



Be There or Be Square: The Rise of Location-based Social Networking

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To find the hottest restaurant, bar or concert venue in town, many young adults are no longer checking in with their friends. They're "checking in" virtually via Foursquare, a location-based social networking site. Participants log onto the site and "check in" via smartphone to let contacts who are fellow users know where they are. At the same time, they learn what those users are doing -- whether a co-worker is eating at the restaurant next door, or if friends are gathering at a nightclub across town. As "check in" alerts are traded between phones, the people attached to them instantly become aware of the spots that are popular in their social circles.



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Foursquare, which was founded by Dennis Crowley and Naveen Selvadurai, was introduced at the March 2009 South by Southwest music and interactive media festival in Austin, Texas. In recent weeks, the New York-based company has made headlines by gaining about 100,000 users in 10 days during this year's South by Southwest event. Web traffic to Foursquare has increased by 400% since October 2009, according to the research firm Hitwise -- and that doesn't even count users who access the service via third party mobile applications.

The site currently has more than 800,000 members "checking in" at locations around the globe. In addition to sharing their location with contacts, check-ins earn users points and digital merit badges through Foursquare's built-in game. For example, a "Bands on the Run" badge was offered to South by Southwest visitors who checked in at seven concerts in one day. The most coveted title is that of "mayor" -- rewarded to the most frequent visitor to any given location.

While social networking sites -- including Facebook, Yelp and Twitter -- are taking notice of Foursquare's rising popularity and adding "check in" and location features to their sites, experts caution that function is more important than form. "Positioning a product as the new cool, hip thing is great for getting people to flood in, but it's also going to make people flood out quickly as people move onto the next hot thing," Wharton marketing professor [Jonah Berger](#) says. "For a product to persist, at some point it has to transition from a hip new thing to something that has functional value."

Although Foursquare and competitors like Gowalla are the subject of most of the current headlines, experts say the true potential lies in companies knowing exactly where customers are and pitching offers or offering services based on the spots these customers frequent. As smartphones become more common and social networking gains a broader audience, consumers are consciously sharing more information than ever about their daily routines. That information makes it easier for businesses to advertise, or offer special discounts, that fit what someone is doing at a given moment. The challenge for Foursquare and other companies, observers suggest, is transitioning beyond buzz and finding uses for geo-targeting that are both profitable and practical.

"Location is a broad variable that's going to be built into lots of different kinds of apps and services," says [Kevin Werbach](#), a Wharton professor of legal studies and business ethics. "Social networking has obviously been a huge business phenomenon over the last few years. People have a virtual relationship with their friends but they also have a physical relationship in terms of where they are at any given time. Location is a valuable piece of information that can potentially enhance the richness of any kind of social interaction."

iPhone's Inflection Point

Location features were incorporated into mobile phones as early as 2000, but earlier social networking sites built around the technology, such as Dodgeball, failed to gain a foothold. Dodgeball, which had relied on text message blasts to update users on their friends' activities, had been founded by Crowley and then sold in 2005 to Google, which eventually shut it down.

"The inflection point for this was the iPhone," says Kevin Nakao, vice president of mobile and business search for web and mobile publisher WhitePages. "The iPhone was the first big device that got into the hands of a lot of consumers and added really easy-to-use location elements. They integrated mapping software into the device. Not only that, they made it easy for developers and publishers to integrate our applications." The iPhone has spawned such location-centric apps as a ski and snow report by outdoor gear retailer REI and a program called Flixster that allows users to search for movie times and reviews. Nakao notes that downloads of the WhitePages iPhone app increase significantly any time the program is featured on iTunes. In addition, he says, 80% of the campaigns offered via the application by major brands are geo-targeted, or displayed to consumers in specific markets that are chosen by the ad buyer.

The usage of phones that allow Internet access, and participation in social networking sites, grew significantly in recent years. In a 2009 survey by the Pew Research Center's Internet & American Life Project, 32% of adults reported using their mobile devices to surf the web, up from 24% in 2007. Only 8% of adults told Pew in 2005 that they had a profile on a social networking site; that number was 47% for all adults in 2009 and 72% for men and women ages 18-29. According to Hitwise, U.S. web traffic to location-based social networking sites has increased by 350% in the past year. Profiles of Foursquare users reflect the statistics; co-founder Selvadurai, 28, says most of those checking in on the site are college students or young professionals in their 20s and 30s who live in urban areas. The site initially launched only in large U.S. cities but since December has been available anywhere in the world. Tokyo, for example, is close to becoming second only to New York for having the largest number of user check-ins.

"Location has always been interesting, but now the technology has caught up," says Selvadurai. "We're finally in a position where you no longer have to go through carriers. There's no longer a lengthy process to get an app approved. Anyone can build [an application with a location feature]."

