

In The Air

## A Social Network On Your Phone

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You've already got a phonebook on your cellphone. What about turning that list into a social network?

Big phone carriers seem to be itching to get a ride on consumers' enthusiasm for social networks. Last week, both Comcast (nasdaq: CMCSA - news - people ) and Vodaphone scooped up address book services. Those deals could lay the groundwork for their own mobile social networks.

Comcast agreed to acquire online address book service Plaxo on May 14, for an undisclosed sum. On May 16, U.K.-based carrier Vodafone (nyse: VOD - news - people ) spent \$49 million on its first mobile Internet purchase: Zyb, a private Danish company, which, like Plaxo, helps users manage their contacts with social networking features.

Both Comcast and Vodafone plan to use their acquisitions to help people share information with contacts listed in their cellphone's address book. Comcast will do so through Plaxo's Pulse social networking application, which can run on cellphone browsers. The cable giant is also investing in the mobile space via a venture with Sprint and Clearwire (nasdaq: CLWR - news - people ) to build a national wireless network using a super-fast technology called WiMax.

The moves mimic the trend of media companies investing in online social networks. They also come at a turbulent time for mobile operators. U.S. purchases of new cellphones declined 22% in the first quarter, year-over-year, according to the NPD Group. At the same time, revenues from voice services are flattening and Internet heavyweights like Google (nasdaq: GOOG - news - people ) and Apple (nasdaq: AAPL - news - people ) are disrupting the industry and cutting deals on their own terms.

Telcos have spoken openly about the need to increase mobile Internet use to shore up their position. "In the future, the important [mobile] services will be in the Internet space," Arun Sarin, chief executive of Vodafone, told Forbes.com. Vodafone recently created an Internet Services division to develop mobile Web services and lured Pieter Knook, a senior vice president in Microsoft's (nasdaq: MSFT - news - people ) mobile communications unit, to run it. Now they may try to leverage their millions of subscribers and join the frenzied world of social networking.

Operators have long eyed such a move, viewing it as a natural outgrowth of their communication and subscriber-centric services. Rajeev Chand, a managing director and senior equity research analyst at Rutberg & Co., says he has heard carriers mulling potential deals with address book services for months. He now predicts that carriers will roll out social networks in six months to a year. "Vodafone has millions of devices that are used multiple times a day," notes Chand. "Forget Facebook--the real mass social network is in your phone."

Most major carriers already have deals with large social networking companies. AT&T (nyse: T - news - people ) has offered a mobile version of MySpace since 2006 and also supports a mobile version of Facebook. In February, Vodafone became the first carrier to sign on to a new platform from Facebook designed to work more seamlessly on cellphones and help operators troubleshoot problems.

Plenty of competitors lurk beyond Facebook and MySpace. Mobile-specific social networks like airG and MocoSpace say they have millions of users worldwide. And Nokia (nyse: NOK - news - people ), the world's leading handset maker, is pouring money into Ovi, its own brand of Internet services, which it has successfully pitched to some European operators.

Rather than sever these relationships, analysts say telcos will likely take a different approach. Mobile-only social networking sites emphasize the activities people tend to do on their phones, such as locating friends via GPS, and using camera phones and cellular data networks to share photos. A telco-backed social network would likely sync existing and future contacts with social networks. It could also alert users when contacts join the social networking sites, enabling easy transfer of details like e-mail addresses, phone numbers and other personal details, says Deepa Karthikeyan, a wireless data analyst at Current Analysis.

Operators could eventually broaden these networks to overlap more with the friendly patter that mainstream social networks offer or simply offer both. "It's hard to say which one will be more sustainable," says Chand. "They are two different angles that are not mutually exclusive."

Though telco-backed social networks won't soon rival the success of Facebook or MySpace, they could have better luck making money off ads. "Since these sites are bound to consist of members that are close-knit, these networks can expect to build a better advertising model based on peer-to-peer advertising," says Karthikeyan. Carriers are also in the unique position of being able to spur social network visits by adjusting their rates. Karthikeyan predicts that carriers will begin rolling out promotions that cater to mobile social networking aficionados, such as data plans that offer unlimited access to networking sites and unlimited messaging.

Those moves could turn the "friends and family" concept from a marketing jingo into a vibrant group for consumers-- and a new profit center for carriers.