With the creation of Wallop, Microsoft makes its debut as an actor on the social networking stage, a competitive market whose first entries have already been around for over five years. The software giant is poised to take on the healthy, veteran competition, confident that it will turn a profit with social networking software. What is this confidence based on?

The phenomenon of social networking software started to experience massive development back in 2000 in the United States thanks to the millions of dollars invested by venture capitalists. In a nutshell, the software lets users input their personal data and invite their contacts to do the same. This information is saved on a website, which users can visit to update or check information. Users can expand their social network thanks to what could be called the Internet version of the famous phrase “my friends’ friends are my friends,” which consists of offering users the chance to access their contacts’ contacts.

Social networking software can be divided into three types: those used in the personal relationship realm; those geared toward the professional realm; and those sold to companies in order to map out their internal relationships. The first model, which is used as entertainment, is the one with the most weaknesses. Once the data has been input, these websites generally lack the enticement needed to generate new visits, which directly affects the business model, given that few visits equates to little advertising revenue. There are, however, a couple of exceptions. The first of these is social networks for young people, a segment of the population that appears willing to spend time on this type of activity, as seen by the success of MySpace, which has ten million regular users. The second kind of social networks that have piqued the interest of users are those with a specific purpose. In the US, job search sites such as Monster.com and Doostang, and dating services such as Match.com, are among the standouts in this category. In Spain, similar projects, such as Mipasado, are gaining relative importance.
The ease in developing social networking software has led to the entry of numerous actors to this stage. The result is an excessive fragmentation of the market, one that jeopardizes the chances for these kinds of projects to take off, since their usefulness depends precisely on their capacity to attract a large number of connected users. As contacts become spread out over different social networks, these become less effective. Nevertheless, this market will soon become consolidated around the networks that are ultimately able to offer a competitive edge. Small World, for example, stands out by virtue of its offering a closed network, invitations for which are hard to come by. Its main strength lies in the fact that its members feel that they belong to an exclusive community, mostly coming from New York and a few European cities. Another example of differentiation is the European network OpenBC, which offers a multilingual platform in a sector where language is one of the main participation barriers.

Aside from their rivalries with one another, online social networks compete with other social software tools, such as instant messaging and blogs. The latter not only entrust users with the task of updating the information—their “virtual reputation”—but also allow for links to be created with other blogs. Social networking communities can respond to this challenge by integrating the capabilities of social software tools into the product they offer. This way, users can chat with one another—as in instant messaging—or post their opinions—such as what blogs provide. Both features happen to be the strength of Wallop, which will combine the capability of managing contacts with that of interaction among users.

This is how Microsoft is hoping to profit from the two trends that in the very near future are going to transform the social networking market: the integration of distinct social software technologies and market consolidation. It remains to be seen whether this strategy will bring the expected profitability to Microsoft’s project.