He and Crowley, 33, were interested in developing a networking site based on location because they thought the concept better lent itself to spontaneous meet-ups -- the trading of tips and suggestions and other "serendipitous connections" that can be difficult when people live thousands of miles apart. They incorporated the game of points, badges and mayorships into Foursquare, thinking it would ignite users' competitive spirits and encourage them to explore their communities. "The idea of sharing is an honest one and one that is attractive no matter what kind of demographic you fit into. It's just a matter of teasing out the right rewards [for different age groups]," Selvadurai says. "We've actually heard stories of people using [Foursquare] to check into a playground with the intention of announcing to other parents that, 'Hey my kids are here. You should come and have a play date.'"

Although Wharton operations and information management professor [Kartik Hosanagar](#) isn't surprised that young, urban-dwelling men and women are the early adopters, he believes location-based social networking has the potential to gain broader appeal because the services tap into a person's natural desire to belong to a community, and to gain social status by becoming a recognized "expert" in knowing the hotspots in his or her home turf. "Those are the types of things that go across generations. They're more fundamental," he says.

Marketing professor [Eric Bradlow](#) agrees, noting that "every product that penetrates the market starts with a segment. You don't mass market to start; you target a market and then expand to other segments." Location-based social networking sites, however, are already beginning to attract brands that appeal to a broader audience. A partnership between Foursquare and the Bravo television channel allows users to get tips and recommendations from the channel's personalities, and earn badges based on the channel's programs such as "Top Chef" or "Real Housewives of New York City." Austin, Texas-based Gowalla, which recently announced a similar partnership with the Travel Channel, worked with Chevrolet to offer a free ride promotion for visitors to South by Southwest.

Laura Wilson, a talent buyer for Philadelphia restaurant and concert venue World Café Live, was first

exposed to Foursquare at South by Southwest. Anyone can add a location to Foursquare, and when Wilson signed on to add her business to the site, she found that hundreds of users had already been "checking in" there for months. Now World Café is planning to offer free food to each week's reigning "mayor." "It's something we need to pursue ... because for us it's driving people in," she notes. "It has the potential to be really important. We have to try to keep up with it, even if it doesn't become the next big thing, because we don't want to miss out on any opportunity to get the word out. If it is the next big thing, we want to be an early adopter."

Transit hubs are among the spots where users of location-based sites are checking in most often. Gowalla, which has 175,000 users in more than 165 countries, reports that its number-one check-in location in Philadelphia is the airport. Foursquare recently partnered with San Francisco's BART train service to offer discounts on monthly passes to users who frequently traveled via public transportation, as evidenced by repeated check-ins on the social networking site. Foursquare has implemented a "cheater code" that employs phone GPS signals to verify that users are where they say they are -- i.e., that someone isn't "checking in" at a local gym while lounging on his or her couch at home. Foursquare users can opt to keep their check-ins "off the grid" -- meaning that his or her locations are kept private, but he or she still earns points toward merit badges and discount offers from third party businesses.

Annoyance vs. Gain

Widespread efforts by businesses to tap into location-based social networking are what will cause many consumers to tire of the trend, warns Wharton marketing professor [Peter Fader](#). "There's a really good analogy here to e-mail marketing. Fifteen years ago, you got your first e-mail from a company saying, 'Here are this week's specials chosen just for you,' and you said, 'This is cool' and 'How do they know what I wanted?' You read it, you maybe even bought something," he notes. "Maybe the second or third time it was still kind of cool, but then you got totally burned out with it and annoyed."

Fader expects that, just as companies were eager to establish a presence on Facebook and Twitter, the same will be true for location-based social networking. "You've got a zillion companies jumping onto Facebook, posting ads, getting nothing for it and saying, 'Well, this is bad' and then they never do it again. My point is they jumped in too quickly and they gave up too early." He suggests that many businesses expect too much out of social media efforts and that those who use Foursquare -- or Twitter or Facebook -- as part of an integrated marketing strategy and in a way that makes sense for the brand, will gain the most bang for their buck.

In the midst of rumors last week that Yahoo may buy Foursquare for \$100 million, the site's creators are still figuring out what type of revenue model would be most profitable. Co-founder Selvadurai notes that the most natural fit would be charging venues for advertising blasts or offers of special discounts to frequent visitors. "A lot of the specials that you see -- the venue specials and the 'mayor' specials -- were actually suggested by the venues themselves. Venues found out that customers were using Foursquare. They wanted to tap into that and reward them."

But Bradlow cautions that charging businesses to bring ads to users has the potential to overload location-based social networking sites to the point that many customers will stop paying attention. He suggests a model in which Foursquare or another location-based site would earn a portion of revenue for purchases made in connection with promotional partnerships with other companies. "I think firms gravitate toward [social networking] because of -- I won't say fear -- but the feeling that, 'We've got to be everywhere.' That doesn't mean they should do it," he says. "Firms need a valid return on investment for their marketing spending. They should test the impact of location-based marketing, see the click-through rates, and partner with a company to see if people actually purchased anything."

Hosanagar believes that Foursquare and other location-based sites work best when partnered with businesses that naturally lend themselves to social interaction and community, such as coffee shops, theaters and hair salons. "Some consumer experiences are natural and social -- the small local businesses are the kinds that embrace this and really do so successfully."