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Facebook doesn't fit in the pursuit of high net worth

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FIVE years ago if a scruffy student wearing open-toed sandals had walked into the headquarters of Microsoft and demanded that it pay billions of dollars for a website that allows people to "poke" each other, he would probably have been frogmarched out of the building.

Now such an ejection is unlikely, as the computing giant is rumoured to be close to paying up to $500,000 for a 5% stake in Facebook, the US-based social networking site set up by Mark Zuckerberg, the 23-year-old Harvard drop-out known for his dishevelled appearance and penchant for Jesus sandals. The purchase would value Facebook at £5bn.

Since its creation in 2004, Facebook has had a rapid rise. It now boasts 40 million users worldwide, including six million in Britain. Prince Harry and Environment Minister David Miliband are said to be among its members, who use the site to find old acquaintances, share photographs, electronically "poke" contacts and update their friends on their lives.

A survey released by the research group Nielsen/Netratings last week showed that Facebook became the most popular social networking site in the UK in August, beating off competitors such as YouTube and MySpace - the site famous for kickstarting Lily Allen's pop career.

Microsoft is not the only company jumping on the social networking bandwagon either. Yahoo! has long been rumoured to be circling Bebo, while media mogul Rupert Murdoch paid $580m for MySpace in 2005.

But as the buying prices for such websites reach ever more sensational heights, industry observers are beginning to question how long the social networking phenomenon will last and if companies like Microsoft will be able to recoup their money.

"There's a big discrepancy between profits and the asking prices," said Alex Burmaster, European internet analyst at research group Nielsen/Netratiugs. "Advertising revenue tends to be one of the biggest parts of online revenue and in social networking it's a much trickier proposition. There's much less control over content which may put off advertisers. Advertising is also seen as much more intrusive by the users. They don't want to be interrupted by advertising."

Profits at Facebook have been estimated by some US analysts to be as low as $100m (£50m) a year.

The figure has raised concerns that commercially, the social networking phenomenon may not last the distance.

"Social networking is a very fickle sector," said Burmaster. "Lots [of sites] will come and go and lots have already come and gone."

In future, popular sites like Facebook and YouTube are likely to be replaced by a new generation of exclusive online clubs which are attracting large numbers of advertisers willing to pay a premium for access to their wealthy members, internet experts say.

Online clubs such as aSmallWorld.net are beginning to gain pace among young, thirtysomething wealthy individuals who want to network exclusively with other high-earning business and social contacts. Entrance to the site is by invitation only and half of members earn over $250,000 a year. A fifth of the site's 150,000 users are millionaires.

Sites such as these offer advertisers a much safer proposition, according to analysts. They also guarantee access to exactly the kind of individuals companies such as Cartier, Moet & Chandon, Tag Heuer and BMW want to target. Advertisers on aSmallWorld part with an average of between $20,000 and $50,000 a month in order to tap into its members who are purported to include filmmaker Quentin Tarantino and celebrity heiress Paris Hilton.

"People have hypothesised that these [sites] are the ones that will have a definable income source in the future. They are the ones that will potentially stand the test of time," said Burmaster.

Remy Martin is the latest company to throw its weight behind this new breed of online networks. It will tomorrow launch a new campaign on aSmallWorld for its Louis XIII cognac.

But whether they are commercially viable or not, not everyone is convinced that Britain is about to see the back of Facebook, YouTube and the like, which have now grown so popular that a third of UK employers have banned access to them over fears that they negatively affect productivity levels.

Richard Goad from Hitwise UK, the online research group, said: "Social networks generate loyalty from users - the average visit time for Bebo is over half an hour, for example.

"Another proof that social networks are gaining importance and are here to stay is that this category now accounts for one in 10 visits sent to all websites - making it the second-largest category sending traffic to other websites after search engines."