FACEBOOK
USING CONSUMER-LED TECHNOLOGICAL INNOVATIONS TO BEAT THE ODDS

BY: PATHAK ABHISHEK
Facebook is the largest social network in the world today but is the idea of connecting with friends online a novel idea? Apparently, it was not a novel concept because when Facebook started, there were at least two thriving social networking websites with millions of participants in USA alone.

The Facebook enterprise is now worth USD 300 billion dollars. Why did Facebook succeed when others failed? How did the website of an unknown, inexperienced 19-year-old college dropout knockout its competitors, even though they were backed by strong financial assets and management expertise?

**Historical background**

In January 2004, Mark Zuckerberg wrote the code for a new website theFacebook.com. Incidentally, it was not the first website designed by Mark. Before this he started ‘Facemash’ on 23 October 2003. On Facemash, students could upload pictures and compare two pictures side-by-side. Mark populated the website with student pictures by hacking into Harvard’s database and Harvard students’ outrage led to the shutdown of the website.

But despite the website’s early closure, Mark was able to gauge the interest of users in uploading their profiles and pictures and checking out the pictures of their friends. Students’ interest in Facemash inspired Mark to launch thefacebook.com 4 February 2004 from his dorm in Harvard. Within 24 hours, ‘thefacebook.com’ succeeded in getting between 1,200 and 1,500 registrants. In those days, Harvard already had a dorm-exclusive online directory which Mark wanted to expand into a school network and resource.

The initial student support for Facebook was explosive. Facebook spread very fast. By the end of February 2004, 10,000 Harvard students had registered on Facebook. Students of Columbia, Stanford, and Yale joined the Facebook on 25, 26 and 29 February 2004. By June 2004, Facebook had already spread to 30 colleges in the United States and had about 150,000 users.

For any social media network, reaching the young-college population is the strongest challenge. Facebook aced this challenge upfront by starting the services exclusively for students. When its user-base expanded to over 2,000 colleges plus 25,000 schools across the world, it decided to open its membership to everyone. Zuckerberg now could see the potential of social network for even the general population (people residing outside of the colleges). The decision to open the membership to everyone was met with criticism by some experts like David Card, senior analyst at Jupiter Research (Lacy, 2006), but it proved to be a highly successful decision.

Table 1 shows the growth story of Facebook 2004-2006 (its user base expanding across colleges and schools to general population).
Table 1: Facebook expanding user base across colleges and schools to general population

<table>
<thead>
<tr>
<th>Month/year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 2004</td>
<td>Mark Zuckerberg began writing the code for the Facebook</td>
</tr>
<tr>
<td>Feb 2004</td>
<td>Zuckerberg launched Thefacebook.com; membership was initially restricted to students of the Harvard University</td>
</tr>
<tr>
<td>Mar 2004</td>
<td>Facebook registered members from more than 50 per cent of the undergraduates of Harvard University</td>
</tr>
<tr>
<td>Jun 2004</td>
<td>Facebook expanded to all Ivy League and Boston-area schools</td>
</tr>
<tr>
<td>Dec 2004</td>
<td>Facebook expanded to most universities in the United States; Facebook reaches the mark of one million active users</td>
</tr>
<tr>
<td>Jan 2005</td>
<td>Facebook expands internationally to universities outside the US</td>
</tr>
<tr>
<td>Sep 2005</td>
<td>Facebook expanded to high school network</td>
</tr>
<tr>
<td>Oct 2005</td>
<td>Facebook expanded to 21 universities in the United Kingdom and around the world</td>
</tr>
<tr>
<td>Dec 2005</td>
<td>Facebook expanded to universities in Australia and New Zealand; Facebook covered more than 2,000 colleges and 25,000 schools across the world</td>
</tr>
<tr>
<td>Jun 2006</td>
<td>Facebook expanded to the employees of several companies including Apple and Microsoft</td>
</tr>
<tr>
<td>Sep 2006</td>
<td>Facebook expanded to everyone aged 13 and older who has a valid e-mail address</td>
</tr>
</tbody>
</table>

Facebook has grown at a phenomenal pace since the middle of 2009, but what about the competition?

**Competitive landscape**

When Mark Zuckerberg started Facebook, there were two prominent similar websites dominating the social media space — Friendster and Myspace.

**Friendster**

Many people believe that Friendster was the *original social network*, which debuted in early 2003 and was called ‘one of the most innovative ideas’ on the web (Dworjan, 2010). Google offered to pay Friendster’s founder Abrams USD 30 million to buy over in 2003 (Dworjan, 2010; Fiegerman, 2014; Rivlin, 2006), but Abrams rejected the offer.

