

# The Force that Facebook Is

---

Contemplating Facebook's Opportunities to Monetize



A whitepaper by Drake Direct © 2012

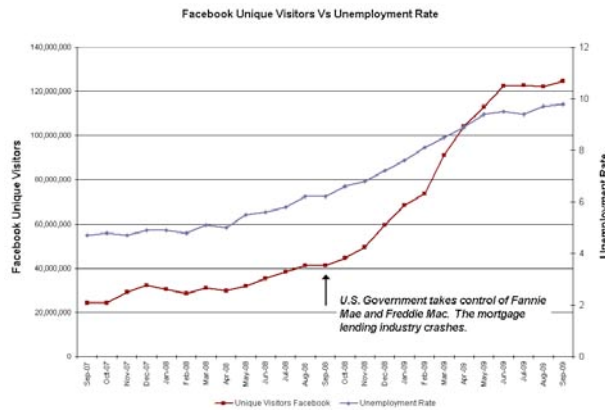
April 30, 2012

**DRAKE DIRECT** | Marketing Data Scientists

## Foreword

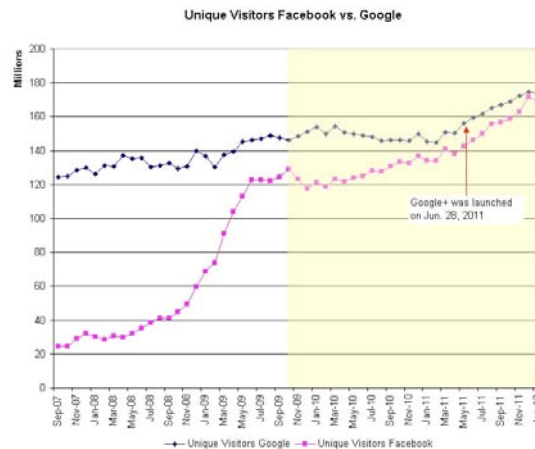
Facebook member growth since 2004 is far beyond what any other brand or entity has ever experienced in history. They have and are continuing to change the way brands interact with consumers, the way brands listen to consumers and the way consumers interact with brands.

The growth rate of Facebook during the recession years of 2009 was astounding. In fact it was highly correlated with the unemployment rate as shown in the Drake Blog Entry “Has Facebook Been Lucky”



Source: <http://drakedirect.blogspot.com/2009/10/has-facebook-been-lucky.html>

Additionally, Facebook users are about to outnumber those of Google in the very, very short term as can be seen in the graph below. And as a result, a power struggle is emerging.



Source: <http://drakedirect.blogspot.com/2012/04/dancing-with-stars-season-2012-dance.html>

So where is Facebook headed? Are they worth \$100 Billion? Who is their competition? What are the latest Online advertising trends? Where does mobile fit into Facebook's future plans?

With the fantastic help of Yuko Ichihara, our Research Analyst, we seek to answer some of these questions and many others in “The Force that Facebook is.”

Rhonda Knehans Drake

CEO & Partner, Drake Direct, New York, NY  
& Assistant Professor, New York University

Perry D. Drake

General Manager & Partner, Drake Direct, New York, NY  
& Assistant Professor, New York University

## Table of Contents

---

<b>Introduction</b> .....	4
<b>Why Timeline</b> .....	4
Timeline from a Consumer Perspective .....	4
Timeline from a Business Perspective .....	4
<b>Trends in Advertising</b> .....	5
Offline vs. Online Advertising Spend .....	5
Decomposition of Online Advertising Spend by Channel .....	5
Decomposition by Major Providers .....	6
<b>Trends for Facebook</b> .....	7
Member Growth .....	7
<b>Time Spent on Site Growth</b> .....	7
<b>Unique Visitor Growth</b> .....	7
<b>Growth in Business Pages</b> .....	8
<b>Facebook Traditional Advertising Model</b> .....	9
Click Through Rates .....	9
Cost Per Click .....	9
Comparisons to Google .....	10
<b>Other Proven Streams for Facebook</b> .....	10
Current App Market .....	10
Current Trends .....	11
Growth in Apps .....	11
Virtual Ecommerce .....	11
Future Revenue Streams .....	12
Mobile Ad Service .....	12
Search Services .....	12
Social Reader Fees .....	13
Initiate Fees for Business Pages .....	14
Recent Acquisitions .....	14
Instagram .....	14
Tagtile .....	16
<b>Conclusions</b> .....	16
<b>Footnotes</b> .....	19

**Please note that text in red highlights  
unrealized revenue opportunities for Facebook at time of their IPO filing.**

## Introduction

---

The way in which we as individuals stay in touch with friends and loved ones, share experiences, interact with brands and research the best products to buy is forever changing. Additionally, how brands interact with consumers and engage with them is also forever changing. Facebook is leading this charge. In this whitepaper, we seek to understand Facebook's business model, how it is changing with the changing digital landscape, and what it all means. In particular we seek to review in time for their public offering:

- Their business model and revenue generation strategies
- The overall direction of the company
- Their ability to engage businesses for advertising and consumers

## Why Timeline

---

The biggest buzz about Facebook recently is, without a doubt, the changes related to page layout. The "Timeline" page represents a major reorganization for both consumers and businesses, as posts now align in time orientation.

### Timeline from a consumer perspective

From a consumer perspective, "Timeline" is a collection of the photos, stories, and other experiences (including likes and connections) that tell your story. It is a new format that shows all of the interactions that Facebook would capture (posts, comments, likes, shares, pictures, connections) chronologically.

The presentation is cleaner, and, in general, tells an individual's story much better.

### Timeline from a business perspective

Mashable summarizes the main points of the Timeline from the business perspective as follows:

#### Timeline encourages fresh content and active conversation

With the new Timeline layout, businesses can build exposure for the storefront and for specific products and brands. The Timeline lends itself to frequently changing promotions and deals.

#### Timeline provides a richer canvass for seller expression

The new Timeline layout provides businesses with a huge cover photo to showcase their brands. Although there are some content limitations, the cover photo is a great way to attract new visitors and engage current Fans with a core brand message.

#### Timeline offers deeper engagement insights and tools

With the new "Insights," Facebook's Page for Metrics, sellers can now track how a post is doing within five to ten minutes after publishing, allowing for modification based on performance. Sellers can, then, immediately impact the amplification of a message by converting it to a premium ad or a sponsored story.

