Facebook: Marketers Are Your 'Friends'
The social network's new ad system delivers everything you say, do, and buy to marketers—with no opt out

by Catherine Holahan

Mark Zuckerberg isn't friends with everyone on Facebook. But the founder of the popular social network does have access to valuable information posted by the 50-million-plus people who use his site to communicate with their friends. And he's planning to share it with marketers.

On Nov. 6, Zuckerberg unveiled the details of a new advertising system that will let marketers deliver ads to individual Facebook users based on the details they share with friends on the site. Those tidbits include not only the kinds of data commonly available to marketers, such as age, gender, and general location, but also more personal information such as work history, relationship status, and political leanings. In all, more than a dozen categories are available to help marketers pinpoint the users they most want to reach. "This is some really powerful stuff," Zuckerberg said at a presentation in New York.

Under the new system, marketers also will be able to create brand pages where users can view related media, review products or services, add items they like to their personal pages, and become friends, or "fans," of the brand—and even make purchases. Every interaction a user has with a brand can then be turned into an advertisement—complete with a user's picture, what they did, and an image of the brand—and fed to that person's Facebook friends via news feeds that update members on friends' recent activities.

In essence, these Social Ad feeds turn users into brand ambassadors. Users are continually promoting what they like and what they've bought to their online connections, who, ideally, value their opinions and may even share their interests. "I've never seen anything so viral," says Sarah Chubb, president of CondéNet, a Facebook advertising partner and a publisher of online food, style, fashion, and travel magazines. "Things spread through those connections."

But users may not react kindly to Facebook handing over their personal contacts to promote products. Facebook has run afoul of users before (BusinessWeek.com, 9/8/06), when it initially launched the news-feed features 14 months ago. Hundreds of thousands of Facebook users complained that those feeds, which simply highlighted information they supplied on their personal pages, were an invasion of privacy. Thousands of people e-mailed the company. They formed groups. Zuckerberg & Co. were unprepared for the backlash and responded by adding privacy controls.

It's too early to tell whether Facebook users will respond to the ads with similar fury. But privacy advocates already are cautioning that Facebook and other networks are giving advertisers too much access to profile information, especially on young people who may not realize how much information they're divulging. The Center for Digital Democracy, a Washington group that advocates for more stringent privacy rules, has asked the Federal Trade Commission to
investigate Facebook's and MySpace's advertising efforts. "Facebook and MySpace are walking on a privacy fault line," says CDD Executive Director Jeff Chester. "You just can't treat America's youth as one big advertising channel."

Facebook's Zuckerberg doesn't appear to be anticipating a backlash. The company hasn't even provided a way for users to opt out of the Social Ad feeds, though Zuckerberg says the company will watch users' reactions.

Another element of the new advertising system, Beacon, tracks the actions Facebook users take on partner sites—say, renting a movie from Blockbuster (BBI)—and then shares that information with Facebook contacts. With Beacon, users will be given the option not to share some of their actions.

**WHAT PRIVACY ISSUES?**

When Zuckerberg, 23, was asked about privacy issues during a brief press conference following the launch, he seemed almost incredulous as to why such concerns would exist. He responded by emphasizing that only users' friends would see the information. "The social actions that users have are only going to be used to create social ads for their friends," Zuckerberg said. "This is just to make the information more relevant to the user and their friends."

But the relevance of such an ad platform for Facebook cannot be overlooked. Facebook, MySpace, and other sites where people socialize and share content have struggled to get users to pay attention to the ads that support their sites. In many cases, users are simply too engaged with what they are doing on the site to bother with the ads. Some marketers on Facebook have seen response rates to ad campaigns, measured by the percentage of people who clicked on an ad after seeing it, of as low as 0.04% (BusinessWeek, 11/12/07). The average response rate on the Web is roughly 0.2%. And though marketers often fund campaigns based solely on the number of ads served, clicks are often a major measure of the effectiveness of the campaigns.

By the time of Facebook's announcement, rival social network MySpace had already announced new efforts to make its ads more interesting to users. On Nov. 5 the social network, owned by News Corp. (NWS), announced the launch of a "HyperTargeting" ad platform that lets marketers target advertising based on general location, demographic profile, and interests. The site has more than 100 interest categories and is working with brands such as Microsoft (MSFT) and XM Satellite Radio (XMSR). The company already lets brands set up their own pages where users can interact with the brand, see associated content, and join, or "friend," the brand's site. But it doesn't have a clear way of letting users' friends see that they have taken such action.

**KEEPING GOOGLE AT BAY**

Facebook is under particular pressure to make ads effective and bring in marketers. The $240 million stake Microsoft acquired in Facebook on Oct. 24th put the private company's estimated valuation at $15 billion (BusinessWeek.com, 10/25/07). To be worth that much, Facebook would have to generate $2.5 billion in revenue in three years, estimates Anant Sundaram, an expert on mergers, acquisitions, and finance at Dartmouth's Tuck School of Business. (Sundaram adds that Microsoft's investment at that valuation probably had more to do with strategy, such as keeping Google (GOOG) out of Facebook and preserving its own relationship with the social network than Facebook's actual value.)

Despite Facebook's impressive growth figures, justifying its estimated value will be difficult. Research firm eMarketer estimates that the entire social network advertising market will grow to just $2.52 billion by 2011. And MySpace owner Rupert Murdoch already has designs on much of that market (BusinessWeek, 11/5/07).

The good news for Facebook is that marketers clearly are excited by the prospect of not only getting noticed on the site but also being promoted by the people whose opinions matter most. Facebook already has 100,000 brand pages ready to go and has signed up more than 60 major advertising partners, including Coca-Cola (KO). "The next 100
years is going to be different for advertising, and it starts today," Zuckerberg told the crowd of 250 or so enthusiastic marketers and advertising executives who had gathered at a midtown loft for soft drinks, hors d'oeuvres, and a demonstration of Facebook's new ad system. "Pushing your message out to people is no longer good enough—you have to get into the conversation."

But who wants marketers in their conversation? If not enough do, the new news-feed ads will be bad news for Facebook.

Holahan is a writer for BusinessWeek.com in New York. With Robert D. Hof in Silicon Valley.

Xerox Color. It makes business sense.

Copyright 2000-2007 by The McGraw-Hill Companies Inc. All rights reserved.