# EXHIBIT 38


UNREDACTED VERSION OF DOCUMENT SOUGHT TO BE LODGED UNDER SEAL

Back at you inline...


On 10/27/12 1:57 PM, "Mark Zuckerberg" <zuck@fb.com> wrote:

>More thoughts inline...
>_____
>From: Sam Lessin
>Sent: Saturday, October 27, 2012 9:14 AM
>To: Mark Zuckerberg
>Subject: Re: notes on platform
>
>Thanks for reading it through and the response.
>
>- I agree with your framing of the three questions embedded in my
>proposal.
>
>
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>
>Regarding your notes on #1
>
>-- I do agree that 10% to 20% of a small number of businesses doesn't get
>us thereŠ just as a platform with thousands of developers who pay us
>nothing doesn't get us there.  That is why I basically land on a model
>where some APIs are widely available at scale (and we get thousands of
>developers at scale) but there are a set of APIs that really are just for
>partners.  Also known as, I think we need to have it both ways.
>
>>> Yeah, I think having two programs is pretty reasonable. The question
>>>to me is just what's in each program and what we get from it. My
>>>interpretation of your proposal is that we get the vast majority of the
>>>value from the companies we partner with, but I have a hard time
>>>imagining we actually have these kinds of deep partnerships with
>>>hundreds of companies, so there's a disconnect for me there. I also
>>>interpret your proposal as if we won't make very much money at all from
>>>non-partner companies, and I think there needs to be and likely is a
>>>bigger opportunity for us there.

>>>In my model, we'll define rev shares for as many industries as we can
>>>think of. There will always be some companies that don't fit whatever
>>>models we have or we want to give them deeper access in exchange for

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>>>more value share, and that's what the deals are for. But I'd love to
>>>get to a state where most of the value we derive is from the open part
>>>of the platform with clearly articulated rules rather than custom
>>>partnerships.


SWL::::: I think we will get a ton of value from the companies using the
'free' APIs / non-partners... it is just that the value will funnel all
directly through our ads/distribution platform... which is not a bad
outcome at all / it is seeing platform as all about just making the
distribution business more efficient and scale better against a model
where there is natural pricing / a market. At the same time, I do think
that we will also get a lot of value out of the partners / which I really
see as a set of companies / producing a set of products which we would
probably consider building ourselves if we could...


>>>
>
>-- The problem I have with a rev-share directly, or forcing a developer to
>use our payments / ad network is that we are not connecting the value and
>the cost closely enough. If the thing that is valuable is our payments,
>they should pay for our payments if they use our paymentsŠ if the thing
>that is valuable to them is the ad network,Š. The rev-share could be an
>interesting deal term at the high end, but is just too hard for developers
>to evaluate / know the value we are driving for them and whether it is
>therefore worth it to be on the 'platform'.
>
>>> I agree this is a big problem with my proposal. It's much easier for a
>>>developer to be able to take pieces a la carte and know what they're
>>>paying for them. Another issue that's implicit in my proposal is that
>>>it's not yet clear how a dev would disconnect the revenue share,
>>>whereas it's quite clear how you'd disconnect payments or ad network
>>>though. That said, I think there is probably a reasonable solution to
>>>these problems that would still let us get a revenue share. I just
>>>think we need to work through this a bit more. The root of my belief is
>>>that helping people sign up faster, ramp up faster and remain more
>>>engaged is fundamentally valuable. So even though it is more difficult
>>>and disconnected to value, rational actors should be able to value it.
>>>Further, I think having a market of participants will help devs value
>>>it. For example, there's no reason why 2% is a reasonable rev share for
>>>a credit card processing company to take, but since everyone else
>>>accepts it, it now seems more "reasonable" and more folks do it. If we
>>>start with the head and then open this program up more broadly, I bet
>>>we can figure out a set of reasonable revenue shares here for each
>>>industry/category.


SWL::::: Yes, the 'how does a company disconnect' bit is a really big one
to call out in this context. RE: the concept that helping people sing up
faster, ramp up faster, and remain more engaged as 'fundamentally

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valuable' -- my believe is that these things are valuable, but not at all infinitely valuable (actually, to the contrary, they are quite measurably valuable).  We aren't the only ones that can help people signup/ramp up faster/ remain more engaged, we exist in an ever more competitive marketplace for these services.  Also, the reality is that the value of a marginal customer / a customer that would 'bounce' without us is measurable and usually relatively low for all companies except for networks which are looking for initial traction....  Which begs exactly the question of long-term lockin.


Think of this from our perspective.  If we had had some magic 'engagement' product we could have bought early on as a company it would have been worth a ton to us in the short term / we would have paid a lot for it for the first few million users (just as we are willing to pay a lot to get early users in new markets via search ads, etc.)  -- once the flywheel is going, it is worth something to us... but honestly not very much, both because we would inevitably develop our own cheaper routes with time and money if the cost was anything but completely nominal OR because we would get to the point that the marginal user isn't economically worth that much to us (the situation we currently face)


>Regarding your notes on #2
>
>-- Reading your responses, I do think you are right, I am being stark.  I
>worry about mobile messaging apps, etc.  and I probably need to temper
>that in my own thinkingŠ the irony is I would be more comfortable with
>competition if I thought we knew better how to leverage our scale asset
>(and if scale weren't' becoming cheaper and cheaper to achieve every day).
>
>-- What I think is that we should effectively not be helping our
>competitors more / much more than how they could get help from elsewhere
>in the market.  They can acquire users in ways other than usŠ so
>obviously we shouldn't be failing to take their money when they will just
>give it to someone else and get the same outcome.  I do, however, again
>think that we want as much control here as we can get.
>
>>> I agree we shouldn't help our competitors whenever possible. I think
>>>the right solution here is to just be a lot stricter about enforcing
>>>our policies and identifying companies as competitors.