#### Private communication from businesses to Fans following initial interaction

Accompanying the changes that are obvious with the Timeline structure, also included is a structural change that allows brands to communicate directly and privately to individuals who have initiated a dialogue. This capability was not available before the introduction of the Timeline.

Simply put, Facebook's Timeline is intended to allow businesses to better connect to their consumers:

- Greater visibility via the large cover photo
- Better organization of offers and deals chronologically
- More direct connection to consumers once a consumer-initiated contact has been made.

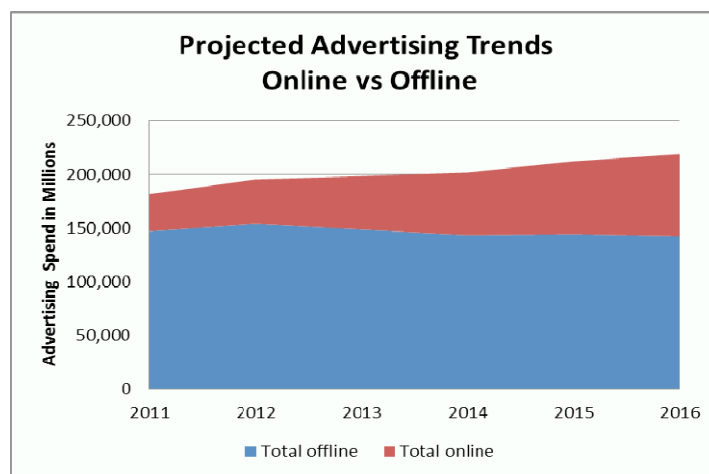
*And what does this mean for Facebook? By giving brands the ability to better connect with consumers, makes Facebook an even more invaluable tool for brands down the road. And, what would a brand do if suddenly Facebook decided to start charging a small fee for usage based on the Fan base? Even though Facebook has denied any such rumors, who knows what the future might bring.*

## Trends in Advertising

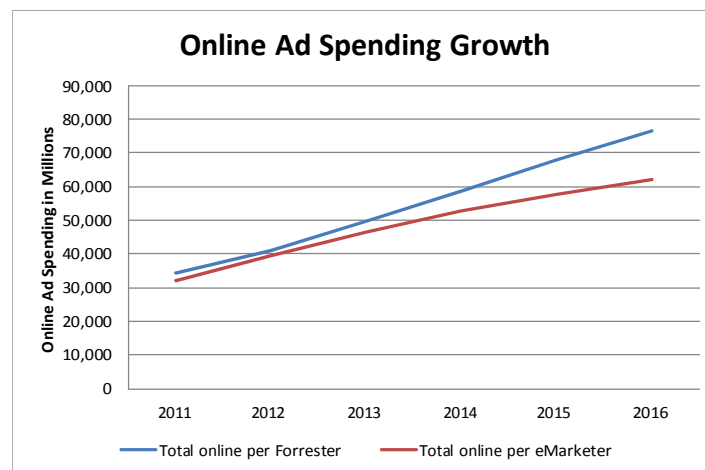
To understand what Facebook is doing now and what the impact will be of their stated future strategy, it makes sense to be aware of what is happening in the Online space, and how Facebook's strategy will impact Online advertising.

### Offline vs. Online advertising spend

Based on Forrester Research projections of advertising spending, Online advertising spending will become a larger and larger piece of the pie as time moves forward as the chart below reveals. *In fact, Forrester predicts that total Online ad spend, as a percent of total, will increase from 19% in 2011 to 35% by 2016.*



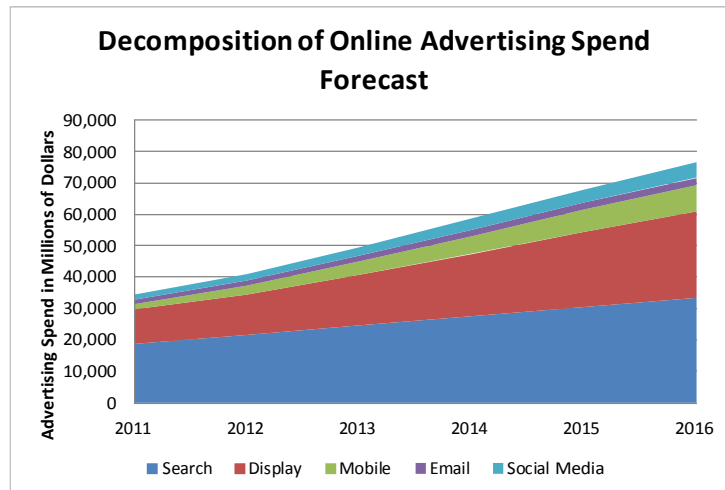
eMarketer is projecting very similar Online growth as Forrester, but slightly less.



### Decomposition of Online advertising spend by channel

From 2011 to 2016, Mobile ad spend is expected to have the greatest increase -- a 38% compounded annual growth rate. Second is Social media, with a 26% compound annual growth rate. In terms of sheer advertising dollars, Search Marketing is forecasted to dominate for each year from 2011-2016. The compound annual growth rate for Search for the period is projected to be 12% and reach a level of \$33.3 billion by 2016.

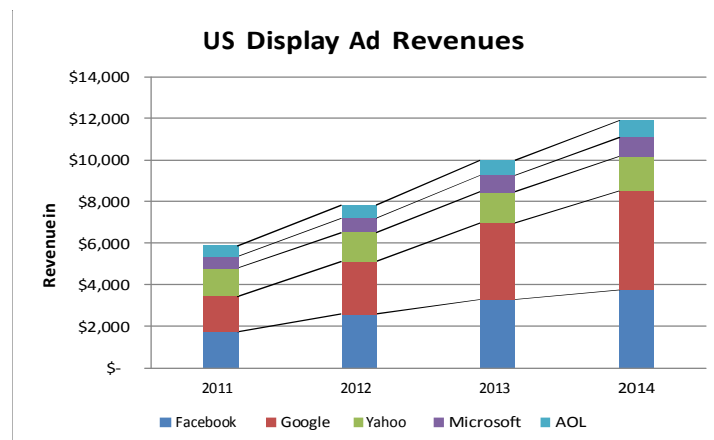
Details by channel are provided below for 2011 through 2016



