

“Adam Penenberg’s lively book opens a window to all of our futures.”  
—KEN AULETTA, author of *Googled: The End of the World As We Know It*

ADAM L. PENENBERG

# VIRAL LOOP

FROM FACEBOOK TO TWITTER, HOW  
TODAY’S SMARTEST BUSINESSES  
GROW THEMSELVES



# Viral Loop

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[ From Facebook to Twitter, How Today's Smartest Businesses Grow Themselves ]

**Adam L. Penenberg**





To the Penengirls,  
Charlotte, Lila, and Sophie

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### An Insanely Viral Scheme

How the Guys from Hot or Not Rode a Simple Idea to a Fortune

Two Heinekens into a lazy Tuesday afternoon, James Hong, a twenty-seven-year-old dot-com refugee from Mountain View, California, was listening to his roommate, Jim Young, a Berkeley graduate student in electrical engineering, wax on about a woman he had spotted at a party the previous weekend. Young, also twenty-seven, insisted she was a “perfect 10.” Hong didn’t believe him. He knew his roommate had a thing for “goth,” while Hong’s own tastes were more Abercrombie & Fitch. What the world needed, they agreed, was a metric to reliably rate someone’s looks.

The two out-of-pocket entrepreneurs weren’t just in a frat-like buzz obsessing over women who likely wouldn’t give them a second look. This exchange was the logical outgrowth of a broader discussion they had been having about Web services, something that had long been on Hong’s mind. At the time, October 2000, Web services focused on business-to-business applications, but Hong wondered about a consumer play—a product that would appeal to regular people. A year earlier, he and Young had toyed with the idea of creating a dating site with collaborative filtering to better cluster people: users would scan a series of pictures, then express an opinion as to how attractive the person was. This, they reasoned, could increase the efficiency of dating, although it didn’t end up spawning an actual business. Now he and his roommate were ginning up more ideas for a start-up.

Young’s “perfect ten” comment got Hong thinking. What if you could rate someone’s looks by opening it up to a vote? Most people believed they were above average, which was, statistically speaking, impossible. Hong, an athletic extrovert with a buzz cut and zingy wit, rated himself a 7. And his skinny partner with the modish, foppish hair? About the same, but who really knew? In the way the value of a house or used car was whatever someone was willing to pay—that is, whatever the market would bear—a person’s attractiveness could be based on whatever a large community of people judged it to be. For it to work, all they would need were pictures and a grid from 1 to 10 for site visitors to click on. Then they would crunch the aggregate data and spit out the results. Hong didn’t know many people who had a whiteboard in their living room, but he and Young did, and they quickly drew up plans. Burned out on his dissertation, Young figured it could be an entertaining diversion and suggested they build a simple website instead of a vastly more complicated Web service.

Hong scoured the Web for candid shots—he wanted real people, not *Sports Illustrated* swimsuit models—while Young got cracking on the digital infrastructure, cobbling it together with Linux code. A couple of days later, while visiting his parents, Hong was tinkering with the site when he walked his father, a Taiwanese-born engineer who wore pocket protectors and had given him a slide rule for his thirteenth birthday. If he found out what his unemployed son was working on, he would shake his head and mutter that he was wasting his education. Hong told him it was all Young’s idea.

Peering over his son’s shoulder, his father looked at the photo on the screen. “Oh, she’s hot. She’s an eight,” he said. Hong could scarcely believe his ears. He was half convinced his father had engaged in sex only three times in his life—when he, his brother, and his sister were conceived. Without prompting, his father clicked on another photo. “Not so hot,” he clucked. Then *click... Click... click, click*, until he pored through the entire cache of photos—forty in all.

His father was hooked. Because of the way Hong and his partner designed the site, a user couldn't find out the poll results until he voted and the next page loaded. They purposely placed the aggregate score on the left side over a smaller version of the picture while the next picture, significantly larger, sat front and center. The idea was to train a user's eyes to flow from the middle to the left. Because there was always one more photo to be judged, a user would feel compelled to cast another vote. It was like the old Lay's potato chip ad: "Betcha can't eat just one." The interface demanded engagement, and this in turn made it sticky. If a site retained a visitor's interest, it had the potential to be popular and spread by powerful word-of-mouth endorsement.

