WHAT WENT WRONG?

Digg: A Start-up That Lost Its Way and Its Place in Its Industry

At one time, Digg was one of the hottest sites on the Internet. The site's primary purpose was to allow users to discover, share, and recommend Web content. A user could submit an article or anything posted on the Internet for consideration. Other users either voted the article or page up ("dig") or down ("bury"). Although the voting took place on digg.com, many websites added "dig" buttons to their pages, allowing users to vote as they surfed the Web. The end product was a vibrant website with wide-ranging, constantly changing lists of popular and trending content from around the Internet.

Digg launched on December 4, 2004. At the height of its popularity, 2007-2008, it was attracting over 236 million visitors annually. It had grown large enough that it affected the traffic experienced by other websites. If an article was submitted to Digg, and it made it to the front page of digg.com (by enough users "digging" it), the site the article was posted on would see a spike in traffic. This phenomenon was referred to as the "Digg effect." In 2008, Digg was valued at more than $160 million. The sky seemed to be the limit for Digg, its users, and its investors. Incredibly, by July 2012, Digg was a shadow of its former self and was sold to Betaworks, a technology development company, for pennies on the dollar. What went wrong?

Several things went wrong with Digg, which caused the firm to lose its way and its place in the Internet social media industry. First, at the same time Digg was enjoying its height of popularity, Facebook and Twitter were gaining momentum. Eventually, Facebook and Twitter started eating away at Digg's traffic, as they morphed into places where people discovered the most up-to-date news and Internet gossip, the main reason for coming to Digg. Rather than remaining true to its identity, Digg started emulating the best features of Facebook, Twitter, and other social media websites. To make matters worse, Digg started falling behind Facebook and Twitter in terms of functionality. It took several steps to post a link on Digg, whereas Facebook and Twitter were simpler.

A second thing that hampered Digg was a poorly executed relaunch. In early 2010 Digg announced that its site would undergo an extensive overhaul, to freshen it up and make it more user-friendly. Digg was losing traffic and was desperate to win some back. The company was experiencing a technical problem concerning the difficulty in scaling its MySQL database software, so it decided to switch over to another open-source system called Cassandra. Digg's relaunch on August 25, 2010, was tarnished by site-wide bugs and glitches. For weeks, the site frequently wasn't available or was unstable at best, and when users finally reached the site, they complained about the new design and the removal of many features that they liked. Reflecting on this period in a 2012 *Wall Street Journal* article, Kevin Rose, Digg's founder and CEO, characterized the 2010 relaunch as botched and said that the company was slow to respond to criticism.

A third problem Digg encountered was that while it was supposedly "democratizing the Web" by allowing users to vote on the articles that would appear on its front page rather than editors selecting them, people claimed that it was easy to game Digg's system. Anyone could submit an article, rally his friends, co-workers, and others to vote up the story, and see the story rise to the top of Digg's rankings. Once this practice became widely known, users originally attracted to Digg thinking they could submit an article and have it advance to Digg's front page strictly on its merits became disillusioned and less interested in the site.

Questions for Critical Thinking

1. What lessons does Digg's failure have for entrepreneurs who are studying entering the social media industry?
2. Would you characterize the "Rivalry Among Existing Firms" in the industry Digg competed in as high, moderate, or low? To what degree was Digg able to effectively diminish or suppress the negative effects of the rivalry it experienced? What, if anything, should Digg have done differently in this area?
3. If Digg had completed a competitive analysis grid shortly before it relaunched in 2010, what factors would you have placed on the vertical axis of the grid and what companies would you have compared Digg against? To what degree do you think Digg would have favorably compared to its competitors?
4. What steps could Digg have taken, throughout the life of its business, that may have enabled it to remain competitive and still be a successful firm today?

Sources: S. E. Ante and J. Walker, "Digg Admits Missteps," *Wall Street Journal*, July 16, 2010, B7; M. Elgin, "Elgan: Why Digg Failed." *Computerworld*, March 19, 2011.