Forrester	2011	2012	2013	2014	2015	2016
<b>Online Ad Spend in Millions</b>						
Social Media	\$ 1,590	\$ 2,119	\$ 2,760	\$ 3,453	\$ 4,217	\$ 4,995
Email	\$ 1,510	\$ 1,694	\$ 1,875	\$ 2,066	\$ 2,262	\$ 2,468
Mobile	\$ 1,652	\$ 2,777	\$ 4,238	\$ 5,697	\$ 7,057	\$ 8,237
Display	\$ 10,949	\$ 12,860	\$ 16,085	\$ 19,783	\$ 23,919	\$ 27,600
Search	\$ 18,756	\$ 21,553	\$ 24,613	\$ 27,515	\$ 30,433	\$ 33,319
<b>Total online</b>	<b>\$ 34,457</b>	<b>\$ 41,003</b>	<b>\$ 49,571</b>	<b>\$ 58,514</b>	<b>\$ 67,888</b>	<b>\$ 76,619</b>
<b>Percent of all ad spend</b>	<b>19%</b>	<b>21%</b>	<b>25%</b>	<b>29%</b>	<b>32%</b>	<b>35%</b>

### Decomposition by major providers

Comparing the projected trends of the major players' revenues over the next few years, the Display Advertising segment of Online appears below. Google is projected to continue to drive the category growth, with all other players increasing at a slower rate.



US Display Ad Revenues				
eMarketer	2011	2012	2013	2014
<b>Top 5</b>				
Facebook	\$ 1,730	\$ 2,580	\$ 3,290	\$ 3,750
Google	\$ 1,710	\$ 2,540	\$ 3,680	\$ 4,760
Yahoo	\$ 1,350	\$ 1,400	\$ 1,500	\$ 1,640
Microsoft	\$ 560	\$ 670	\$ 800	\$ 960
AOL	\$ 530	\$ 620	\$ 710	\$ 810
<b>Total among all</b>	<b>\$ 12,400</b>	<b>\$ 15,390</b>	<b>\$ 18,570</b>	<b>\$ 21,910</b>

## Trends for Facebook

When focusing attention on the potential within Facebook's business model, it is important to understand key trends and opportunities unique to Facebook, given the dynamics of its site and the engagement levels of consumers who use it.

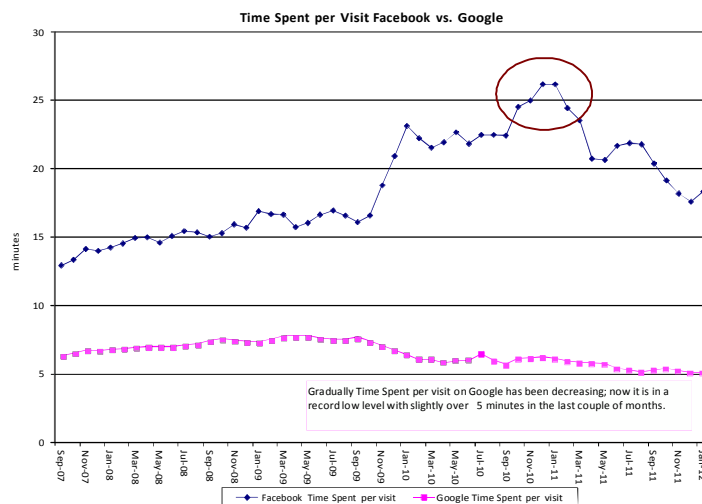
### Member growth

The chart below shows how Facebook continues to grow at a healthy rate, adding 50 million new members every 3-4 months.



### Time spent on site growth

In addition to driving new members, the time spent on site for Facebook visitors is outpacing Google. Average time per visit on Facebook peaked in January 2011 -- at the exact point in time the unemployment rate began to decline. The hypothesis is that Facebook management is addressing the decline in engagement by improving experiences within Facebook, hence the acquisition of Instagram, improving brand interactions via Timeline, etc.

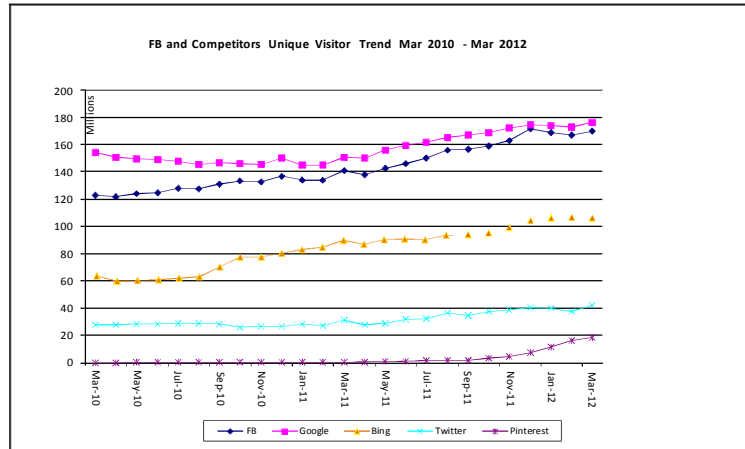


Source: <http://www.drakedirect.blogspot.com/2012/03/what-is-driving-facebook-traffic-today.html>

### Unique visitors growth

In terms of the sheer number of unique visitors (users) attracted on a monthly basis, the trend below shows that Facebook is on par with Google. *In December of 2011, Facebook almost surpassed Google in the number of unique visitors.* It is just a

matter of time before Facebook has more users than Google. And, does this make sense? Yes. We, as individuals, are changing the way we gather information. Googling information is not the only means to gather that data for decision making purposes. We are crowd sourcing our data from social sites like Facebook, asking our friends, our close circles.

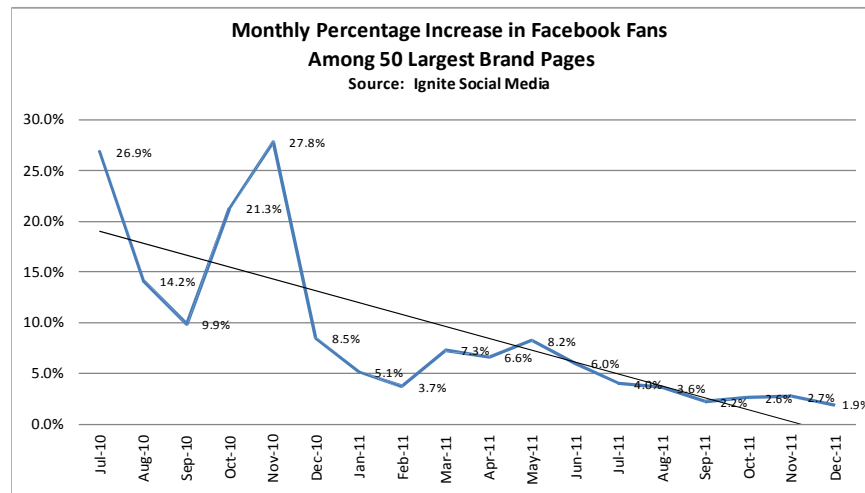


<http://www.drakedirect.blogspot.com/2012/04/dancing-with-stars-season-2012-dance.html>

*Additionally, the fact that members log in using their Facebook ID to many “non-Facebook” properties, “like” brands, use plug-ins and so on, allows our behaviors to be tracked and data on interests to aggregate across properties. This provides Facebook with unique marketing opportunities, many of which have yet to be monetized as well (0).*

### Growth in business pages

In January 2012, Ignite Social Media.com reported that over the course of 2010 the number of Fans of the top 50 branded Fan pages had grown by 377.3%. However, in 2011, the number grew only 75%.