The company in 2003 received a funding of USD 13 million from private capital investor firms Kleiner Perkins Caufield & Byers (KPCB) and Benchmark Capital (Dworjan, 2010; Fiegerman, 2014). With the initial funding, Friendster expanded to over 3 million users within a few months (Dworjan, 2010; Rivlin, 2006). In August 2006, Friendster received DAG Ventures’s funding of USD 10 million (Kawabata, 2006), and later in August 2008, it received IDG Ventures’s funding of USD 20 million (McCarthy, 2008).

In those days, Friendster certainly was a phenomenon which a Facebook or a Myspace would have aspired to be and many companies eyed for a pie in Friendster.

If Google had paid him in stock and he had kept it, Abrams would easily be worth $1 billion today... And with Google's ample resources, Friendster might have solidified its position as
the pioneering front-runner in social networking. Instead, Abrams has the distinction of having founded a company that is a symbol of unmet potential (Rivlin, 2006).

In 2008, Friendster crossed its membership base to over 100 million users and later continued its growth in Asian markets (Wikipedia, n.d.a). Since Friendster was a pioneer in social media networking, the company had numerous patents related to social networking. Examples include gauging similar users, storage of social data relationships, content management on the Internet etc. It sold 18 of such patents to Facebook for a sum of approximately USD 40 million in 2010 (Dworjan, 2010; Fiegerman, 2014).

**Myspace**

Myspace was started in 2003 by some of eUniverse employees formerly working for Friendster. They used some of Friendster’s popular features to create Myspace. Myspace was essentially an online community where ‘friend met friends’ and it offered an interactive, user-submitted network of friends, personal profiles, blogs, groups, photos, music, and videos (Wikipedia, n.d.a).

Myspace targeted a similar audience, had robust capability, and was in the market long before Facebook. It generated enormous interest, received a lot of early press, created huge valuation when investors jumped in, and was undoubtedly not only an early internet success – but a seminal website for the movement we now call social media (Ahsan, 2015).

Myspace had a significant impact on the music scene and pop culture in 2000s (Molloy, 2008) and many successful companies including Zynga and Rockyou were launched by using Myspace as a platform (Eldon, 2009). Myspace was also used by companies and artists to create a unique URL for their videos and creative work (Lanxon, 2008).

One month after its launch, Myspace already had 1 million people registered and within six months they had 5 million users. Between 2005 and 2008, Myspace was the largest social networking website in the world. In June 2006, it even took over Google as the most visited website in the United States (Cashmore, 2006). At the end of 2006, Myspace was arguably the largest player in social media space with 43 million active users whereas Facebook was a distant second with only 12 million active users. At that time, Myspace was the fifth most popular US website in page views and it generated USD 800 million in revenue during the 2008 fiscal year (Dignan, 2007).

MySpace was eventually taken over by News Corporation of Rupert Murdoch for USD 580 million, a robust media company and thereafter a team of professional managers were guiding and supporting it. It had all the resources of a powerful media house — a human resources department, technical expertise, financial muscle, technological superiority, and high server capacities, and was a successful internet startup creating a new space called ‘social networking’.
Prevalent company policies in the early days of social media

The founding president of Facebook Sean Parker in an interview mentioned that the credit of Facebook’s success goes to the college kids.

Facebook entered the market through college and the reason we went in through college was that college kids were generally not Myspace users. College kids were generally not Friendster users also. The ingenious move of targeting college kids led to Facebook’s eventual market dominance (Tsotis, 2011).

When Facebook allowed early registration in 2003, they took the process slowly, allowing one college at a time to register while developing the system and infrastructure to provide a backend support. In contrast, Friendster failed to restrict the usage until their usage was so heavy that in the absence of proper infrastructure their service slowed to a crawl and most of the users started migrating to alternative platforms.

In those early days of social media, anonymity was a norm and the web was a different world from this day and time. It was expected that users come up with innovative handles such as Rambo17 or Googlegirl. Such names were commonly seen in the chat rooms of Myspace and Friendster. But in contrast to the existing norms, Facebook ensured that the users were students who used their real names, profiles, and profile pictures. It was a healthy change and a new practice in those days. It gave the needed confidence that they were dealing with real people and that made it easy for them to relate to other users. The use of real names added a sense of authenticity to Facebook over seemingly fake profiles found on Myspace and Friendster.