When his father was out of earshot, Hong phoned his roommate. "Dude, we have to launch this thing right now!"

## [ GOING VIRAL... ]

On Monday, October 9, 2000, Am I Hot or Not went live, not that anyone but its two founders knew about it. Hong emailed forty-two friends (partly, he said, because forty-two was the answer to "life, the universe and everything" in the cult sci-fi classic *The Hitchhiker's Guide to the Galaxy*). "Here's our website that Jim and I made—be nice," he wrote and inserted a link to their own pictures. Soon after, visitors pinged the site, quickly spreading well beyond Hong's forty-two friends. It didn't take an epidemiologist to recognize a viral spread in the making. To test it, Hong slipped on a pair of rollerblades and skated across the street to an office park where Tellme, a software call center and services provider, was located. He glided over to an office worker in the parking lot.

"Hey, have you seen this website where you can rate people if they are hot or not?" Hong asked.

He hadn't. Hong told him and bladed home. Inside ten minutes Tellme's IP address appeared in the site logs. Hong monitored the man's activities as he clicked through the photos. Suddenly more Tellme IP addresses popped up. Clearly the man had shared the link with coworkers, who then passed it to others. A drizzle turned into a full-blown storm, with the hits coming in fast and furious from all over the country. Traffic swarmed their borrowed server; the site slowed to a crawl. It took half a minute for each page to load.

Hong was hosting the site on his brother's machine, which sat in a data center. The more bandwidth they consumed, the more they would have to pay. Hong knew this would quickly become unsustainable. By the end of the first day thirty-seven thousand unique visitors had found their way to the site and two hundred people had uploaded photos. On day two, they broke one hundred thousand in addition to the mass of returning visitors from the first day. At the current run rate, Hong estimated that Am I Hot or Not would cost \$150,000 in bandwidth in their first year. The more successful they were, the more likely they could go bankrupt. Hong, a self-described pop culture junkie with an MBA from Berkeley, was broke, \$60,000 in debt, and living rent-free in his roommate's parents' house. He had no idea how the site would make money and frankly didn't care. All he knew was that he had stumbled into an insanely viral scheme, but he had to figure out how to keep it going before the levee gave way and it drowned in its own popularity.

It would only get worse before it could get better. Salon.com was planning an article for the following day. The reporter contacted Hong after a friend had emailed her the link with the comment "I think this is quite viral." Hong begged her to push the story back a few days until he could solve their bandwidth woes. She refused. (Slow news day, she explained.) In her essay, she called Hong and Young's brainchild "nothing more than a virtual meat market," "indescribably horrible...and yet utterly addictive," "fashion police with a twist," a site that "manages to throw the whole idealistic notion of 'beauty comes from within' right out the window in about three seconds flat." She uploaded

a five-year-old photo of herself, claiming unconvincingly that she didn't want to know how she would fare. Her mix of opprobrium and self-loathing found a hungry audience. Readers slammed Am I Hot or Not's server. Now Hong and Young were fielding two viral storms.

## [ TOO BIG, TOO FAST ]

Survival depended on solving their scaling problem. Step one was to confront the colossal amount of bandwidth the photos soaked up. Around midnight, while commiserating with Young at the drive-thru of an In-N-Out Burger, Hong had an idea. "We don't need to host the pictures," he said. "We'll let Yahoo do it!" Based on his analysis of the server logs, Hong believed twenty-five new pictures a day would be enough to attract fresh traffic to the site—eventually people got bored and moved on. They would effectively cap the number of new pictures. While they were at it, they would direct users to post their photos on Yahoo GeoCities and submit the URLs (the Web addresses) to Am I Hot or Not. By 3:30 a.m. Hong and Young had transferred their entire collection to Yahoo.