This slowing rate is understandable as brands only have so many “Fans.” Despite the slowing number of Fan growth of the top 50 brands, 82% of CMOs plan to increase their social media efforts over the next 3 years. Many of them will be looking to grow their social channel presence, often leading with Facebook, according to a report by eMarketer. While Facebook’s sheer numbers make it a natural choice for national brands to engage with consumers, smaller brands are also launching pages on Facebook.

Pages that Facebook defines as “local businesses” went from 700,000 actives to 1.5 million. Local businesses comprised half of the overall increase in active pages between December 2009 and February 2010 (1).



*According to the Facebook's IPO, there are currently 4 million businesses that have pages on Facebook. Obviously this is just a fraction of all businesses worldwide.*

## **Facebook's traditional advertising model**

### i. Click-through Rates

For the targeted display ads that Facebook runs for member pages on the side of the news feed, Kikabink News reports that *Facebook click-through rates are half of the industry average* (2). Despite the business model's mechanics operating similarly to Google's adwords, because of the deployment of ads to targeted groups who are not raising their hands through searching on their own behalf, the click-through rates are lower. In other words, consumers utilize the Google search engine precisely because they are looking for something. For Facebook users, the exposure to targeted product ads is secondary to their reason for being on the site.

In response to the question, "What is the average Facebook CTR?", posed on Quora.com, (a Facebook Ads API Partner) on January 4, 2012, Andrew McDermott gave the numbers below (3):

- Optimal CTR: **0.11%-0.16%**
- Above Avg. CTR: **0.07%-0.09%**
- Average CTR: **0.04%-0.05%**
- Below Avg. CTR: **0.02%-0.03%**
- Poor CTR: **0.01%**

### ii. Cost per click

*Online Media Daily reports that despite falling click-through rates on Facebook, the average CPM rates for non-premium display ads were up 41% in the first quarter of 2012 versus a year ago due to demand. As such ad revenue is on the incline* (4). *TBG Digital, one of the biggest spenders on Facebook, compiled figures which showed that rates are up 41%, despite the increase in the number of ads per page to seven from four. This would be expected to deflate ad prices but that has not been the case, thus implying that demand for advertising space on Facebook is driving the cost* (5).

Clicks in Facebook are used to generate "Fans", which provides a means to message consumers (Fans) on an ongoing basis until consumers revoke permission by revoking their "likes" of the brand. It is in a brand's best interest to accumulate Fans, since this dialogue with consumers can be leveraged to gather insights on preferences, product usage, and build awareness about upcoming promotions and new product launches.

Gathering Fans on Facebook can be done in a number of ways. One way is for a company to place display ads in Facebook and ask a consumer, who is not currently a Fan, to "like" its brand on the basis that the consumer has friends who *like* the brand. The cost per click can vary based on the success of the targeting and the name recognition of a brand. For marketers who choose to target display ads on Facebook, following the completion of the set-up process to launch the campaign, Facebook provides a suggested bid for the ads. Brands like Starbucks that have strong user incentives (free cup of coffee), may find they can acquire Fans for \$0.25-\$0.30. By comparison, a local brand without much experience or a clear value proposition, might spend as much as \$6.00-\$8.00 or more per Fan.

*In filing its IPO, Facebook revealed that 425 million of its users were accessing Facebook daily via a mobile device. Since mobile devices do not receive advertisements currently, rolling out a new mobile version of Facebook that is compatible to ads would represent a huge revenue windfall for Facebook* (6).

iii. Comparison to Google

Where we can make a meaningful comparison between Facebook and Google, the points of differentiation are shown below. Because of the respective experiences delivered to users, particular challenges are present even in comparable revenue generating offerings.

Benefit	Limitation	Facebook	Google
Great for creating Brand Awareness	Ad exposure is limited to users within Facebook	Yes	
Large user audience	Click-through rate for Facebook lags behind Google. Their frame of mind and priorities are more focused on their relationships within the Facebook platform.	Yes	Yes
Sophisticated demographic, geographic and interest targeting	While ads receive more relevant targeting, they also fatigue faster, requiring more frequent creative refreshing.	Yes	
Can leverage consumers' network and report friends who like brand		Yes	
Multiple delivery strategies for advertising: Search, display, banners, etc.			Yes
Target multiple media (pc's, mobile devices, videos, email etc.)	Relatively low click-through rate on some parts of the ad network, videos, banner ads, etc.		Yes
Includes additional line extensions: <ul style="list-style-type: none"> <li>• Location based site links</li> <li>• Mobile click to call</li> <li>• Geographic based search results</li> <li>• Search results based on previous search history</li> </ul> Designed to increase click-through rate			Yes

Clearly, Google has expanded well beyond being the dominant search engine. Google has leveraged ad words and associated revenue into an empire that includes YouTube, mobile location based applications, and a successful operating system for mobile devices that provides a seamless experience between the user and all things Google, including Gmail.

In Google's entry into Social Media, industry watchers envisioned that Google+ would allow for the analysis of interaction within the social application and beyond, thus addressing a major disconnect experienced by brands managers looking to engage with consumers in Facebook. Specifically, since 11% (7a) of Facebook users land on Google immediately upon leaving Facebook, brand marketers lack visibility into which consumers were interacting with a brand page and what activity spurred the traffic to the web site.

*Despite Google's foray into social, it is still is far behind Facebook in terms of users and definitely engagement. But, it is making steady gains (7b).*

## Other Revenue Streams for Facebook

---

Besides display advertising, what are the activities that drive revenue for Facebook, and what are the potential enhancements that might drive revenues in the future?