Back in 2004, Facebook was an agile company. With virtually no resource, it had the advantage of letting the market forces decide on the future direction. In contrast to well-managed competitors with professional teams to make the decisions, Facebook was managed without any written rules in place and Mark let the marketplace and users decide where to take the business. No rules. No plans. No forecasting of markets. No foretelling (Ahsan, 2015). Facebook just added features which users wanted, and altered and deleted the features to suit users. Whatever users and the market wanted flourished and whatever users disliked simply perished and then eventually vanished.

In contrast, Myspace had a plan. It was run by News Corps managers who created PowerPoint slides, business plans, investment forecasts, and positive ROI plans for a social media business of which no one had a clue at that time. Managers tried to look into the future, made forecasts and took rigid decisions, leaving little for the feedback from users and leaving no space for the market forces to shape the business.

In fact, Facebook has always operated in a similar fashion. Instead of doing focus groups and studying the consumers the way other companies did, Facebook just rolled out the features (Oun, 2014). Often these features were met with lot of criticism. For example, Beacon was disliked and withdrawn immediately. In addition, News Feed was initially disliked but was later tweaked to suit the user. Facebook always immediately apologised for mistakes and moved on to new features to appeal to the users. In one of the emails apologizing to users in 2007, Mark wrote,

About a month ago, we released a new feature called Beacon to try to help people share information with their friends about things they do on the web. We've made a lot of
mistakes building this feature, but we've made even more with how we've handled them. We simply did a bad job with this release, and I apologise for it. While I am disappointed with our mistakes, we appreciate all the feedback we have received from our users. I'd like to discuss what we have learned and how we have improved Beacon...

The competitors such as Friendster fought with users instead (Boyd, 2006). When users wanted the group feature, managers at Friendster stopped the users from having that and gave them what they thought would bring in more revenues and page hits. Facebook, however, followed the market shifts and changed accordingly. Social media was after all a new space at that time and no one knew how the users will behave.

In terms of layout, Facebook (primarily due to its lack of financial power) used simple, user-friendly presentation. Features like photos, comments, likes, and activity were all easily found under individual profiles; Facebook also had a FAQ page to help answer user questions (Welsh, 2014). In contrast, Myspace had cluttered pages, and users found it very hard to navigate through them. Unlike Facebook’s standard layout, the Myspace home page can be customised by users and this led to the tech-savvy users having slick profile pages whereas non-tech users were left with dull, boring home pages. Myspace also did not offer any useful database and users had to depend on themselves (Welsh, 2014).

Investors wanted ROI. As a result, Myspace and Friendster were run like businesses with the focus on getting fast returns and Ads began to dominate these websites (Welsh, 2014).

Jack Welsh (2014) says that “Ads were everywhere, on homepage, profiles, toolbars, and led to annoyance amongst users”.

Peter Deng, director of Product for Facebook says about Myspace –

Myspace loves advertisers more than they love users. They over optimise for the advertiser's experience to the point where it's just embarrassing. Even if you're logged in, going to myspace.com takes you to the splash page with the big ad of the day (one time, they sold an Incredible Hulk ad where the Hulk jumped out at you — no joke). When viewing a profile, the advertisements are more prominent than the person's picture. There are at least 3 big visual ads on every page.

In contrast, Facebook did not have the pressure of making quick money so their ads were placed to the side while their user profiles were tailored specifically to each individual (Welsh, 2014)

Writing about Myspace, Jeff Bullas, author of Blogging the Smart Way- How to Create and Market a Killer Blog with Social Media says,

Myspace was created for 15 year olds and the entertainment industry and unfortunately, rather than expand the site to appeal to the mainstream market, News Corp let it stay that way. Myspace profiles were not tailored for marketing a business and if a company created a profile, it stood out of place. You were able to create a customised Myspace page for yourself. The problem was that do-it-yourself backgrounds were painful to the eye and set Internet design standards back by 20 years. In contrast, Facebook’s standard interface was a
treat and delivered a consistent user experience as opposed to Myspace’s post-industrial-garage look.

**User misbehavior**


> Engineers at Facebook noticed that users weren’t just creating accounts for themselves but were also creating them for their pets. Facebook could have deleted them, assuming that they were fake accounts or simply refusing to allow users to deviate from some predetermined product purpose. Instead, the company embraced that misuse and invested significant time into exploring it further.

The unique user behavior led Facebook to redefine the original platform on to other related products such as Catbook and Dogbook where they invited users to discuss their pets on the social media. Suddenly the user base of Facebook increased, from only human beings to even non-human beings! In contrast, Friendster stuck to its rigid, anti-misuse philosophy and the engineers there were very quick to delete any non-human accounts while Friendster refused to entertain any such innovative use of social media platform by its users.