SWL::::: AMEN


>
>
>
>Regarding your notes on #3

FB-01389023

>
>-- On whether the things developers contribute to the system are valuable
>to us or notŠ. In my mind they are really only valuable if users want them
>/ either because they value the self expression or drive engagement.  If
>they do neither, then I do not believe that applications writing to
>Facebook is currently worth much -- AND I believe that if they do neither
>there are other ways for us to work with developers more efficiently to
>get the value from the data they collect from users.
>
>>> I think it's quite possible that developers writing to the graph today
>>>drives no incremental engagement or information targeting value for us.
>>>I do think users appreciate the ability to share things and that
>>>probably helps us somewhat, but I think users also like having the
>>>ability to take their info out of Facebook and we're considering
>>>charging for that. By charging for distribution, we'd essentially be
>>>building a way for users to access those features, but developers have
>>>to pay us for them.

SWL:::::: I think we need to provide DLYD obviously, and you are right
that some power-users do appreciate the ability to take data out in
general / push it to other services.... I think this is something we can
manage around.  I do think it is basically zero cost to us to allow
applications to write content on behalf of users, but we should just think
of it as that -- which is allowing apps to fulfill a user need...  re: the
distribution, I don't think we should under-weight distribution from apps,
I just don't think we should over-weight it -- and I think that if the
real value translation is apps publish data to Facebook because users want
to publish data to Facebook, then we should do the right thing by users
around creating good experiences vs. worrying about pushing 'traffic' back
to apps (aka, go with snow-box type solutions for third party photos and
pinterest pins rather than pushing the user out to the site.

>-- Really what this boils down to is that I think developers are rational
>business actors.  They will not give us structured data which is actually
>valuable to us unless users demand it.
>
>>> Agreed.

SWL::::: AMEN

>
>-- Again, I think we just need to get away from thinking about a developer
>'using' platform or not / or that we can 'tax' platform as a whole.  We
>have a series of APIs, just like amazon web services, etcŠ  the decision
>to rely upon / use or not use any service we provide is really an
>independent business decision.  I think that saying that in order to

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>'publish' to Facebook, or in order to get a UID for one of your users you
>must implement our payments or ad-network, or pay us a percentage of
>revenue is just too abstract for rational decision makingŠ
>
>>> I'm not sure I agree with the overall point here. I agree it would be
>>>ideal if we could make everything a la carte efficiently, but it
>>>doesn't seem like we can do that and that realization is leading us
>>>down a path of minimizing development and access to an important piece
>>>of platform that I think devs do value (the read side). I do agree it's
>>>difficult for a dev to think about whether the value exchange is fair
>>>theoretically, but if we can get a few folks on board then I think we
>>>can start to establish a market norm and more folks will do this.
>
>>> In some ways, I actually think an overall tax is the most efficient
>>>way to do this. If the most valuable aspect is distribution and if
>>>charged a la carte for that, then I do think that would encourage
>>>developers to be sparing and economically efficient about when they
>>>write data to Facebook. However, if we have an overall tax and then
>>>writing is free within that, then their incentive is to get as much
>>>value out of the integration that they're paying for as possible.

SWL::::: I don't agree -- but I do understand your perspective.  I really
just can't see any developer making the % revenue trade with us for a
bundle of services some of which they value, others of which they may not,
and overall where it is really hard for them to know what is what
(especially over the long term)


>
>
>-- Today we have (or think we have) more efficient engagement and
>re-engagement tools than anyone else, and we pretty much have a functional
>way of pricing it and having developers rationally evaluate paying for it.
> That is greatŠ.  We should be leveraging that all the way
>
>-- Today we also have some functions on a platform which our users want,
>we are at least neutral on, and therefore developers implement (ideally).
>It is unclear exactly how much our users want the functions, but the
>things that are strict user benefit and no cost to us we should produce,
>though we should think of the eng tradeoff / just as another feature of
>Facebook.
>
>-- Tomorrow we should have things like a payments solution and ad-network,
>which should be better than everyone else's / should be able to compete in
>the marketplace on their own; however, only marginally so -- and as a
>result probably not in a way that we can rationally demand a huge premium
>(though I am sure we can demand some premium)
>
>>> It's not clear to me that our solutions here will be automatically
>>>better than alternatives for a while. And even if they are better, then
>>>what we have is a payments or ad network platform and we still don't
>>>have an information platform. This is part of what I don't get here. If

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>>>the value is in the information platform (read/write) then trying to
>>>make money from payments/ads seems pretty disconnected and inefficient.