Then they addressed the next challenge: offloading the site from their clotted server and out of the data center. At 4:00 a.m. they drove to Berkeley where Young had an office. They pulled the plug and reinstalled the site on a cheap 400-megahertz Celeron PC that Hong had gotten free for opening a eTrade account. So no one would turn it off, he popped the top off a case of pushpins and mounted it over the PC's power switch. Then they secreted it under Young's desk, stashed in a corner and buried by books. To the uninitiated it looked like a pile of stuff with an Ethernet cable poking out.

It was five in the morning and Am I Hot or Not had been down for two hours. They wondered if the outage might have killed it. As soon as they switched it back on, they got their answer. *Bam bam bam*, IP addresses pounded into their logs. Three hours later Young's adviser, the dean of the Berkeley engineering department, informed them the university's information technology department was up in arms. Their single PC was weighing down the entire network. Amused by their plight, the professor promised to cover for them, but they had twenty-four hours to set up shop elsewhere.

Beg, borrow, steal, whatever it took. Hong searched for a new home, settling on Rackspace, a Web-hosting firm. Although he and Young had no money, they were getting heaps of press. The *Guardian*, the *New York Times*, and news outlets from around the world found Am I Hot or Not irresistible. Hong cultivated the media because he knew their concept would be easy to steal. The more stories, the more spikes in traffic, the harder it would be to dislodge them when the inevitable copycat arrived on the scene. He cold-called the head of Rackspace business development to propose trade. "I know you guys want to go public and it's great to get your name out," Hong said. "Your whole value proposition is that you can help companies scale by outsourcing. If you can help us, we will have all these upcoming interviews, and we can be a poster child for you." The Rackspace executive agreed, and every day that week Hong called to request more machines. By its eighth day the site was fielding 1.8 million page views per day, and both Hong and Young, who had slept eight hours over those eight days, were literally shaking.

## [ SHOW ME THE MONEY ]

Now that Hong and Young had, for the time being, solved the site's scaling challenges, they needed to figure out how to monetize it. With the kind of traffic they attracted—within six weeks of launch the site had 3 million page views a day and posted more than three thousand photos—advertising made

the most sense. These were the days predating automated ad servers like Google AdSense, which meant they had to enlist an online advertising network. But a number of users had been uploading nude photos, while pornographers were tricking users into passing on their emails so they could spam them. Hong knew that they couldn't attract advertisers if there was objectionable material, so he and Young came up with the motto "Fun, Clean and Real," and issued basic rules: no celebrities, minors, models, or porn; no group photos, ads, or anything with contact information such as email addresses or phone numbers.

They created a community monitoring system: users could click a link under an inappropriate picture and, based on an algorithm, anything that was tagged too often was deleted. Ready to approach ad networks, Hong emailed the founder of DoubleClick, who replied that when he visited the site, the first picture he encountered was of a naked woman. What we need, Hong told Young, was a more intensive moderation system: someone to approve the photos before they posted. Originally he appointed his parents, who were retired and had plenty of free time. After a few days he asked how it was going.

"Oh, it's very interesting," his father replied. "Mom saw a picture of a guy and a girl and another girl and they were doing..."

"Dude," Hong told his partner, "my parents can't do this anymore. They're looking at porn all day."

They turned to their community to act as moderators. Each applicant was required to pen an essay. Those chosen to moderate were instructed to reject inappropriate pictures, ads, or anything with someone's contact information. With hundreds of users trolling the site, they could filter what was posted. After this went into effect, it didn't take long to land an advertising network. Although the click-through rates were low—on the order of 0.2 percent—the immense number of page views still made it a moneymaking proposition. Within two months they had counted 7 million page views a day and had collected 130,000 photos. By year's end, three months after the site's launch, they had broken into Nielsen's Top 25 advertising domains on the Web and had generated \$100,000 in advertising revenue.