Chris Cox, VP of Product, Facebook told the audience at the 2010 F8 Developer Conference,

> In early days Facebook allowed user misbehavior to guide their product development path. In the early days of Facebook, the site was only designed for people to friend each other. Facebook noticed that its primarily college-aged user base was creating pages for specific classes that students would “friend”. The savvy engineers at Facebook used this information to create its now-popular Groups function (Fisher, 2013).

Similar misbehavior was seen when the Facebook team noticed that groups were used to schedule meet-ups and parties. Facebook engineers came up with different functionality items such as start-times, locations, and events functionality. In contrast, Friendster was strict with its policies and deleted the accounts of all those users who did not adhere to its guidelines and codes.

Mark Fisher writes in *The Power of Customer Misbehavior*,

> It’s not the sole reason the company failed, of course, but it certainly contributed to its demise. That lack of outside-the-box thinking caused Friendster to miss out on some huge opportunities. And as users began to realise that Facebook was more open to feature exploration and iteration, they departed Friendster in droves.

Facebook was a very simple product that made it easy to respond quickly to user demands, in contrast, the competitors were entranced with creating all the amazing features which they wanted to build into their product (Oun, 2014). Instead of creating a complex product, Mark and his team made vast improvements to facebook.com over the years with just user inspired innovations (Blodget, 2012).

About what went wrong with Myspace, founding president of Facebook Sean Parker said,
The failure to execute product development; they weren’t successful in treating and evolving the product enough, it was basically this junk heap of bad design that persisted for many years. There was a period of time where if they had just copied Facebook rapidly, they would have been Facebook. They were giant, the network effects, the scale effects were enormous (Tsotsis, 2012).

Response to new technology
Currently around half a billion users access Facebook from their mobile phones (Ha, 2015). In fact Facebook launched its iPhone app in August 2007 whereas Myspace recognised the importance of mobile phones only a full one year later. In that one year alone around 12 million iPhones were sold in the US market (Baer, 2010).

According to Jay Baer (2010), author of Hug your haters: How to embrace complaints and keep your customers,

MySpace was slow to adopt mobile technology, and the lack of MySpace in your pocket was part of what killed them. Facebook has been mobile-focused since it was even marginally practical to be so, and the most recent estimates I’ve seen show that upwards of 65 million Americans (2010 figures) access Facebook from a mobile device monthly. Further, mobile users actually spend more time on Facebook, not less.

The tools of social media always change. And that’s why your social media strategy must be tools agnostic. The next time you start thinking too hard about your Twitter “strategy” remember MySpace. Will you do that for me please?

Facebook was not the first company to realise the importance of mobile phones. It was in fact, Google. Google and Facebook rose to dominance on the desktop usage but Google was truly the first company to realise the importance of mobile phones and started focusing in that direction to declare itself ‘mobile first’. The term was first coined by analyst Mary Meeker, a KBCB partner. Meeker, in a report published in 2009, predicted for the first time that more people would soon connect to the Internet on mobile devices than on personal computers (Guynn, 2012) and taking cue from this report, firms started building their strategies around the mobile phones. The first to respond was Google and the second was Facebook. Facebook started focusing on the applications meant only for smartphones as early as 2008 and acquired Instagram for its enormous mobile phone presence. According to Stewart Alsop, a partner in the venture capital firm Alsop Louie Partners, says (Guynn, 2012), “Facebook was smart to buy Instagram, the ‘poster child’ for building products to work first and foremost on a smartphone”.

Facebook started working on mobile solutions in 2006 and has grown as the mobile phone technology grew. Initially, it used tools such as m.sites, later web kit touch interfaces, and now is at the precipice of using HTML5 (Rowinski, 2011).

Zuckerberg was smart enough to realise the importance of mobile phones early. Today, out of 1.32 billion people who use Facebook each month, 399 million (almost a third) use Facebook only from their mobile phones. While the user base of Facebook has grown at a rate of 14 per cent, its mobile user base has grown at a rate of 31 per cent! When Facebook went public, the company had not yet
made a cent from its mobile business and had no mobile ads till 2012. But now it makes 62 percent of its advertising revenue from mobile phones. Currently over one billion people use Facebook on mobile devices every month and it is an upward trend. Figure 1 and Figure 2 show the growth of mobile phone users of the Facebook.