### Current app market

Facebook astutely recognized that engagement was critical to their success and that the availability of Online games and apps would enhance the experience, since, instead of just sharing news, games could serve as an additional platform to connect with friends. In 2008, the number of people who played Online games was 56 million, according to Parks Associates. It now stands at 135 million (8).

The typical Facebook and free-to-play game only gets about 5% to 10% of its players to actually spend their own money on the game (games have add-ins and upgrades for sale to enhance the experience). For those who do decide to enhance their experience, the average monthly spend is about \$29 per month, which compares favorably with gamers who play video games on a game console (9).

i. Current trends

Currently, Facebook takes a 30% revenue sharing fee for apps which reportedly covers (10):

- Payment processing and related fees, including high cost payment methods such as mobile, local and international gift cards
- Chargeback fees
- Integration costs to address new payment methods globally
- Additional Facebook Credits given to users via bulk discount packages and promotions.

ii. Growth in apps

A study by the University of Maryland that was widely quoted in September 2011 (11), cites the Facebook App Economy as the source of at least 182,000 new jobs and contributing \$12.19 Billion in wages.

Techcrunch (12) reports, as of September 2011, 2.5 million websites have integrated with Facebook and Facebook users install 20 million apps every day. On a monthly basis, 250 million people engage with Facebook on external websites.

iii. Virtual ecommerce

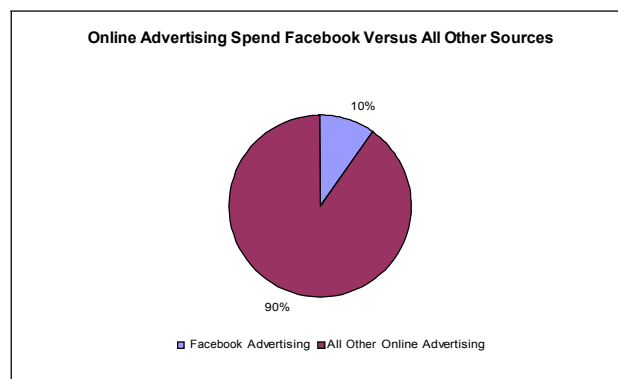
Revenue figures for 2009 – 2011, based on Facebook’s S-1 filing, are shown below. 2012 estimates are based on eMarketer.

	2012 Estimate (13)	2011	2010	2009
Ad Revenue	\$5.78 Billion	\$3.15 Billion	\$1.87 Billion	\$ 764 Million
Facebook Credits	\$1.00 Billion	\$ .56 Billion	\$ .1 Billion	\$ 13Million
Total	\$6.78 Billion	\$3.71 Billion	\$1.97 Billion	\$ 777 Million

Based on the above figures, percentage growth is estimated as shown below:

	2010-2011	2009-2010
Ad revenue	69%	145%
Facebook Credits	425%	715%
Total	88%	154%

*Based on data released by the International Advertising Bureau on April 18, 2012, Online advertising revenue for 2011 reached a level of \$31 billion. Thus, we can estimate that Facebook had a 10% share of all Online advertising for 2011, despite having no advertising delivery system for mobile devices (14). This shows another major opportunity for Facebook not yet realized in their current valuation.*



## Future revenue streams

As Facebook approaches their IPO, a natural concern is what drives the company's future growth. To address this concern, we can explore a few logical paths that Facebook is likely to take.

### i. Mobile ad service (including location based)

Currently, Facebook does not serve ads on its mobile platforms. This is an obvious area to address since the proportion of mobile users has been increasing steadily, a trend that is a function of the adoption of Smart phones. In the United States, half of all cell phones sold are smart phones, capable of web browsing and utilizing the most popular apps, including mobile Facebook apps.

In September 2011, more than 250 million active users were accessing Facebook through mobile devices, and these individuals were twice as active on Facebook than non-mobile users (15).

The opportunity to address this currently non-served segment with Facebook advertising is twofold:

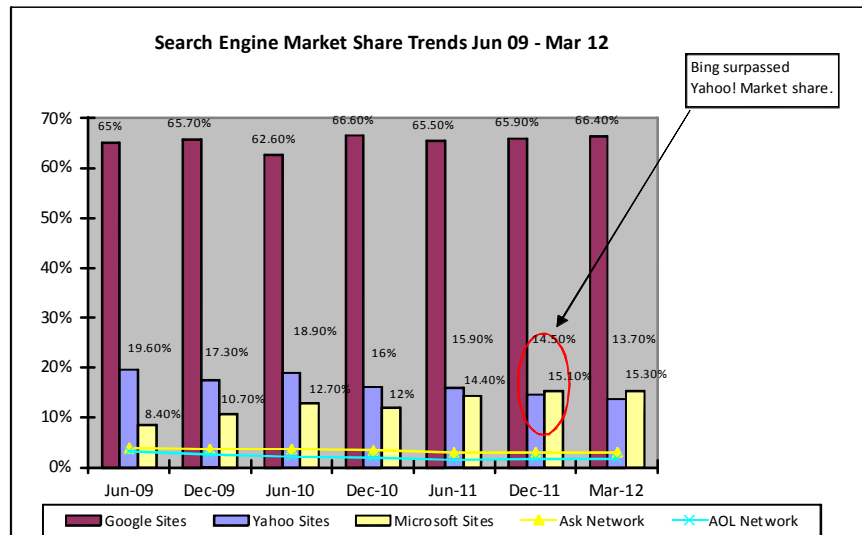
- Serving advertisements for national brands which are currently not served on mobile devices
- Launching an ad service designed for mobile devices to highlight local businesses and events.

On April 18, 2012, the IAB Internet Advertising Report published that Mobile Advertising grew 149% in 2011 from 2010. In 2011, \$1.6 Billion was spent on mobile advertising and growth is expected to continue in 2012 (16).

*Facebook's S-1 filing shows that the company had more than 425 million monthly active mobile users in December 2011. Facebook further stated "that the global mobile advertising market is expected to grow at a 64% compound annual rate to \$17.6 billion in 2015," and that "we believe that we may have potential future monetization opportunities such as the inclusion of sponsored stories in users' mobile News Feeds (17)"*

### ii. Search Services

Search revenues are the largest component of Online advertising revenues. IAB reported in the 2011 Internet Advertising Revenue Report that \$14.8 billion of the \$31 billion spent on Internet advertising was spent on search. Online advertising grew 27% in 2011 over 2010. Google has consistently had about two thirds of the market share since 2009 (19a).