But they were nowhere near Easy Street. Hong received a cease-and-desist letter after Howard Stern, on his radio show, mistakenly called their site Am I Hot, the name of a far racier site pushing skin and cleavage. Hong had done his due diligence and looked for similar-sounding domains before launch. It wasn't his fault Stern had made a mistake, but he wanted to avoid a battle over the name. He agreed to change it to Hot or Not, and they promised to redirect traffic to the new domain for three months. Hong made good use of all the press coverage to rebrand the site, and traffic barely hiccupped. In the meantime, he chopped their overhead. He approached Ofoto about an affiliate deal, telling an executive how he had dispatched people to Yahoo to upload photos. Hong could just as easily send them to Ofoto, and by hosting them, Ofoto would have the lead in offering additional services. The agreement he struck meant that Hong had moved something from costing money to making it free to actually generating a profit.

## [ REVENUE STREAMS ]

Just when things seemed to be humming along, the Web ad market stumbled, a victim of the dot-com bust, and advertising rates dropped. "Can we charge for anything?" Hong wondered. The answer was staring him right in the face. After they had launched the community monitoring system to stamp out pornography, they received emails from users complaining that they could no longer meet people through the site. Since it made sense to stoke the community, Hong and Young set up Meet Me, which

allowed active users to commingle online. It was a hedge against porn operators, since a member could no longer simply post an ad and wait for email to roll in. A user had to engage in the community.

In April 2001, they instituted a \$6 per month fee to join Meet Me, figuring it was cheap enough to qualify as an impulse buy. In its first month it generated \$25,000 in revenue; by year's end it had brought in \$600,000. Their success spurred them to work even harder; most nights neither got much sleep. They turned it into a race: could Hong bring in people faster than Young's system could handle? Hong's job was to create a bottleneck and Young's was to clear it. That first half-year felt like it lasted a day. Practically every waking moment they considered ways to make the site run faster and better. They were featured in *People*, *Time*, and *Newsweek* and by the end of the year they were on *Entertainment Weekly's* It List. They were profiled in the *New Yorker*. Hong became the first in his MBA class to make it into the *Wall Street Journal*.

There were the inevitable copycats: Bangable—which needs no description—RateMyFace.com, and a number of parodies, including a site that ranked monkeys. None, however, could rival Hot or Not's popularity. There was something ingeniously simple and intuitive about Hong and Young's formula that others couldn't replicate. The site grew so big so fast, and continued to attract visitors at an exponential rate, that it had achieved a point of nondisplacement. No one could knock them off their pedestal.

Besides money and fame, the site offered fringe benefits. It vastly improved their dating lives, for one. Now Hong could afford a Porsche and a posh condo and dated women way out of his league. The site also added to his encyclopedic knowledge of American pop culture. At times he felt like an amateur sociologist. Initially his photo rated a 3.8, once plummeting to 2.6 after a particularly unfortunate haircut, while Young averaged 3.5. That changed after they inserted a "Meet the guys that run Hot or Not" link on the home page and their scores rose. It figured, Hong thought. The more successful the site, the more money they made, the more famous they became, the hotter they got.

When Hong dug into the logs, he learned that two-thirds of visitors to the site were men and only two out of a hundred bothered to post a photo. Most logged on from work and stayed for an average of forty-five minutes a session. The largest demographic segment was eighteen- to twenty-four-year-olds, followed by twenty-four- to thirty-year-olds, and 15 percent were under eighteen. Most men voted strictly for the ladies. So did women. (Hong found that surprising, although virtually every woman he spoke to said it made perfect sense.) A guy holding a puppy scored higher than one who didn't. A bikini-clad female almost always scored a 9. The best-looking, as voted by their audience, hailed from warm-weather states, with women from Florida, California, and Hawaii populating the site's top 10 lists, probably because they were more comfortable baring skin than their cold-weather counterparts.