![Facebook’s Transition to Become a Mobile-First Company](image)

Figure 1: Facebook’s transition to become a mobile-first company (Statista, 2016)

![Figure 2: Number of mobile monthly active Facebook users worldwide (Statista, 2016)](image)
During 2013 TechCrunch Disrupt conference in San Francisco, Zuckerberg said,

> We took a bad bet... Our legacy as a company was building this big website and focusing on being able to develop for the web. So naturally we tried to look at things and see if we could build an HTML5 system for across these different platforms and we just realised pretty quickly that we weren't going to get the quality level that we needed (Wagner, 2013).

Facebook still invests significant amount of resources in finding out the mobile habits of people across developing countries. The company sent a team of engineers to get a first-hand look at the ways phone apps are being used in these markets. In another research, Facebook sent one engineer to local markets in the developing countries to purchase mobile phones for less than 50 USD in an exercise to understand the type of devices people are using and how Facebook can best integrate its services even with those cheap mobile phones (Wagner, 2013).

**Success of Facebook and the demise of competition**

At the end of 2008, Myspace attracted 75.9 million monthly visitors but by May 2011 this figure had dropped down to 34.8 million users (Gillette, 2011; Szalai, 2011). In that period, Myspace lost more than a million users per month. At its peak, in 2009 Myspace generated USD 470 million from advertising which fell to USD 119 million by 2014, compared to USD 12.4 billion revenue of Facebook in 2014, according to Facebook press release on 28 Jan 2015. In 2011, Myspace sacked 500 employees, slashed its international operations, and changed its focus from social networking to entertainment and music only (Barnett, 2011). Talking to the Telegraph, Mike Jones, Myspace’s chief executive, admitted that

> Myspace is not a social network anymore. It is now a social entertainment destination. There have been more than 3.3 million new profiles created, with particular interest around the new entertainment-themed topic pages (Barnett, 2011)

Meanwhile Friendster focused more on its operations in Asia and shifted its base to Kuala Lumpur, Malaysia. The company redesigned itself as a social gaming website in June 2011 and its number of registered users exceeded 115 million. The company operated mainly from three Asian countries – Philippines, Malaysia and Singapore (Wikipedia, n.d.a). On 14 June 14 2015, Friendster services were suspended –

> However due to the evolving landscape in our challenging industry, the online gaming community did not engage as much as we had hoped for. Profound development in the gaming industry has led us to rethink our strategic priorities......We have thus made a decision to take a break and pause our services effective June 14, 2015 (Friendster, n.d.).

As of the fourth quarter of 2015, the social network had close to 1.44 billion mobile MAU. Facebook surpassed one billion mobile MAU during the first quarter of 2014 (Statista, 2016) and its initial public offering was held on Friday, 18 May 2012. On 13 July 2015, Facebook became the fastest company to reach a market capitalization of USD 250 billion (Davis, 2015) and by the third quarter of 2015, its market capitalization had exceeded USD 300 billion.
Business model of Facebook

Currently Facebook is the leading social networking site in the world. Facebook users can stay connected with friends, acquaintances, families, and colleagues and enjoy mostly free-of-charge features such as “Timeline, News Feed, Photos and Videos, Messages (Email, Chat, Text Messaging), Groups, Lists, Events, Places, Subscribe, Ticker, Notifications, and Facebook Pages” (Bmimatters.com, 2012).

With so many features at hand, Facebook helps its users express themselves in any way possible by sharing their opinions, ideas, photos, or activities. With its unimaginable reach, the value of Facebook for the advertisers is immense. Advertisers can target their consumers on a wide array of hitherto unavailable information — age, gender, location, education, work history, surfing patterns, and specific interests. Even business owners can create customised Facebook Pages for their companies and can engage with the interested audience in a much better way and can maintain contact with their customers easily and respond to customers in a much timelier manner. See Table 2 and Figure 4 for a summary of the Facebook business model and the user growth.
Table 2: The Facebook business model (Bmimatters.com)

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Content Partners</td>
<td>Platform Development, Data Center Operations Management</td>
<td>Connect with your friends, Discover &amp; Learn, Express yourself, Reach, Relevance, Social Context, Engagement, Personalised and Social Experiences, Social Distribution, Payments</td>
<td>Same-side Network Effects, Cross-side Network Effects</td>
<td>Internet Users, Advertisers and Marketers, Developers</td>
</tr>
<tr>
<td><strong>Key Resources</strong></td>
<td>Facebook Platform, Technology Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data center costs and Administrative Sales, General Marketing and Research and Development</td>
<td>Free revenues, Ad Payment revenues</td>
</tr>
</tbody>
</table>

![Figure 4: Growth of Facebook users (Wikipedia, n.d.b)](image-url)
While most of the services accessible by the users are free, Facebook revenue comes from two sources.