*Since 11% of users leave Facebook and conduct a search, there is an opportunity for Facebook to enter the search market and leverage its considerable member loyalty to gain a foothold. For more on this, you can read the Bloomberg report titled "Facebook Delves Deeper into Search (19b)." Bringing general search data together with your Friends "Facebook posts and comments" (which Google will never be able to do) can be a huge potential gain for Facebook. And, as a matter of fact, this looks like exactly where things are headed.*

Due to the recent purchase of a portfolio of patents from Microsoft (20), Microsoft and Facebook appear to be aligned against Google. The reason for their alliance is that each has experienced Google competing into their core areas. Google launched Google+ to compete directly with Facebook. And, at the same time, Google has many free Online applications for word processing, presentations, email, etc. which compete directly with the Microsoft Office suite.

Two years ago, Microsoft and Facebook reached agreement on a deal whereby Facebook data would be used in Bing, Microsoft's search engine, to create more relevant search results (21).

Additional statistics showing why a search function would fit well into Facebook's growth strategy include the following "Fan" statistics (22):

- 84% of Fans are existing customers
- 83% of those report they fanned the page in order to get access to exclusive offers and benefits
- 36% buy more after becoming a Fan

The three top prompts that drive Facebook users to become a Fan of a business or brand are:

- Brand invitation or Ad (75%)
- Friend suggestion (59%)
- Search (49%), meaning that the Facebook page has been returned through a search

Thus the importance of search to the commercial side of the Facebook strategy is evident. If Facebook wants to support the connection of consumers to businesses, a search function will be crucial. The function of Social Media and Search Engine Marketing are different, but synergize efficiently with each other:

- Social media is a demand generator
- Search engine marketing/search engine optimization are demand fulfillment devices

People read or see products advertised (either directly or via friends' fanning or liking) in Social Media, then they want to learn more, thus heading to search engines. If Facebook can develop a search engine, it can improve engagement and lengthen the time spent on site. *This is a definite unseen revenue stream not yet realized.*

### iii. Social Reader Fees

Social Readers are applications in Facebook that news content sites leverage to automatically publish stories about what users read and post in their Facebook newsfeed. These applications generate tremendous amounts of referral traffic for contents sites.

In terms of the growth of traffic driven by Facebook to various news sites, Facebook reported on November 29, 2011 the following growth numbers (23):

- **Yahoo News**—10 million users have activated the app, generating a 600% increase in traffic.
- **The Washington Post**—3.5 million monthly active users since launching the app, 83% are 35 or younger
- **The Independent**—more than one million monthly active users
- **The Guardian**—It has almost four million monthly active users and has nearly one million page impressions daily, over 50% of the users are 24 or younger.

Based on a study by TBG Digital, the click through rate of ads for Facebook News reader apps increased 194% since Q4 2011. *Due to the volume of referral traffic generated by these apps, news sites would be willing to pay Facebook for each Social Reader install, which is the same business model that has been in place for the social games model for years.*

iv. Initiate fees for business pages

Marketers and financial analysts have widely speculated that Facebook will find a way to monetize the business and brand pages. Large brands can accumulate millions of Fans and generate a great deal of awareness and value surrounding particular campaigns.

Facebook can currently monetize apps located on a brand page which allow Fans to have a particular experience outside of the basic postings. *With the scalability of the platform proven, however, and the critical mass achieved in user adoption for Facebook, it seems only natural and logical that a fee structure be assessed to companies who are actively leveraging the Facebook structure user base to further their brand's messages.*

v. Recent acquisitions

Some, but not all, recent acquisitions by Facebook have received coverage by the press. The level of coverage seems to be directly related to the price paid for the property. Considering Instagram and Tagtile, hypotheses can be developed regarding their value to Facebook, and how they might be used.

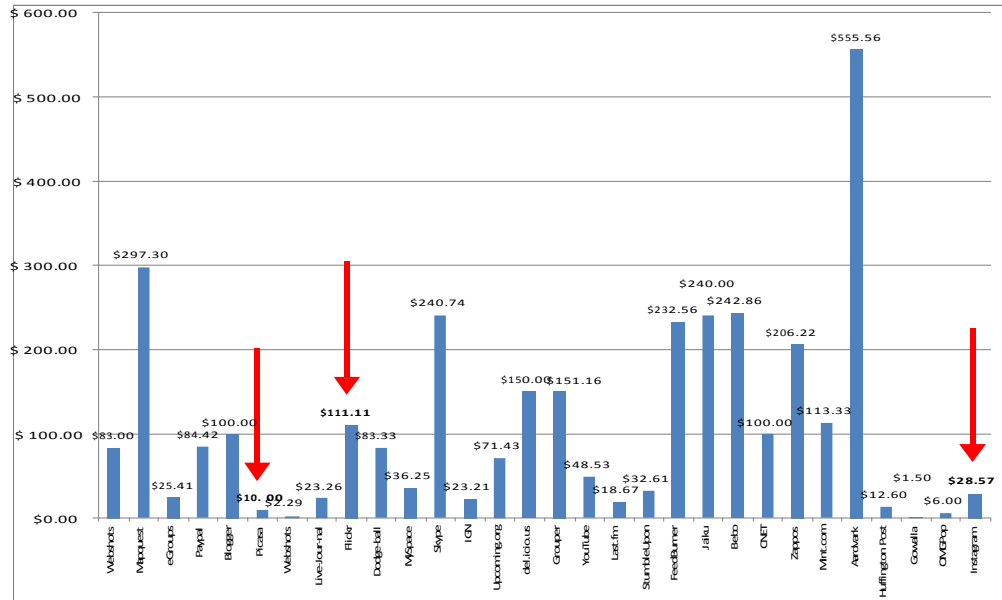
a) **Instagram**

Instagram was Facebook's highly visible acquisition announced on April 10, 2012. The value of Instagram to Facebook is roughly \$1 Billion. Although the details of the deal have been disclosed piecemeal over time, the cash plus Facebook stock deal has been valued at \$1 Billion. Industry watchers have weighed in on the cost of Instagram relative to the sophistication of the technology. Opinions are divided with some saying Facebook overpaid, while others say the price for the business was fair. Ultimately, the relevant question, however, is can Facebook realize enough value from Instagram that they can realize a positive return on the investment?

Ordinary users as well as technicians have weighed in that Instagram was not worth the \$1 billion investment. Let's consider the facts.