SWL::::: I hear you... basically tho, my view is that we should only develop
payments APIs if we have a reasonable belief that we are going to be able
to provide better payments APIs than competitors (more cost competitive,
etc.)... Same with an ad-network...  valid things for us, but they have
nothing/little to do structurally with being an information platform
directly when presumably if all we want is the 'data' that comes off of
having an ad-network, or the 'data' that comes off of having a payment
platform we can get that information other ways.




>
>-- Finally, if we are going to have another return on scale business other
>than attention, we need for that business to stand on its own / be a
>rational trade in and of itself for us and for developers.  Unfortunately,
>the dynamics around data are just complicated enough that I think we end
>up in a world with maybe 100 or 200 partners for the next few years, not
>everyone -- and we have templatized, but not formalized terms.
>
>>> I generally agree with this point, but I wonder if we can't both get
>>>to scale in terms of getting people to write to us and also get them to
>>>pay us for it. As an analogy, it's good for us that devs build games
>>>inside FB. We could have made the argument that it was good for us so
>>>we shouldn't tax them, but in reality by taxing them I just think we
>>>got to a state where we both got the games and made more money. We
>>>likely lost some games, but I think we generally maximized profit.
>
>>> Overall, I'm just pretty optimistic about this idea of being an
>>>"identity" service and establishing that as a layer of the app
>>>development stack so the norm is that developers pay for it. Maybe
>>>identity comes with the ability to push content to a person's friends,
>>>or maybe it just comes with the ability to ramp up a new user more
>>>quickly and connect them to friends and interests. But this does seem
>>>like it should be a real thing to me that should stand on its own and
>>>not just be a loss leader to push lower margin payments and ad networks
>>>products.
>
>
SWL::::: I believe we should always charge what the market will bear to
others companies in the ecosystem... but not more than what the ecosystem
will bear.  For payments, or an ad-network, we have competitors.  Either
we can produce better products in these spaces which in a head to head
competition can beat other solutions on value, or we can't.  IF we can, we
can make money, if we can't then we will not.  Same goes for our
distribution business.

In the canvas case, developers basically had no other option when platform

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was succeeding for games. Now we compete with the mobile platforms, and while we still have a decent enough position for games to generally get away with taking real-estate on web + 45% of revenue, I also think the best developers / the best games have left, and what we really have is a set of games made by people who see a financial opportunity to hack our system for free attention... I am not proud of the fact that we are currently extolling 'game' companies that make online slot machines as positive examples of those willing to pay our fees (I am fine with it, just not proud of it)

I am totally bought into our identity business in the sense that giving apps the ability to uniquely get identifiers on all their users is a huge huge deal ... the question is only what do you do with that / how do you match it up with an economic model... and I think we need to couple the identity value + services, where our services are better because of identity (be they engagement / re-engagement, an ad-network, or payments with better built in fraud detection).... The only thing we should be careful of is making sure that we are selling things in ways developers can rationally evaluate and want.

SWL:::::: Obviously happy to (1) continue this conversation (2) not continue it if the marginal value is now too low.... One thing I intend to do next is basically wireframe out very roughly what our developer landing page / sales page, could look like under a more 'holistic' % fee scenario and under a more a-la-carte model. I think that putting some practical screens up on how things could look in mid 2013/2014 might be helpful...


Sam


>
>
>
>
>
>On 10/27/12 6:06 AM, "Mark Zuckerberg" <zuck@fb.com> wrote:
>
>>I think I understand your proposal.
>>
>>It seems like it really comes down to three main questions:
>>
>>(1) What is a revenue model that scales to build the kind of business we

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>>want?
>>
>>(2) What is a read model that reduces the strategic risk to our business
>>(and doesn't undercut that revenue growth)?
>>
>>(3) What is a model that developers will participate in rather than
>>abandoning?
>>
>>Now going through each of them...
>>
>>For (1):
>>
>>- I agree with your argument that we need to get some value proportional
>>to the value we create as opposed to a fee on our costs for this to work.
>>I'm generally sold on that.
>>
>>- I also agree with your argument the other day that whatever we do needs
>>to be very widely adopted. Having 10-20 partnerships where we own 10-20%
>>of the companies isn't where we want to be either. The underscores the
>>importance of question (3) and developing a model that many developers
>>will go for. I am not sure how this foots with doing a lot of of specific
>>deals though. In theory we could do an infinite number of deals, but in
>>practice a strategy of making deal seems explicitly like a strategy to
>>work with a smaller number of companies, which may by itself prevent us
>>from reaching the long term revenue goals we have.
>>
>>- There's a big open question on where we get the revenue from. Do we
>>make it easy for devs to use our payments/ad network but not require
>>them? Do we require them? Do we just charge a rev share directly and let
>>devs who use them get a credit against what they owe us? It's not at all
>>clear to me here that we have a model that will actually make us the
>>revenue we want at scale.
>>
>>For (2):
>>
>>- I'm getting more on board with locking down some parts of platform,
>>including friends' data and potentially email addresses for mobile apps.
>>
>>- I'm generally skeptical that there is as much data leak strategic risk
>>as you think. I agree there is clear risk on the advertiser side, but I
>>haven't figured out how that connects to the rest of platform. I think we
>>leak info to developers, but I just can't think of any instances where
>>that data has leaked from developer to developer and caused a real issue
>>for us. Do you have examples of this?
>>
>>- I also think your argument about not selling down our advantage is too
>>rigid. Businesses pay for new customer acquisition and then for
>>reengagement. Eventually you run out of new customers and need to focus
>>more on reengagement. We shouldn't prevent ourselves from helping
>>business get new customers just because one day they might run out of new
>>customers to acquire. It doesn't scale infinitely, but it does scale
>>pretty far.