**Advertising**

Advertising, estimated at more than USD one billion per quarter, to its 1.2 billion monthly active users, is the main source for revenue for Facebook (Bmimatters.com). With the vast amount of data about Facebook’s users, advertisers can skillfully target their customers’ personal information and usage patterns.

![Figure 5: Growth of Facebook’s revenue (Wikipedia, n.d.b)](image)

Advertising accounted for 82 per cent of its total revenue (amounting to a total of USD 872 million) in the first quarter of 2012. Some of the biggest spenders of advertising dollars on Facebook include Ford, HSBC Bank, Visa, McDonalds, Dell, Starbucks, Disney, Samsung, Nestle, and Budweiser. Most of the advertisers are looking for likes and shares, sidebar ads, sponsored stories, and promoted posts and generally pay around five cents to five dollars per click.

**Payments**

The other major contributor of the revenue for Facebook is payments. Within the payments category, virtual games contributes most to the topline; for example, selling credits for the online game Farmville contributed USD 186 million for Facebook in the first quarter of 2012. While the advertising remains the mainstay for the revenue source in Facebook, the contribution from payments is showing a steady increase. Payment revenues increased from about two per cent in 2009 to nearly 11 per cent in 2011.

However, with more people accessing the Facebook now from their mobile phones, the revenue from payments is slated to decline because people no longer play those games on the mobile phones. According to the company’s quarterly report, “Facebook usage on personal computers has
been declining and will continue to decline in the future, resulting in a decline in our Payments revenue” (D’Onfro, 2015).

Facebook has also partnered with content providers such as Netflix and Hulu to provide online movies, shows, music, among others. This feature has increased Facebook user engagement tremendously and may contribute to the future revenue model.

While advertising is still the main revenue source for Facebook, the cost centre for Facebook is mainly Facebook-owned data centres (see Table 1) which currently store more than 100 quadrillion bytes of photos and videos. This data is growing each day and the company has to invest more and more in resources.

Facebook has also made some costly acquisitions. For example, Facebook bought Instagram for USD 1 billion in 2012. However, at the time of acquisition, Instagram had just 13 employees and zero revenue (Oreskovic, 2015). How such acquisitions will contribute to Facebook’s revenue is yet to be seen.

The technological space is evolving very fast while new business and advertising models keep evolving with it. At present it is anyone’s guess how the revenue of Facebook will shape up 10 years down the line!

The Future
Will Facebook continue to rise in the same spectacular fashion?
Will the success of Facebook continue in future?
Is Facebook still popular with teenagers and the current generation?

Well some people disagree! Age restrictions keep Facebook accessible only to people aged 13 and older. Are the youngsters below this age are not using any kind of social media or are they simply not using Facebook?

Facebook has more than one billion users worldwide and is often seen by teens as a site which is “too risky and, above all, too overrun by parents to give teens the type of digital freedom or release they crave” (Grove, 2013). Currently, 80 percent of teenagers use social networking websites (Madden et al., 2013) and form a major chunk of active users in any social network.

David Ebersman, Facebook’s chief financial officer (CFO) admitted that

  What we do know is that Instagram is already a very popular service that continues to grow rapidly, and we believe, based on the information that we have, that it’s quite popular among these kinds of users that you’re asking about, the younger generation. It is very important for Facebook to build products that are useful to those users, and to build products that they feel comfortable...they can have a good experience with. Definitely high on the list of priorities for us (Grove, 2013).
Jennifer Grove (2013) writes that teenagers are already getting bored of Facebook, and “for tweens and teens, Instagram and more recently, Snapchat, an app for sending photos and videos that appear and then disappear is the opposite of Facebook: simple, seemingly secret, and fun”.

A Pew Research Centre report shows the following trends —

Many teens are annoyed by the personal and social “drama” found on Facebook and feel pressured by the associated social expectations. Some teens are concerned about maintaining and managing their online reputation.

Focus group discussions with teens show that they have waning enthusiasm for Facebook, disliking the increasing adult presence, people sharing excessively, and stressful “drama,” but they keep using it because participation is an important part of overall teenage socializing.