- Instagram was an iPhone specific application until April 5, 2012. On April 5, 2012 Instagram was available for phones operating with the Android platform. As of April 24, 2012, Instagram had 10 million Android downloads. Needless to say, the publicity surrounding the deal with Facebook helped fuel the demand, but Facebook secured a deal to acquire a hugely popular application which just became more popular by rolling out to a new platform.
- Wired Magazine, looked at the acquisition of Instagram by Facebook in a number of ways and concluded it was a fair deal (24). In comparing 30 notable Internet acquisitions over the past ten years and looking at the deal value versus number of registered users on the target company, Instagram is a relative bargain with the value of the deal working out to \$29 per customer. (See graph on next page.)

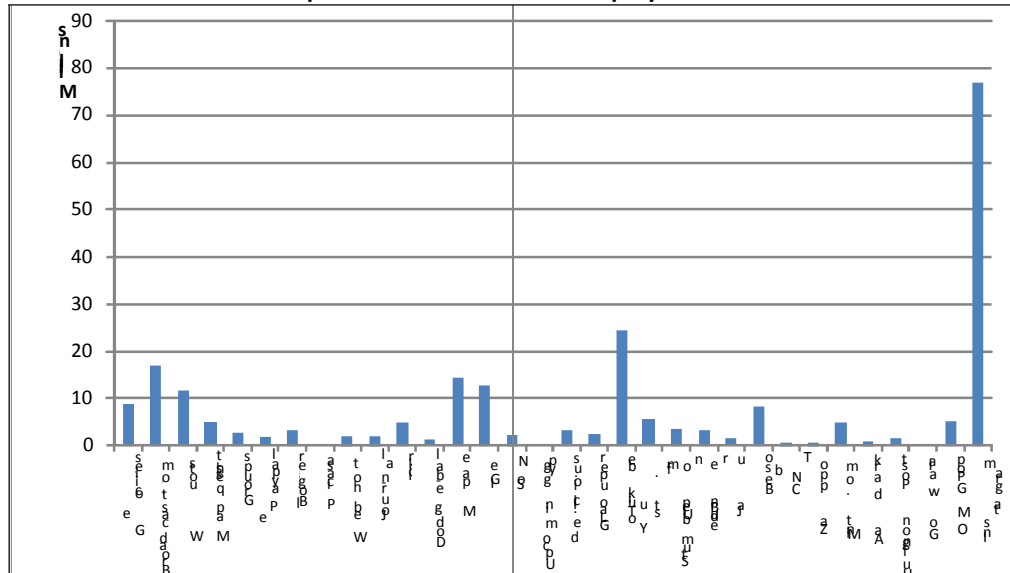
**Famous Technology Acquisitions as compiled by Wired (25)**  
**Represented on a Cost Per User Basis**



Note: Other photo sharing applications Picasa and Flickr are highlighted in addition to Instagram.

- On a different metric, cost per employee, a different picture emerges. Based on a cost per employee, it is shown that a group of 13 innovative employees at Instagram have managed to create a business that is very popular and has scaled quickly. This is a sign of efficiency, and reflects well on the business that the Instagram team has created.

**Famous Technology Acquisitions as compiled by Wired (25)**  
**Represented on a Cost Per Employee Basis**



- Some technology blogs have criticized the purchase of Instagram, because they say it could be quickly cloned, and thus the price was not justified. Facebook purchased a known entity, with a recognized brand name and a huge community of users. Perhaps, because of its relatively bare bones structure, Instagram is worth more to Facebook because it can more easily be leveraged into other apps that have photographic sharing and posting at their core.

Time will tell with this acquisition.

#### b) Tagtile

On the same week that Facebook acquired Instagram, the company also purchased Tagtile. This transaction was not nearly so widely reported however, but offers insights into the strategy and direction of Facebook.



Tagtile is a company based in San Francisco, which offers local businesses self service loyalty tools. Tagtile launched a pilot program in October 2011. Tagtile provides a hardware device to merchants which works with an app that consumers can download to Android or iOS (iPhone) phones. The app and the device work together to allow consumers to accumulate loyalty points, coupons and other rewards. Merchants have the ability to run loyalty programs without the large investment in databases and administrative overhead. The engagement levels are also impressive. Tagtile's founder Abheek Anand says that engagement is two to ten times higher on a per merchant basis than the popular check in service Foursquare. *BIA/Kelsey (26) is projecting mobile local ad revenues to grow from \$784 million last year to \$5.01 billion in 2016 – another unrealized profit center for Facebook.*

## Conclusions

---

Facebook, as a Social Platform for connecting and sharing, is unparalleled. As an Internet entity, it is on par with Google in terms of the number of unique visitors but remains the leader in terms of engagement. In terms of its business potential, this is the question that is paramount, especially as they approach their IPO.

Since its inception, Facebook has not focused on monetizing the business. Instead, Facebook has been setting about the work of building and securing its infrastructure. With a platform that supports 900 million users, it is robust, and easy to use. Moreover, the infrastructure allows for many other applications to plug into it, thus enriching the experience for the users.

Much has been written about the purported sum of \$104 Billion that Facebook is seeking to raise in their IPO. Some question whether a business that has not focused more on monetizing their assets is worth \$104 Billion. ***The answer is a resounding YES! In fact, Facebook by various measures, could be valued at much more.***

Earlier in this whitepaper we discussed Facebook's various revenue strategies.

#### Current

- Display Advertising (currently its primary source)
- Apps and app fees
- Virtual ecommerce

#### Future

- Mobile advertising (including location based)
- Search services
- Social Reader Fees



- Fees for business pages
- Local business loyalty programs

These opportunities were detailed due to their mention in Online discussions or print. Facebook is a platform, a database, a community, a network, a social engine, all rolled into one. The usage of the data freely given by users in exchange to participate in a social forum for family and friends is a huge asset for Facebook. Facebook can leverage this asset to drive commerce. Before the emergence of social media, the only means of prediction of consumer behavior was demographic, geographic and purchase behavior data. Purchase behavior data, the strongest predictor, was limited in its availability by the business who initiated the relationship with the consumer.