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>>
>>- I also think your argument about how we help competitors is too black
>>and white. In reality, we do this with distribution too. We let most
>>competitors buy ads. And even if we didn't, we'd let other media
>>companies buy ads, and then our competitors could buy ads from those
>>companies. At some level I think helping your competitors is a fact of
>>life. We need to make sure we're not doing this to an extent that it
>>destroys us, but we also shouldn't be so rigid as to rule out any model
>>where competitors get benefit from us.
>>
>>For (3):
>>
>>- I think what developers will be willing to bear is the biggest open
>>question here. No one knows this for certain and a huge amount obviously
>>hinges on this.
>>
>>- I do agree that if we give away distribution and login for free, then
>>basic info alone isn't enough value to command a meaningful revenue
>>share.
>>
>>- That said, this makes me wonder if we need to question our assumptions
>>on what we want to be free. If what developers mostly value is
>>distribution (which we're currently not charging for), then I think we
>>really need to ask the question of whether we're actually getting value
>>from this. In theory we want information, but are the posts developers
>>are giving us actually valuable? They don't seem to be for targeting and
>>I doubt they drive meaningful increases in engagement either. That
>>suggests that from an information perspective perhaps these aren't so
>>valuable for us. They aren't negatively valuable, but if there's a big
>>disparity between what developers get and what we get then perhaps
>>charging for this isn't so crazy. I'm not yet convinced this is the right
>>thing to do, but it seems at least worth thinking about to me. If we were
>>strategically okay with not giving this away for free, then I think many
>>more developers actually would accept a rev share to enable their users
>>to connect with FB and share back to us. If we did this, we'd see some
>>dropoff in developers, but I'm not sure how much. The distribution is
>>very valuable for developers and as long as the rev share isn't onerously
>>high then I bet most would stick around. And counterintuitively, once
>>devs were paying for this, they'd probably be more invested in getting
>>the most out of the integrations so they'd likely invest more and
>>actually push even more info into FB.
>>
>>- Without limiting distribution or access to friends who use this app, I
>>don't think we have any way to get developers to pay us at all besides
>>offering payments and ad networks which can stand by themselves and
>>compete with other companies' services. But at that point we still don't
>>really have a sustainable platform; we just have a good payments service
>>and ad network. So that might make us more money, but over time we'll
>>shift our energies towards building those services and we still won't
>>develop a great platform.
>>
>>

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FB-01389029

>>_____
>>From: Sam Lessin
>>Sent: Friday, October 26, 2012 10:51 PM
>>To: Mark Zuckerberg
>>Subject: notes on platform
>>
>>Zuck,
>>
>>I have been going through iteration after iteration on the platform story
>>trying to suss out a perspective that feels strategically right in the
>>long term / as a set of guiding principles AND which is implementable and
>>functional in the short term.  Obviously I know you have been thinking
>>about this a lot as well (along with a lot of other smart people) and I
>>am happy to get behind and drive whatever you want to land on; however, I
>>do want to try to share my full thinking with you / the perspective on
>>which I have landed.  This is longŠ sorry.
>>
>>
>>Uncharacteristically, I would like to start with what I think we should
>>practically do, and back out to the 'why' rather than visa versa.
>>Practically, I strongly believe that we should operate platform in the
>>following way:
>>
>>(1) Applications can write to the graph freely.
>>    - (A) They can write information on behalf of a user to the user's
>>timeline (so long as they have collected the necessary 'write'
>>permission)
>>    - (B) They can write information on their own behalf (in the voice
>>of a 'page', as an 'advertisement', adding information to their CRM
>>against a UID, email, etc.)
>>    - (C) We can choose to show the content they write to the graph on
>>their own behalf or that of users in newsfeed as we see fit / to maximize
>>the consumption experienceŠ and if applications want they can 'boost' /
>>trump the auction
>>
>>(2) Applications can use 'Facebook login' freely & have many avenues to
>>getting user's IDs
>>    - (A) Any app can choose to have their users login with Facebook,
>>and if they do we will give them the user's UID (not a hashed ID)Š
>>    - (B) We will / can also open up other avenues for giving
>>applications UIDs / Identifiers that allow them to better leverage our
>>system (via email matching, invisible pixels, cookies perhaps, mobile
>>tracking, etc.)
>>    - (C) We need to have terms that make it clear that sharing UIDs
>>across applications is not OK, and stringently enforce
>>
>>    - (D) We should develop things like a payments API that sits on top
>>of these IDs and has its own fee structure at a flat rate
>>    - (E) We should develop things like an ad-network that sits on top
>>of these IDs and has its own structure for paying developers at a
>>market-defined rate
>>