Those teens who used sites like Twitter and Instagram reported feeling like they could better express themselves on these platforms, where they felt freed from the social expectations and constraints of Facebook. Some teens may migrate their activity and attention to other sites to escape the drama and pressures they find on Facebook, although most still remain active on Facebook as well (Madden et al., 2013)

In its third-quarter earnings call with analysts, according to Facebook chief financial officer David Ebersman, "[Y]outh usage among U.S. teens was stable overall from Q2 to Q3, but we did see a decrease in daily users partly among younger teens" (Wagner, 2013).

Recent reports have indicated that the teen usage of Facebook has been declining and that the teens are moving on to other apps like Snapchat. Without teens’ support, the company will not be able to attract future users. Teens have become such a problem for Facebook so much so that during Facebook’s fourth-quarter earnings call, the company even declined to discuss teens (Wasserman, 2014).

Daniel Miller, an anthropologist at the University College London recently led an eight-nation, multicity study on social media use among 16- to 18-year-olds, he observed that "[m]ostly, they feel embarrassed even to be associated with it [Facebook]". In his words,

What appears to be the most seminal moment in a young person’s decision to leave Facebook was surely that dreaded day your mum sends you a friend request. You just can’t be young and free if you know your parents can access your every indiscretion (Ross, 2014).

Miller even added that older teens in the United Kingdom "are turning away in their droves” and Facebook is “basically dead and buried among U.K. youth”.

In a recent study, Cornell University researchers used epidemiological modeling of online social network dynamics to predict that Facebook will lose 80 per cent of its users by 2017 (Aziz, 2014; Cannarella & Spechler, 2014). They believe that Myspace once took the path that Facebook is taking.
The following table provides the anecdotal evidence of the declining share of Facebook among the teens. The data shows a collective drop of around 33 per cent users between the ages of 13 and 24 years.

Table 3: Anecdotal evidence of declining share of Facebook among teens (Facebook Social Ads platform; Mathews, 2014)

<table>
<thead>
<tr>
<th></th>
<th>As on Jan 2011</th>
<th>As on Jan 2014</th>
<th>Growth (in per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Users</td>
<td>Percentage</td>
<td>Users</td>
</tr>
<tr>
<td>GENDER</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Males</td>
<td>63,645,480</td>
<td>43.4</td>
<td>82,000,000</td>
</tr>
<tr>
<td>US Females</td>
<td>80,711,340</td>
<td>55</td>
<td>96,000,000</td>
</tr>
<tr>
<td>Unknown</td>
<td>2,448,180</td>
<td>1.7</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>146,805,000</td>
<td>100</td>
<td>180,000,000</td>
</tr>
<tr>
<td>AGE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13-17</td>
<td>13,114,780</td>
<td>8.9</td>
<td>9,800,000</td>
</tr>
<tr>
<td>18-24</td>
<td>45,406,460</td>
<td>30.9</td>
<td>42,000,000</td>
</tr>
<tr>
<td>25-34</td>
<td>33,171,080</td>
<td>22.6</td>
<td>44,000,000</td>
</tr>
<tr>
<td>35-54</td>
<td>39,595,900</td>
<td>27</td>
<td>56,000,000</td>
</tr>
<tr>
<td>55+</td>
<td>15,516,780</td>
<td>10.6</td>
<td>28,000,000</td>
</tr>
<tr>
<td>CURRENT ENROLLMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High School</td>
<td>7,292,080</td>
<td>5</td>
<td>3,000,000</td>
</tr>
<tr>
<td>College</td>
<td>11,748,840</td>
<td>8</td>
<td>4,800,000</td>
</tr>
<tr>
<td>College Alumni</td>
<td>36,441,600</td>
<td>24.8</td>
<td>60,000,000</td>
</tr>
</tbody>
</table>

The data shows that teens still use Facebook but no longer see it as the most prestigious social networking website (BI Intelligence, 2015).

The rise in more teens listing Instagram as their "most important" social network, and the decline of Facebook in this category, has been one of the most pronounced demographic trends in social media (BI intelligence, 2015).

The following figure shows how the share of other social networks among the teens is increasing steadily whereas the share of Facebook is declining at the same time. To quote analyst at BI Intelligence Piper Jaffrey, “In late 2012, 42 per cent of teens listed Facebook as the ‘most important’ but by early 2015 only 14 per cent did so. That’s a 28-point drop”.

---
All advertisers want to target young consumers as the consumption in that age group is more malleable and the decreasing usage of Facebook among the teens can make it less lucrative for the advertisers in future (Mathews, 2014). Moreover, the advertisers are more interested in active users who can be targeted based on their behavior on social media. If teens are active users of other websites, then Facebook can lose a valuable salable database of its young users’ online habits, thereby affecting the advertisers’ ability to target the youth more effectively.