It took a while for Hong and Young to realize that they had a viable business, even after Lycos offered \$2 million (they turned it down flat) and venture capitalists expressed interest. There was nothing inherently viral about Hot or Not. It was simply compelling enough to induce people to spread the word. Like any fad, Hong believed it would lose steam and their gravy train would run out of track. Young could then return to grad school to complete his dissertation, "Design and Specification of Heterogeneous Systems," and Hong would move on to other ventures, both richer and wiser. But in their first full year, they pulled in \$600,000 in almost pure profit, and their revenue doubled each and every year that followed. By 2004, the site generated more than \$4 million annually, which the two partners split in the form of dividends. In July 2006, the site tallied its 13 billionth vote and was the third most popular dating site on the Internet.

Two years later Hong and Young sold Hot or Not for \$20 million.



### **Viral President**

#### Positive Feedback Loop, Spreadable Concepts, and the Three Categories of Viral Expansion Loops

As James Hong and Jim Young demonstrated, it's possible to build a multimillion- or even billion-dollar business from scratch, simply by designing a product the right way. No advertising or marketing budget, no need for a sales force, and venture capitalists will kill for the chance to throw money at you.

This may sound too good to be true, like some dodgy get-rich-quick scheme from a late-night cable TV infomercial or the latest spam come-on to hit your in-box, but some of the most iconic Web 2.0 companies—Hotmail, eBay, PayPal, MySpace, YouTube, Facebook, relative newcomers like Digg, LinkedIn, Twitter, and Flickr, as well as hundreds of widget makers navigating the emerging “social media” economy—fit this description. The trick is they created something people *really* want, so much so that their customers happily spread their product for them through their own social networks of friends, family, colleagues, and peers. That's one of the beautiful things about Web 2.0: you can nurture a business like never before and achieve almost cosmic valuations in record time.

These companies are powered by something called a “viral expansion loop,” which is accomplished by incorporating virality into the functionality of a product. In plain English, it means a company grows because each new user begets more users. Just by using a product they spread it. After all, what's the sense of being on Facebook if none of your friends are, or using Flickr if you can't share your photos? Why post an item for sale on eBay if no one is around to bid on it, or use PayPal if no one accepts it? It's not quite enough to click through a cache of photos on Hot or Not and vote on people's relative attractiveness unless you can share the experience—and that's precisely what happened.

Within ninety minutes of Hong and Young's brainchild hitting the Web, the number of users doubled every two hours. On day two, they doubled every hour, breaking one hundred thousand users. For every ten visitors, two or three were—without prompting—passing the link to others, with the pattern replicating itself en masse. That's because in large numbers, human behavior is largely predictable. We seek to pass on interesting or funny memes or products to our personal social networks, whether they are included in our email address books, part of our collection of friends on Facebook, visitors to our blog, followers on Twitter, or participants on discussion threads.

Viral-loop businesses seek to take advantage of this trait.

#### **[ POSITIVE-FEEDBACK LOOP ]**

While a negative-feedback loop can create a vicious circle and drive investors to dump stocks, further pushing down the market, leading to more bad news and inducing others to sell, and so on, a viral expansion loop is the opposite, a type of positive-feedback loop, a virtuous circle. The result is a type of alchemy that, done right, leads to a self-replicating, *Borg*-like growth. Put another way, a viral



expansion loop is like compounding interest on a bank account: one user becomes two, then four, eight, to a million and more. Not unlike taking a penny and doubling it every day for a month: by the end of a week you'd have 64 cents; within two weeks, you have \$83.92; by day thirty, about \$5.4 million. Viral loops have emerged as perhaps the most significant business accelerants to hit Silicon Valley since the search engine.

Venture funds have been gravitating to companies with viral loops baked into their business models, inspired, no doubt, by the success of Peter Thiel, whose \$500,000 investment in Facebook is worth, depending on how you value the company, anywhere between \$300 million to \$750 million (on paper, at least). Sequoia Capital's Roelof Botha, an early YouTube backer, has also placed his bets on viral loops. Social-network creator Ning raised \$104 million in venture capital while widget maker Slide, which creates photo slideshow tools, attracted \$50 million from Fidelity Investments and T. Rowe Price, giving it a \$500 million valuation. Fred Wilson, managing partner at Union Square Ventures, joked that he's considered changing his firm's name to Viral Ventures, since almost two-thirds of the \$20 million his firm invests annually goes to viral-loop companies such as Twitter, the microblogging outfit.