FB-01389030

>>(3) -- Reading 'Basic Information' freely
>>    - (A) Applications can ask permission of users to read 'basic
>>information' which a user would otherwise provide when registering for
>>their service freely
>>    - (B) Applications can ask for the UIDs of a user's friends who is
>>also using their applicaiton freely
>>    - (C) Users should be actively encouraged to engage with the
>>information they are giving applications
>>
>>(4) -- Reading/Using Non-'basic' Information & functions
>>    - (A) We should develop a whole set of non-basic information
>>datasets and APIs which encompass:
>>        -- (1) User Data which doesn't reasonably fit into something
>>which an application could ask for themselves as part of registration /
>>which other services cannot provide
>>        -- (2) Facebook insights / data (coefficient, trust, etc.)
>>        -- (3) An Oracle APIŠ for things like 'twinning' / making
>>specific decisions about a user based on a application provided signal
>>        -- (4) Eventually, a brokering business where applications
>>other than Facebook can provide insights to other applications (and we
>>can run a marketplace in-between)
>>
>>    - (B) These data-sets become leverage able openly via our
>>ads-trageting / distribution channels
>>    - (C) We can provide some sort of very low testing limit on most of
>>these APIs for free, but to use them at any scale is a conversation with
>>our BD folkŠ.
>>    - (D) These APIs are best thought of as white-list / internal APIs
>>which if you are owned by us, or a close ally, we will open them up for
>>you.
>>
>>(5) -- Competitive exclusions & stuff to deprecate / change that now
>>exists
>>    - (A) We should dramatically increase our enforcement of competitive
>>exclusions, and actively suggest to application developers that even if
>>they are small they should check with us first if they are worried about
>>our definitions
>>    - (B) We should turn off all APIs that don't fit the 'registration'
>>litmus test of #3, while maintaining them on a 'white list' basis for
>>bucket #4 if we want (things like the full friends.get, the messaging
>>APIs, etc.)
>>
>>
>>Upshot:  where this nets out for me is that we end up with Š.
>>
>>-- (1) an open, stable, and free platform for writing data to Facebook,
>>getting the information you need to wire up a set of users you have
>>engaged, and all the IDs / hooks you need to actively participate in our
>>attention market (buy ads) as well as leverage any other services like
>>payments or an ad-netowrk we may want to offer in the future
>>
>>-- (2) an ever increasingly valuable set of proprietary APIs for richer

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>>information, etc. which are not openly available beyond perhaps a 'free
>>sample', but which allow us to 'project' into the ecosystem the value of
>>a *hopefully* ever deeper data-setsŠ. giving us the ability *hopefully*
>>to participate in a variety of deeply socially enabled businesses which
>>ideally we would build ourselves if we could, but in a heterogeneous
>>enough set of industries with different margins and properties that it
>>would be impossible for us to price effectively.
>>
>>-- (3) we have some 'starter' APIs which are free, and then we try to
>>directly associate the cost of a given API for a developer with the API's
>>value to that developer, rather than trying to subsidize one API with
>>another, or put developers in a hard to measure / opaque position where
>>they don't exactly know if using platform holistically is worth it to
>>themŠ so where there is an easy way to do that (advertising on FB, ad
>>network on app partner, payments API) we can have very transparent
>>pricing, and where it is not easy to do that we have to have a
>>conversation / negotiate.
>>
>>-- (4) the messaging to the ecosystem becomes that we are deprecating a
>>few things for privacy reasons / to simplify our model for users, we are
>>enforcing non-competitive terms we have always had, and we are opening up
>>a series of new white-list APIs for the best companies that want to build
>>the best social services and want to work with us deeply.
>>
>>
>>~~~~~~~~~~~~~~~~~~~~
>>
>>The above stated, let me try to justify itŠ  starting by walking through
>>the incentives / perspectives of each of the parties to our system.
>>
>>Users (in brief)
>>The user incentives around platform are pretty straight forward in the
>>abstract / long-term, though there are some quirks to pay down
>>shorter-term.  Over time, users just want to have amazing experiences in
>>the physical and virtual world enabled by social.  First, they want great
>>apps where they can find and interact with great content and experiences
>>with their friends.  They certainly don't want to have to 'sign in' to
>>anything with different passwords, etc.  Over time I think they will want
>>applications to help them express themselves so that they can have more
>>custom experiences / better experiences of the world, and I think they
>>will eventually appreciate things like ever better targeted 'ads' as a
>>real benefitŠ  I also think they fundamentally want control.
>>
>>Developers/Businesses (in brief)
>>Developers are rational actors that fundamentally want to make as much
>>money as possible.  Plain and simple.  The days of application developers
>>without a business model / building projects for fun are rapidly
>>disappearing.  There will always be people hacking / playing, and every
>>once in a while we will have a chat roulette, but the reality is that the
>>app ecosystem has professionalized and anyone building anything of scale
>>/ import are going to act like rational consumers of services / APIs.  To
>>run businesses, what developers need from us is the following (1)

