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Chazen Society Fellow Interest Paper
Orkut v. Facebook:
The Battle for Brazil

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When it comes to stereotypes about Brazilians – that they are a fun-loving people who love to dance samba, wear tiny bathing suits, and raise their pro soccer players to the levels of demi-gods – only one, the idea that they hold human connection in high esteem, seems to be born out by concrete data. Brazilians are among the savviest social networkers in the world, by almost all engagement measures. Nearly 80 percent of Internet users in Brazil (a group itself expected to grow by almost 50 percent over the next three years[1]) are engaged in social networking – a global high. And these users are highly active, logging an average of 6.3 hours on social networks and 1,220 page views per month per Internet user – a rate second only to Russia, and almost double the worldwide average of 3.7 hours.[2] It is precisely this broad, highly engaged audience that makes Brazil the hotly contested ground it is today, with the dominant social networking Web site, Google's Orkut, facing stiff competition from Facebook, the leading aggregate Web site worldwide.

Social Network Services

Though social networking Web sites would appear to be tools born of the 21st century, they have existed since even the earliest days of Internet-enabled home computing. Starting with bulletin board services in the early 1980s (accessed over a phone line with a modem), users and creators of these Web sites grew increasingly sophisticated, launching communities such as The WELL (1985), Geocities (1994), and Tripod (1995). Still, it wasn't until the early 2000s, with the emergence of Friendster, MySpace, Facebook, and Orkut, that social networking took on the bent

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[1] "Brazil Social Media Brief." *Emarketer.com.* Oct. 2009.
[2] "Russia Has World's Most Engaged Social Networking Audience." *Comscore.com.* July 2009.

it has today: not connecting anonymously with strangers for the purpose of information exchange, but rather communicating with members of one's pre-existing social network. This idea seemed to resonate with users, and by 2007 hundreds of millions of people worldwide were visiting social networking Web sites on a daily basis.

Despite the popularity of social networking Web sites, their administrators have struggled to monetize them. Subscription services, the "freemium" model (where users access the basics for free and then pay for upgrades), and "infomediation" (providing analysis about and targeted marketing to a group of users) are strategies that have been employed, but social network services' dominant business model is community-based advertising. In fact, the key to social networking Web sites' ability to monetize is user loyalty. A mass of highly engaged users (both in terms of time and attention) along with strong affinity for the brand allows social networking sites to sell contextualized advertising at a premium. Thus, in Brazil – as well as around the globe – social networking for sites like Orkut and Facebook is a zero-sum game: With monetization dependent upon a mass audience, any fracturing of that audience would mean a swift and certain demise.

The Players: Orkut

Orkut was developed in 2003 by Google engineer Orkut Büyükkökten as an independent "20 Percent Project." When Orkut was finally released into the market in 2004, it was as an invitation-only site geared toward Americans. Driven by word-of-mouth and viral marketing, however, the site soon exploded onto the Brazilian scene. While the launch of other social networking Web sites – such as Facebook and MySpace – proved fatal to Orkut in the United States, the site grew rapidly in Brazil. (Legend has it that a group of university students began sending out invitations as an experiment to see if they could make Orkut the number one social networking Web site in the country.) Experts on Brazilian culture and history – including Bryan McCann, director of the Brazilian Studies Program at Georgetown University – contend that Orkut's popularity stems from the fact that it is uniquely structured to provide a space in which Brazilians can challenge the existing social and cultural structure of their society. "Wherever possible," McCann writes in *Throes of Democracy: Brazil since 1989,* his new history of modern Brazil, "Brazilians will avail themselves of the possibilities of digital media to create subcultural niches and cross cultural networks in ways that defy traditional social hierarchies and the existing national cultural canon."[3] Whatever the reason, even a 2006 lawsuit by the Brazilian government in an attempt to gain access

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[3] Leonard, Andrew. "Brazil's Orkut Rule." *Salon.com.* 14 Jan. 2008.

to the user information stored on Orkut's servers (ostensibly to be used in an investigation of drug and child pornography trafficking) did not dissuade users.