It is not that Facebook is not aware of these challenges. Mark Zuckerberg recently gave his strategic visions for the company as follows:

- **Three-year plan** – “continuing to grow and serve our existing communities and businesses and help them reach their full potential”

- **Five-year plan** – “taking our next generation of services, Instagram, Messenger, WhatsApp and Search and helping them connect billions of people and become important businesses in their own right”

- **Ten-year plan** – “driving the fundamental changes in the world that we need to achieve our mission, connecting the whole world, understanding a world with big leaps in AIs and developing the next generation of platforms, especially in computing” (Shontell, 2014)

In fact, Zuckerberg departs from its existing business model in his 10-year plan which is based on new technologies of drones, artificial intelligence, and virtual reality (King, 2015).

- **Drones** – between 1.1 to 2.8 billion people or 16 per cent to 40 per cent of the world’s population does not have access to a mobile network connection to the Internet. Facebook is
investing in technology where drones can beam internet access to these areas from satellites. In Zuckerberg’s words,

It’s easy to take for granted that most people have access to the internet, but actually only one third of the worlds, 2.7 billion people, currently have access to the internet. Upgrading to a smartphone doesn’t instantly mean access to the internet, that’s just not true. So we’re not on a path to connect everyone right now, unless something dramatic changes (Gibbs, 2014).

- Artificial intelligence – As the world is getting connected, more and more content is being added each day and Zuckerberg feels that in future, a person cannot easily find the information he is looking for. Sensing this opportunity and the future need, the Facebook is increasingly investing in artificial intelligence for helping the user to sort out the information and provide tips for finding the correct information in the virtual maze.

- Virtual reality – To Zuckerberg, “sharing our lives through text, photo, and video is not enough”. Moreover, “Facebook wants users to feel like they’re actually sitting next to whichever aunt decides to film an embarrassing video of their cousin’s first school play” (King, 2015). In future Facebook wants its two users to sit next to each other and talk or hug using virtual reality platforms.

In the current social media space, four new contenders for the crown have emerged — Twitter, Instagram, Snapchat, and WhatsApp. Facebook already owns Instagram and WhatsApp, so it is still the biggest player, but because technology is evolving very fast, no one knows what the future holds for Facebook.

**End-of-Case Questions**

**Question 1**
What was it that Facebook was doing differently which the competitors failed to incorporate in their business model?

**Question 2**
How is marketing in social networking platforms different from traditional industry? And did anyone know this at that time?

**Question 3**
Can consumers drive the product innovation in social media or is it a job best left to engineers?

**Question 4**
Will Facebook continue to be the major player in social media in future? How should it market itself to the youngsters?
References


About Nanyang Technopreneurship Case Centre

With funding from both the National Research Foundation of Singapore and Nanyang Technological University, the Nanyang Technopreneurship Case Centre (NTCC) was one of the initiatives of the Nanyang Technopreneurship Centre (NTC) to enhance the quality of entrepreneurship education through the case pedagogy. These are part of NTC’s efforts to foster, promote and nurture enterprising mind-sets, skills and knowledge in entrepreneurship education.

There is a plethora of business cases but a general paucity of cases highlighting the specific problems faced by technopreneurs in growing their ventures. NTCC adds value to Technopreneurship education by developing a pool of cases on technology-based local and international enterprises. Through the cases, NTCC hopes to share the experiences, success stories and challenges faced by entrepreneurs/intrapreneurs in growing their organisations and how they overcome their problems to sustain growth.

The theme of this first compendium is “innovation through technology”. It features Singapore-based and global companies confronting issues and challenges due to technological shifts in the industry and changing market and competitive dynamics; when introducing new products in the marketplace; and in using technology to drive organizational change.

Online versions of these cases are available for complimentary downloads at www.ntc.ntu.edu.sg/ntcc.

Teaching notes are also available to faculty members for use as reference, reading and/or teaching materials in various academic and professional programs. For further information, please contact Ms. Denise Lee (deniseleecw@ntu.edu.sg) and Mr. Wu Chong Chuan (wucc@ntu.edu.sg).

Acknowledgment

The Nanyang Technopreneurship Case Centre (NTCC) was supported by the National Research Foundation (NRF) and the Nanyang Technological University (NTU). We would like to thank NRF and NTU for their funding support.

We would also like to show our gratitude to all the writers, reviewers and anyone who have contributed to the accomplishment of the NTCC.