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>>Stability.  They need to be able to project / model forward for years at
>>a time in order to get cheap capital to build, and know how to
>>efficiently and effectively scale their businesses (2) Measurability.
>>They need to be able to know what their costs are going to be, and how to
>>maximize their profits efficientlyŠ which means that the easier we can
>>make it for them to tie together costs / revenues / and profits the
>>better (3) Services which make them more efficient than their competitors
>>at acquiring, re-engaging, merchandizing / creating great user
>>experiences, and monetizing their users.  (4) Strategic flexibility /
>>option value that translates into valuation.  There may be some minor
>>value for developers in having fewer partners vs. using a wider range of
>>services by different providers, but ultimately in a world of well formed
>>APIs they will swap in-and-out providers at will to get the most
>>effective systems / cheapest rates / etc.
>>
>>Facebook (in a tad more depth and with a detour through our business
>>model)
>>Our mission is to make the world more open and connectedŠ and the only
>>way we can do that is with the best people and the best infrastructure --
>>which requires that we make a lot of money / be very profitable.  My
>>assertion is that for us to be very profitable over a long time, we have
>>to be in businesses / have a business model where we get more profitable
>>the bigger we are (a return on scale business)Š.  Conversely, we cannot
>>be in a commodity business or 'sell off' our assets in a way that
>>transfers wealth from ourselves to others.
>>
>>There have been three paths to sustainable robust margins historically.
>>(1) regulation / having a powerful monopoly like a state dictate that you
>>are the only way to do something (2) proprietary expertise / knowing
>>something or having the structural ability to produce goods and services
>>that no one else can (the coke formula) (3) being in a business with
>>natural return on scale dynamics (where you are more profitable because
>>you are bigger)Š.  Neither regulation nor expertise are actually good
>>ways to be a non-commodity business for us.  Regulation is obviously an
>>unappealing course / not at all interesting, and is something I list only
>>for completeness/looking at history.  Expertise doesn't work when
>>infrastructure is commoditizing rapidly & given the talent dynamics of
>>the technology industry.  Return on scale must be our bet as a companyŠ.
>>so, we need to focus on businesses where we are better / more profitable
>>than everyone else because we are bigger than everyone else.
>>
>>Currently, the thing which we provide which is not commodity / where
>>there is real return on 'scale' is DISTRIBUTION at 'scale'Š the reason
>>that distribution has return on scale dynamics is largely because a
>>certain set of 'brand' advertisers crave it deeply, and they have very
>>few options for buying it (Facebook vs. TV).  Brand Advertisers crave
>>'scale' for three reasons (1) they are in businesses themselves where
>>they are profitable enough that it is worth them talking to a huge number
>>of people imprecisely in order to reach just a few new customers (2) They
>>have developed expertise in generating an image / content where an
>>initial paid marketing buy gets supplemented with word of mouth / free
>>social diffusion of their message over time and space (3) They have

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>>developed the ability to measure / feel like they can measure the
>>effectiveness of how they spend.
>>
>>However, the problem is that most businesses (local, etc.) don't fit into
>>the bucket where they can advertise on a 'brand' basis.  (1) they aren't
>>profitable enough to speak to many people imprecisely to just reach a few
>>new customers (2) they don't have the expertise to generate the creative
>>they need to get 'free distribution' multiplier (3) They can't measure
>>well enough to know what to spendŠ. upshot, not everyone can be a brand
>>advertiser, actually most people can'tŠ.  There are also several problems
>>with 'brand' advertisers being our 'non-commodity' business Š.  (1) there
>>are new ad networks / platforms / tools which chip away at the
>>defensibility / non-commodityness of 'scale', (2) we are running out of
>>humans (and have run-out of valuable humans from an advertiser
>>perspective) (3) brand advertisers will get better, but they aren't that
>>good at measuring their spend, so they have finite budgets.  -- The
>>upshot of which is that while being 'big' does provide us a return on
>>scale currently, it isn't something which we are going to be able to more
>>than 2X-4X in my mind anytime soon, and in some ways I think we will face
>>increasing pressure on the value we derive from our distribution scale.
>>
>>The second thing which we provide which is non commodity / where there
>>*may be* return on scale is 'information' about peopleŠ this is far less
>>tried and true than the return on scale of distribution, which is well
>>understood and practicedŠ.  but as far as I can tell, it is the bet we
>>need to make as a company if our ambitions are long-term and grand, and
>>to me at least it feels right.  For instance, if you look historically,
>>it was in many ways information which actually got us 'scale' rather than
>>visa versa.  One of the things that puts us currently in a very
>>defensible place is the relationship we have created between people using
>>Facebook all the time, and us having the information we need to make
>>Facebook a better product.  This is the fundamental insight in something
>>like coefficient.  We know more about what people want to see because
>>people look at more stuff on our platformŠ  In this respect, while there
>>are other ways to get close, it feels viscerally correct that there is an
>>ROS dynamic at playŠ  the more people that use the system, the more
>>information we have on how to make more people use the systemŠ.
>>
>>The challenge comes in not when we use the scale of our own information
>>to drive our own business platform, but when we try to leverage the
>>information with other parties to the system / businesses Š  which we
>>want to do on the premise that we practically cannot build everything
>>that can benefit from 'social' / the information we have for a hole host
>>of reasons.  The first part of the challenge is that packaging
>>information alone is not valuable, rather, the value of information at
>>scale must be expressed indirectly / through other vehicles.  The second
>>part of the challenge is that because information is infinitely copyable,
>>it is hard to 'sell' without giving others 'scale', and since the value
>>of scale is always relative / not absoluteŠ  so the risk becomes that by
>>monetizing your value you also destroy your value (because generally
>>people only need by information once, and two entities with the same
>>information will race to the bottom on the price of re-selling that