Although the word "viral" has been co-opted from epidemiology to explain how things spread from user to user over the Internet, there is a stark difference between virality online and what is found in nature. Most people do not spread viruses intentionally—it is a natural by-product of being human. Over the Web, however, users enthusiastically disseminate ideas, information, opinions, links to blogs, photos, videos, and Web services. (The exception is when a user downloads a computer virus; as in the real world, nobody wants to spread that.) It's perhaps surprising that something so profound, powerful, and potentially profitable as a viral loop has remained under the radar for so long. Entrepreneur Andrew Chen, a former advertising executive who worked with MySpace, hi5, and other social sites, has a simple explanation: this critical insight "is worth a lot of money," and the few people who understand it "are all doing their own companies."

Chen views viral loops as "the *most* advanced direct-marketing strategy being developed in the world right now." And make no mistake: viral expansion loops *are* about marketing, just not in the traditional sense. "Nothing can be truly viral unless it is good," venture capitalist Wilson says. "You can create a crappy application, build viral hooks in it, but if it's bad nobody will follow the viral channel and the company will go out of business." But if you make something people really want, your customers will make your business grow for you. Just by using a product users are, in essence, offering a testimonial.

Viral business models are not entirely new. Tupperware, for example, where each party attendee is a potential salesperson, has elements of virality etched into its marketing formula. So does Amway's multilevel marketing strategy to sell personal-care products, jewelry, and household goods. MCI's Friends and Family campaign from the early 1990s offered customers inducements to spread the product. And what are chain letters and pyramid schemes but a permutation on viral loops with irritating (and often nefarious) intent?

Virality is, however, better suited to the frictionless environment of the Internet, where enough clicks can project a message to millions of people.

## [ VIRAL PRESIDENT ]

Viral strategies aren't strictly for businesses. They are also seeping into other arenas—like politics. And no one was more successful in imprinting a viral loop into a campaign than Barack Obama. "One of my fundamental beliefs from my days as a community organizer is that real change comes from the

bottom up,” Obama said in a statement. “And there’s no more powerful tool for grassroots organizing than the Internet.” Because an organization can reach only so many people, it must turn to loyal followers to widen the pool. As with all things viral, connecting to others outside the initial cluster of supporters depends on the quality of referrals. Friends, family, and colleagues are far more credible than any advertisement a marketer could dream up. This was what drove the campaign’s online strategy. The Web was especially helpful in organizing supporters in caucus states like Iowa, which gave Obama his first big victory. And this approach was arguably the difference between beating Hillary Clinton, the heavy favorite, in the primaries and coming in second.

A pivotal moment came when the campaign hired Chris Hughes, a twenty-four-year-old founder of Facebook. With the informal title “online organizing guru,” Hughes retrofitted grassroots campaigning to Web 2.0 by weaving together social networks and the mobile Internet into a central platform of Obama’s presidential campaign. The linchpin was My .BarackObama (MyBo, for short), which functioned as a lively online community and social network, registering 1.5 million volunteers. There users created profiles, complete with personal descriptions, friend lists, and blogs; joined one of the twenty-seven thousand groups that formed; raised money and organized meetings and get-togethers—all through a Facebook-like interface. The site had a search function, enabling like-minded people to find each other; a page offering tools to create a personal fundraising page (“You set your own goal, you do the outreach, and you get the credit for the results”); a blog; and a forum that drove even more traffic to the site.

Leading up to the election, MyBo members organized more than two hundred thousand campaign events. This didn’t just energize Obama’s base of support; it generated loads of cash. Over the span of two years, the campaign brought in \$750 million from 4 million donors; nine out of ten donations were for less than \$100—and half were for \$25 or less. The campaign achieved this by democratizing its fundraising. Instead of turning to wealthy Americans, who could be seen as leveraging their privilege into power, Obama’s campaign tapped the little guy, spreading donations across millions of Americans—giving each donor a stake in his campaign’s success. It accomplished this largely without fundraisers, which until the advent of Obama’s viral money machine, were viewed as unsavory necessities for any candidate running for office. But not only do such fundraisers sap the candidate’s time, which could be better spent campaigning and making a case for being elected, they give the appearance that rich, influential donors expect political favors in return for cold, hard cash.