The Players: Facebook

Originally dubbed thefacebook, Facebook was launched in February 2004 from founder Mark Zuckerberg's Harvard dorm room. Within two years the site had expanded to include not just college students (to whom access was originally restricted), but anyone 13 years of age or older with a valid e-mail address. User adoption soon reached an astounding rate – at least 150,000 new users daily.[4]

In February of 2008, Facebook decided to go global. After launching its first foreign-language version – Spanish – the site swiftly launched in 15 additional languages, all of which had active user bases across the globe by July 1 of that year. Facebook's instant success in these language markets may derive from the strategic plan it used to enter them: Instead of expanding its businesses by hiring locals to develop culturally specific sites in target countries around the world (a tactic used by many large Internet companies, including both Google and Amazon), Facebook turned to its users with a distinctively Web 2.0 growth strategy: crowdsourcing. In lieu of hiring professional translators and cultural anthropologists, Facebook used the wisdom of crowds to determine the best ways to encourage adoption in these new, foreign markets.[5] By 2009, Facebook boasted close to 225 million unique users around the world, a 10.8 percent month over month growth rate, with approximately 20 percent of the total Internet audience visiting the site.[6]

The Battle for Brazil

Despite Facebook's strong global presence, when it comes to the Brazilian market, Orkut could be tempted to dismiss its competitor as a threat. After all, Orkut has a virtual monopoly on social networking in the country, with over 23 million unique users, while Facebook hovers in a distant fifth position, with approximately 1.8 million.[7]

Before doing so, however, Orkut would be prudent to look across the globe to India: a historical stronghold for Orkut, but one that Facebook made a strategic priority in 2009. In addition to launching in several Indian languages (including Hindi, Punjabi, Bengali, Telugu, Tamil and

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[4] Hoffman, Claire. "The Battle for Facebook." *RollingStone.com.* 26 June 2008.
[5] Einhorn, Bruce. "Facebook Looks to India." *BusinessWeek.* 15 June 2009.
[6] "Facebook Nearly Twice the Size of Myspace." *Techcrunch.com.* Jan. 2009.
[7] "Top 10 Social Networking Sites in Brazil." *Emarketer.com.* Sept. 2009.

Malayalam) in May, Facebook premiered Facebook Lite, a graphically and functionally simplified site developed for markets where high-speed Internet connections are rare at best. The result? Orkut's unique visitors in India fell by 800,000 within the month of August, while Facebook's increased by 700,000 during the same time period. This is the largest drop in unique visitors Orkut has seen in India over the past year, while Facebook has been steadily growing, up 228 percent from a year ago.[8] Given the similarities of the Indian and Brazilian markets (developing nations with large emerging Internet markets that lack the broadband penetration found in the United States and other developed nations), the story should serve as a cautionary tale for Orkut in Brazil.

Indeed, Facebook has launched a few strategies to aggressively pursue Orkut's user base in Brazil, including a tool that automatically finds a user's Orkut friends who are already on Facebook (this tool lowers the time-cost of switching to Facebook and helps former Orkut users build their Facebook network faster), as well as building up its strength as an open platform for developers. Facebook's highly advanced application programming interfaces (APIs) allow developers to build Facebook-enabled iPhone apps, create and monetize applications that run within Facebook, and integrate with third-party sites using Facebook Connect. Much like the iPhone's prominence within the smartphone market, this choice has served to hold Facebook's audience captive by maintaining strong network effects for both users and developers. Though Orkut has recently opened its API, many industry experts criticize the move as coming too late for developers to latch on. If Orkut has any hope of keeping Facebook at bay, it may lie in being more nimble and forward-thinking in the future.

The Stakes

The conflict of the social networks has yet to produce a victor in Brazil, but the stakes are clear and ever-growing for the two major players. IAB Brazil estimates 2009 online advertising spending at BRL987.1 million ($539.4 million), about 30 percent more than in 2008.[9] In addition, Internet users in Brazil are also avid shoppers, with an estimated 17.2 million online shoppers in Brazil spending BRL10.5 billion ($5.7 billion) in 2009, an increase of 61.0 percent over 2007.[10] More and more, advertisers and marketers are looking to spend their dollars where audiences not only aggregate, but also engage for increasing periods of time. With one out of every four online minutes spent on a social networking platform in Brazil, these sites are an obvious target.

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[8] "Facebook's Plan to Trounce Orkut in India May Be Working." *Techcrunch.com.* Sept. 2009.
[9] "Brazil Online Advertising Brief." *eMarketer.com.* 1 Oct. 2009.
[10] "Web Shoppers, 20th Edition." *eBit.* Aug. 2009.

Perhaps the key battle in winning the social networking war is that of developing a scalable, profitable business model. Though a study conducted by Deloitte found that 45 percent of Internet users in Brazil rated online advertising as having the most impact on their buying decisions,[11] neither Orkut nor Facebook has been able to devise a truly monetizable business model that provides a measurable return on investment for advertisers and a practical service for users, and takes advantage of the fact that social networking is a two-way model of media communication (as opposed to the "push" system that is traded upon in traditional media) in which users demand a voice in all aspects of their experience. Once one of these sites is able to accomplish all those things in Brazil, it is sure to find itself with a multitude of requests – both "friend" and otherwise – from businesses across the globe.

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[11] Deloitte. "State of the Media Democracy Third Edition." Jan. 2009.