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>>information since there is no cost of goods sold).
>>
>>With these challenges in mind, there are two clear channels via which to
>>monetize information (1) Advertising / engagement & re-engagement
>>(Information makes distribution more efficient / effectively ads a
>>multiplier to our first return on scale business) (2) Merchandizing /
>>customization (Information allows companies / people to do better things
>>for their customers, on top of which they can scale revenue and
>>profitability  NB:  things like risk assessment fit in here).
>>
>>Mixing information with distribution to create value you can measure is
>>relatively straight forward.  You simply allow ways of targeting messages
>>extremely narrowly / leveraging everything known about any person.  This
>>effectively makes advertising more efficient / contextual.  The
>>efficiency gains in the system create more margin for us to take.  The
>>best part about this is that the market should 'price' the information
>>efficiently over time.  You do still risk 'leaking' information via
>>clicks on ads, etc; however, this is a very slow leak, and can be mostly
>>dealt with via policies / limiting the use of data to the party that ran
>>the ad.
>>
>>Converting information into better 'merchandizing' means giving a third
>>party the data to use as they see fit.  There should be a bunch of value
>>here, but there are also a lot of issuesŠ  specifically, unlike the
>>distribution market where there is a real / natural scarcity and everyone
>>competes in one finite marketplace (ultimately bracketed by the 24 hours
>>in the day), the value to a developer of being able to provide better
>>'services' is extremely conditional on who the business is / what they
>>do.  It varies widely from industry to industry and company to company
>>and can changes dramatically based on exactly what information exists /
>>is exposed to them via the system.
>>
>>UpshotŠ  the number one threat to Facebook is not another scaled social
>>network, it is the fracturing of information / death by a thousand small
>>vertical apps which are loosely integrated together.  This will either
>>happen because there is fundamentally no 'return' on the centralization
>>of information / the graph OR it will happen because we sell off the
>>graph piecemeal for less than it is worth and in the process destroy
>>efficiency and value.
>>
>>
>>When User/Developer/FB incentives meet / come into tensionŠ
>>Where I come out is that there are (1) parts of platform where we benefit
>>from everyone interfacing with us, like apps publishing for users and
>>apps having Facebook IDs for their users. We don't want to tax those
>>actions directly / we just want them broadly and widely adopted because
>>they drive value for our users and for us in the form of services you
>>enable on top of them.  That said, we also don't want to orthogonally
>>subsidize them.  If users don't want apps to publish for them / we can't
>>create a compelling enough experience, then we should fix that rather
>>than subsidizing / incentivizing with orthogonal value to developersŠ
>>(2) There are other parts of the platform that we currently provide which

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>>have some value, but the value is not very deep or meaningful (basic
>>info)Š we hypothetically could charge for those parts of the platform,
>>but it wouldn't be enough money to matter at this point -- it is too easy
>>for applications to get it elsewhere (3) Finally, there is what I hope
>>can become / will be the deep value of Facebook (something like
>>coefficient)Š the problem is that where the deep value is we don't want
>>to under-price the value, or over price what an app is willing to pay --
>>and that forces us to basically just give a taste and then be ready to
>>negotiate dealsŠ. going line by line --
>>
>>
>>Applications *should be allowed* write to the graph freelyŠ.
>>- Currently rational applications / the free market of apps currently
>>write to Facebook primarily because we give them 'free' distribution
>>(engagement and re-engagement), and they do so in a way which maximizes
>>the free resource we give them over user value / demand right up to the
>>line where a user would 'un-install' the app / not give them the right to
>>publish on their behalf.  While that makes logical sense as a game plan
>>for them, what we want to be the case (and is the case for some of our
>>favorite apps like Instagram) is that they write to the Facebook graph in
>>order to provide user value / because users demand it to express
>>themselves.  We are still pretty far away from being in a place where the
>>app writes to the data for the publishing user, and where we show that
>>content on the publishing user's timeline, and to people in feed as a
>>user value, but the only way that a free and open publishing channel
>>works is when it is moderated by invested users and both sides of the
>>equation are factoring for their benefit.   -- UPSHOT / uncontroversial ;
>>we don't want to limit the ability for apps to write on behalf of users
>>openly and freely, but we need to keep investing to make sure that users
>>are moderating it / want the apps to do itŠ apps also should obviously be
>>able to write on their own behalf (as a page, CRM data, etc) at willŠ and
>>if the data they are writing on behalf of users and or their own behalf
>>helps them target ads better / acquire or re-engage users more
>>efficiently, that is good / healthy for the whole system.
>>
>>Applications *should be allowed* to use 'Facebook login' freely & have
>>many avenues to getting user's IDs
>>- Applications currently use Facebook connect by-in-large in order to (1)
>>get the 'friend' graph that enables their service to be compelling, (2)
>>get the publication rights that resolve to free distribution for them (3)
>>sometimes for the minor benefit of speeding signup* (though in reality FB
>>converts worse than non-FB signup in many cases now) (4) sometimes for
>>the minor benefit of providing easier login for users, (5) in a very few
>>cases for specific access to a specific type of Facebook data (photos,
>>etc.)Š  what they don't do in general is implement Facebook login in
>>order to get user's UIDs and thereby better engage/re-engage them,
>>advertise more effectively, and/or in order to use things like a connect
>>payments solution or get higher CPMs/CPCs on a future tense advertising
>>network.  The trade we should be pushing on / trying to establish with
>>companies is not that Facebook login is in-and-of-itself good, but that
>>by doing it we end up providing you as a company easy to understand, and
>>easy to value benefits either on the cost side or the revenue side of