In February 2008, Obama’s campaign raised \$55 million online without its candidate attending a single fundraiser. What’s more, while the law allowed large donors to contribute \$2,300 for the 2008 primaries and the same for the general election, smaller donors were tapped repeatedly, forging ongoing connections with the candidate. “Since most have not donated anything like the maximum amount, [Obama] doesn’t just have a list of names to thank; he has a huge list of names to ask for more,” political blogger Andrew Sullivan pointed out. In one sense, the smaller the donations, the more the campaign was able to invest in its supporters, who could be counted on to raise money, knock on doors, and spread campaign memes.

## [ SPREADABLE CONCEPTS ]

Here, in broad brushstrokes, are the viral strategies the campaign embraced:

- 1. A short, clear positioning statement:** Unlike Hillary Clinton touting her “experience” or John McCain bragging that “I have the record and the scars to prove it,” Obama’s two

core messages were “Change” and “Yes, we can.” A call to arms, these taglines offered supporters a clear rallying cry, while Clinton’s and McCain’s messages were more nebulous and top-down (that is, elect me because I’m more experienced). Obama’s campaign galvanized its supporters, who in turn virally extended his message.

- 2. Multiplier effects:** During the campaign, Will.i.am, frontman for the Black Eyed Peas, created a musical mash-up based on Obama’s phrase “Yes, we can” that included celebrities like Scarlett Johansson and Kareem Abdul-Jabbar. After the rapper uploaded it to YouTube, its virality didn’t go unnoticed. The campaign quickly embedded a link to the clip on its website. “After nearly a year on the campaign trail, I’ve seen a lot of things that have touched me deeply, but I had to share this with you,” Michelle Obama wrote in an email to supporters. “Sharing this video, which was created by supporters, is one more way to help start a conversation with your friends, family, co-workers, and anyone else who will be voting soon about the issues important to them in this election. In the end, the video was viewed 20 million times. Another music video—“I Got a Crush...on Obama,” by a woman who called herself Obama Girl—was downloaded more than 13 million times, while comedian Sarah Silverman produced one that took a humorous look at convincing seniors in Florida to vote for Obama. Promoting the creativity of its supporters helped the campaign extend its message.
- 3. The long tail:** If Obama had asked for \$100 million in the weeks leading up to the election, he probably wouldn’t have gotten it. Instead he told people to donate whatever they could—a few bucks even—and then he was able to return to them over and over. In other words, small is the new big. Gopal Shenoy, a blogger and software product manager, extended the strategy to the private sector: “Don’t walk away thinking that you can only talk to one customer, you can only attend one trade show, you can only make one customer happy,” he wrote. “What if everyone in your team talked to one customer a week, made one customer happy, helped the salesperson close one more deal. How better off would you be?”

Other Obama campaign viral tactics ran the gamut. A simple word-of-mouth approach revolved around volunteers mentioning one positive thing about their candidate any time they were asked for the time. The mobile arm of the campaign could text 3 million volunteers with schedules, speeches, and video links while a viral tell-a-friend mechanism made it simple to forward the site to another person’s phone. To attend Obama rallies, participants were required to provide an email address and cell phone numbers. Within hours the campaign was already asking for donations and referrals to other friends, urging them to form “affinity groups” to further spread the network. The campaign took full advantage of YouTube, posting Obama’s speeches, events, and advertisements on its own channels that could be spread user-to-user or through links embedded on blogs. A viral tell-a-friend mechanism made it possible to forward information to another person’s phone.

