrier may have overwhelmed its followers with promoted messages from time to time.

Another common gripe is that advertisers can't target segments of users on Twitter in quite the same way as on Facebook, which typically knows a member's age, work and education history, and hometown. People don't volunteer the same data to Twitter, and its targeting tools are not as refined. Costolo says he's not concerned because there's so much promise in targeting users based on an "interest graph"—the set of characteristics that can be gleaned from users' followers and what they click on. He gets animated talking about a treasure trove of data

that's both revealing and noninvasive. "These accounts I follow paint a very compelling picture of the kind of person I am, even if it doesn't paint a picture of exactly which uniquely identifiable individual in the world I am," he says. "I think that allows us to deliver powerful value to advertisers, and powerful value to those who want to speak freely."

He pauses again. "I killed that answer, I absolutely nailed that answer," he says. He gestures at a public-relations colleague. "He's so disappointed in me! 'Why the post-modern ironic references?'"

A few days later, Costolo, done joking around, discusses the company's new headquarters, where most of Twitter's 900 employees will move this summer. Last year, Twitter finalized a lease for a 75-year-old former wholesale furniture market, a building that squats amid an economically depressed area on San Francisco's Market Street filled with panhandlers, dollar stores, and litter-strewn empty lots. It's an unusual location for an Internet phenom, but Twitter, which received tax breaks from the city, is making the space its own. Workers are installing modern elevators and 21st century Web company accoutrements such as coffee bars and two-person conference rooms. They're also turning the roof into a covered deck and cafeteria with towering views of the imperial rotunda

of nearby City Hall. The building is full of art deco details the company plans to keep—a marble lobby and exposed mail chutes, those bygone purveyors of the analog tweet. "We're trying to build a lasting company, a company that will change the world in interesting and beneficial ways," says Costolo. "The new space, in this incredibly historic building, lends gravitas to the mission of the company and the future ahead of it. I think it's consistent with the way we are building the company, as a lasting part of the media world."

Questions for Discussion

1. How would you describe the personal leadership style of Dick Costolo?
2. What are Costolo's sources of power?
3. What behaviors does Costolo appear to engage in?
4. Do you think Costolo is a transformational leader? If so, in what ways has he been a transformational leader? If not, why not?

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