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>>your business.  --- UPSHOT:  Right now I believe that if you asked an
>>application to implement Facebook connect but didn't give them the friend
>>graph, publication rights in the same dialog, etc. people would have no
>>reason for implementing it at all.  There is no direct value for
>>implementing FB connect.  I think that as we add / if we add good
>>services on top of FB connect / having users logged in like payments/ad
>>network (which monetize on their own obviously) and better paid
>>acquisition channels (which are easy to create a marketplace around and
>>are easy for apps to measure / evaluate, then we have businesses in those
>>areas, and we will want FB connect distributed as widely as possible / we
>>will not want to charge for it.
>>
>>Applications *should be allowed* to read basic information freely
>>- Applications currently get a bunch of 'basic information' and users are
>>not confronted with exactly what they are giving to apps.  We give out a
>>lot of things under 'basic information', some of which really weaken our
>>competitive position like 'email addresses' by opening up a non-facebook
>>channel for applications to reach out to users.  This has troubled me
>>greatly; however, I have come to terms with the fact that for friends
>>already using the app, we simply can't remove what we have already
>>promised and enabling the function provides a ton of user value / value
>>for the world while still making the app go back through our platform for
>>real new-user acquisition.  For things like email, name, profile photo,
>>etcŠ  making these signup elements slightly easier for an app certainly
>>erases some cost / makes the app more valuable, but we really aren't in
>>competitive landscape where these things have meaningful value / where we
>>could charge a lot for them.  First, a user will just give them to the
>>app if the app is good.  Second, tons of other people like apple can now
>>give out the same information.  --- UPSHOT, we should give this
>>information away because it has become worthless to us and allowing users
>>to give away their own basic info provides value to them.
>>
>>Applications *should be allowed* to read/use non-'basic' Information &
>>functions with some key caveats
>>- A scant few applications currently really use any of the APIs we offer
>>beyond the basic information APIs.  Most of the companies that use these
>>APIs (message send, photos export, feed.get, etc.) exist in a competitive
>>grey zoneŠ generally speaking though, there isn't currently all that much
>>more you can do with our platform (though we have contemplated a lot of
>>things that would add a lot of value to other partners).  This is the
>>category where I would put all my eggs in terms of building a dataset
>>which has real return-on-scale dynamics / our actual information
>>monetization schemeŠ As we build up value in this type of data we should
>>certainly / will certainly feed it into the market-mediated ads system.
>>That should easily create more value for all if enabled widelyŠ the
>>question is who do we give the actual data out to and on what terms.
>>Here we face an issueŠ. which is that the same data is just worth
>>massively different amounts to different players.  If we price it too
>>high apps will not consume it, if we price it too low we are giving away
>>one of our only scaleable profit centers.  If we give it to competitors
>>we are sewing the seeds of our own destructionŠ and if we give it out on
>>any general model we are going to lose the ability to effectively

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>>negotiate with people where we really want a piece of the action / a
>>tight business.   -- UPSHOT, we should sell this, but I just don't see
>>any way we can sell it on standard terms.
>>
>>
>>
>>Some select objections and responsesŠ.
>>A few things that I don't like about this proposal but I have come to
>>terms withŠ.
>>
>>We should monetize more of the 'read' side of FacebookŠ  like basic info,
>>or connect, etc.
>>The problem is that the basic platform just isn't worth that much outside
>>of perhaps 'friends also using this app' which with the apple deal is
>>rapidly on its way to commoditization as wellŠ  AND every calculation we
>>have seen shows either that we can't make enough money from the current
>>version of platform for it to matter to us / even with generous
>>assumptions over a fairly long time OR it seems prohibitively expensive /
>>not worth it to our developers (with the exception of people that make so
>>much money they wouldn't notice).
>>
>>BD deals / any structure that relies on them crushes innovationŠ.
>>This is generally true, BD sucksŠ entrepreneurs don't want to talk to
>>people or wait days to get something they need.  That said, this proposal
>>is basically that the core of the APIs where there is rational value
>>exchange, etc. is open and freeŠ and I would argue that the people that
>>will want to use our higher end APIs are going to be more sophisticated
>>people anyway / at least for a long time.  We should invest to make this
>>as painless as possible, have a 1 hour turnaround time, etcŠ. but I just
>>keep coming back to the fact that I actually really want to / think we
>>need to talk to every person who wants to leverage our higher-end data.
>>
>>Not having transparent pricing will make people wary to invest in the
>>platformŠ
>>TrueŠ  again though, it is a specific part of platform which I am saying
>>we require BD for, not the whole thing.
>>
>>We suck at picking winners / BD will force us in that direction and as a
>>result we will miss big opportunities
>>Probably true, but again, better than the alternative.  and the APIs that
>>are 'free' under this model really should be enough for all but the most
>>sophisticated businesses to get up and running.
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