Barack Obama’s campaign wasn’t the first to unleash the power of the Web on politics. Howard Dean did this in 2004, but he wasn’t able to translate his fundraising prowess and eager support base into primary votes and victories. Joe Trippi, the campaign’s strategist, compared his team to “the Wright brothers,” while Obama’s “skipped Boeing, Mercury, Gemini—they’re Apollo 11, only four years later.”

Viral schemes are not only applicable to politics and businesses. They are a natural for nonprofi

organizations. On Facebook, the number-one most popular social application isn't a game or a mobile app. It's Causes, which lets users promote a favorite charity and induce friends in their network to contribute. The mission of another organization, JustGive, is to connect people with the charities and causes they care most about. The idea is simple. If twenty-five people make a donation and each person convinces twenty-five others to donate, there is the potential for an exponential increase in both donors and donations.

In the spring of 2009, Razorfish, a digital agency owned by Microsoft, combined viral commerce and charity with a television-web promotion for All detergent. In a thirty-second commercial near the end of an episode of Donald Trump's *Celebrity Apprentice*, contestants Joan and Melissa Rivers asked viewers to visit All's website to view a couple of videos. Joan Rivers appeared in "Guess That Stain," based on a fictitious game show, while daughter Melissa starred in "Laundry Fairy." Every time a user shared one of the videos with a friend, All promised to donate 50 cents to the favorite charities of Joan and Melissa Rivers.

All of this is a far cry from the traditional direct-mail solicitation, which can cost a nongovernment organization hundreds of thousands of dollars for high-quality paper stock, personalized laser printing, postage, and a comprehensive list of addresses. Viral fundraising runs on a fraction of the cost and relies on volunteers to raise funds on behalf of a charity or cause.

## [ VIRAL LOOP, VIRAL NETWORK, DOUBLE VIRAL LOOP ]

There are three categories of viral expansion loops: viral loops, viral networks, and double viral loop—the last a hybrid of the first two. To create a simple viral loop is relatively straightforward. In 1996, Hotmail placed a link in the body of every message, offering the recipient the ability to set up his or her own webmail account; within thirty months Hotmail went from zero to 30 million members. YouTube deployed a viral mechanism by allowing people to embed video links in their blogs or MySpace pages: the more people who saw it, the more links were embedded, and soon millions of users were funneled directly to YouTube. Also in this category are the scads of widget makers creating digital bling on Facebook, MySpace, and elsewhere: the infamous "hatching egg," glitzy slideshow creation tools distributed by Slide and RockYou, the online Scrabble game Scrabulous, horoscopes, calendars, and so forth. But it's on viral networks like eBay, Facebook, MySpace, Twitter, and LinkedIn that scale and power really snowball, providing an ecosystem in which other businesses can thrive.

"The viral adoption model" is the "cheapest way to grow an audience," declares Union Square Ventures' Wilson. And the bigger a viral network gets, the faster it germinates. Once this phantasmagorical growth kicks in, it is possible to predict its rate with astonishing accuracy, because it spreads at an even rate and eventually tips to a point of nondisplacement. Then it continues to add users even if it does nothing.

*Viral Loop* is a short history of this paradigm-busting phenomenon. The book tells the story of viral referral companies like Tupperware and Hotmail, and of the Mosaic browser, which transformed the Internet from a playground for geeks into a mass-market phenomenon. It explores Ning, which deploys a double viral loop, and deconstructs viral marketing to get at the concept of "collective curation"—when the audience decides what's good and passes it on to others. *Viral Loop* looks at the underlying economic forces leading to ubiquitous broadband, which has increased the pace and reach of virality, and shows what happens to a business that becomes too viral and outstrips its ability to

keep pace with exponential demand. Then there's stackability, when one viral business is overlaid on another, and social networking, which is redefining how we as humans connect with one another. Finally there is the search for the new ad unit—the heart of any moneymaking scheme in this new Web world of interconnectedness and interoperability.

Over the last decade and a half some of the world's most successful businesses started from scratch and then rode a viral loop. Never before in human history has there been the potential to create wealth this fast, on this scale, and starting with so little. Here's how they did it.



# VIRAL BUSINESSES





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