Facebook has re-written the book on how to conduct database marketing. First, they built a database without trying to sell consumers anything. Then, they made the platform open so that developers could create content and experiences for the users. Because Facebook did not try to control the development process, thousands of apps are available to Facebook users. This gives users something to do besides sharing information. Facebook has been focusing on the infrastructure, but the assets amassed are formidable. The data available to Facebook is amazing. Although mining and organizing the data might be a challenge, technology will eventually solve that problem. You can find out nearly everything you want to know about a person by reviewing their personal data:

- Age
- Occupation
- Educational level
- Lifestage
- Interests
- Relationships
- Temperament
- Political affiliation
- Brand affiliations
- Sport team affiliations
- Entertainment choices
- Preference in reading material
- Pet ownership
- Affinity to health
- Affinity to fine dining
- Affinity to music and listening preferences
- Retail preferences
- Religious observances
- Travel preferences
- Charitable /philanthropic concerns
- Leisure activities
- Personal behaviors (i.e. awake hours vs. sleep hours)

In an age when we are so concerned about privacy, Facebook has wisely protected the data of its users, but this establishes a crucial strategy for Facebook. First, it protects its most valuable asset, which is the Facebook user information. Second, it sets Facebook up as a gatekeeper, ready to collect a toll for any opportunity to leverage the data to get access to consumers.

Facebook needs to possess a robust database to organize the social data. The database should be easy to query and select to allow for targeting users. When considering the Facebook Timeline strategy, one could conclude that it was a shrewd move on their part to ask the users to organize their lives chronologically. From the perspective of data organization, Facebook has leveraged the work of organizing important user data in chronological order back to the user. This is important because “recency” is the most powerful variable in predicting consumer behavior.

It is possible to gauge the future potential of Facebook in the context of the evolution of the world wide web, and the ensuing progression:

- At the start of the Internet boom, it was important that each business have a website.
- With the introduction of a dominant search engine, Google, it was important that a website be optimized for search.
- Now, websites must be optimized for social. Why? Because with so many eyes in Facebook, every business small and large, wants to leverage traffic out of Facebook. If someone likes something on your website, it will get a mention in Facebook, and drive more traffic back to your site. On the Internet traffic is money.

Google was able to leverage their business from a search engine to an empire. Similarly, Facebook has already captured the attention of over 900 million consumers and will invent things that we never imagined. The future financial benefits to Facebook are incalculable.

Given all of these facts, if Facebook is seeking funding of \$104 Billion and their current user base is 900 million then they would be valuing each user on average at \$115.55. This is a rather modest ROI, given the flexibility of the platform, their ability to act as the gatekeeper to outsiders, and most importantly, all the unrealized business opportunities presented in this whitepaper.

## Footnotes

---

- (0) <http://abcnews.go.com/Technology/facebook-tracking-scrutiny/story?id=14960711#.T5mIDJvASE>
- (1) <http://www.insidefacebook.com/2010/02/15/new-facebook-statistics-show-big-increase-in-content-sharing-local-business-pages/>
- (2) <http://www.kikabink.com/news/facebook-ad-click-through-rates-ctr-are-half-industry-average/>
- (3) <http://www.quora.com/What-is-the-average-CTR-on-Facebook-Ads>
- (4) <http://www.mediapost.com/publications/article/172447/facebook-cpms-climb-despite-falling-clicks.html>
- (5) <http://www.tbgdigital.com/news/>
- (6) <http://www.appolicious.com/tech/articles/10937-more-than-50-percent-of-facebooks-monthly-active-users-are-on-mobile-apps>
- (7a) Experian 2011 Social Media Consumer Trend and Benchmark Report, page 10.
- (7b) <http://www.vabsite.com/2011/07/google-plus-growth-statistics-user.html>
- (8) <http://content.usatoday.com/communities/technologylive/post/2012/02/social-and-Online-games-drive-growth-in-audience/1#.T5A1H9m72bo>
- (9) Ibid
- (10) <https://developers.facebook.com/docs/credits/reports/>
- (11) <http://techcrunch.com/2011/09/19/study-facebook-app-economy-adds-over-200k-jobs-contributes-more-than-15b-to-the-u-s-economy/>
- (12) Ibid
- (13) Estimates were sourced from: <http://venturebeat.com/2011/09/20/facebook-revenue-2011/>
- (14) [http://www.dmnews.com/report-internet-ad-revenues-hit-31-billion/article/237552/?DCMP=EMC-DMN\\_iMktngNewsDaily](http://www.dmnews.com/report-internet-ad-revenues-hit-31-billion/article/237552/?DCMP=EMC-DMN_iMktngNewsDaily)
- (15) <http://www.vabsite.com/2011/06/facebook-users-growth-statistics-usage.html>
- (16) [http://www.dmnews.com/report-internet-ad-revenues-hit-31-billion/article/237552/?DCMP=EMC-DMN\\_iMktngNewsDaily](http://www.dmnews.com/report-internet-ad-revenues-hit-31-billion/article/237552/?DCMP=EMC-DMN_iMktngNewsDaily)
- (17) <http://venturebeat.com/2012/02/01/facebooks-monster-mobile-numbers-over-425m-users-across-android-ios-other-platforms/>
- (18) [http://ads.ak.facebook.com/ads/FacebookAds/Places\\_advertisers.pdf](http://ads.ak.facebook.com/ads/FacebookAds/Places_advertisers.pdf)
- (19a) <http://searchenginewatch.com/article/2137562/comScore-Bing-Takes-No.-2-Spot-From-Yahoo-in-December-2011>
- (19b) <http://www.businessweek.com/articles/2012-03-28/facebook-delves-deeper-into-search>
- (20) <http://bits.blogs.nytimes.com/2012/04/23/microsoft-and-facebook-align-further-with-patent-deal/?ref=business>
- (21) Ibid
- (22) (<http://informedwebcontent.com/bloggging/blog-development/the-business-on-facebook-decision-28-stats/>)
- (23) [http://allfacebook.com/facebook-social-readers-amass-millions-of-users\\_b68564](http://allfacebook.com/facebook-social-readers-amass-millions-of-users_b68564)
- (24) <http://www.wired.com/epicenter/2012/04/opinion-baio-instagram-trend/>
- (25) Ibid
- (26) <http://searchenginewatch.com/article/2164837/Local-Mobile-Ad-Revenues-Forecast-5-Billion-by-2016>

## **Contact Information**

Rhonda Knehans Drake Email:

[rhonda@drakedirect.com](mailto:rhonda@drakedirect.com)

Mobile: 914-299-4956

Perry D. Drake Email:

[pd29@nyu.edu](mailto:pd29@nyu.edu)

Mobile: 914-299-4879

Website: [www.drakedirect.com](http://www.drakedirect.com)