



# Becoming Facebook

The 10 Challenges That Defined the Company That's Disrupting the World

Mike Hoefflinger  
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## Rating

8 8 Applicability  
8 Innovation  
8 Style

## Focus

### Leadership & Management

Strategy

Sales & Marketing

Finance

Human Resources

IT, Production & Logistics

Career & Self-Development

Small Business

Economics & Politics

Industries

Global Business

Concepts & Trends

## Take-Aways

- Facebook starts and ends with founder Mark Zuckerberg's mission to connect people.
- It has a calculated growth strategy and seeks international expansion.
- Facebook measures growth by engagement rather than metrics.
- To foster engagement and keep users from "bouncing," Facebook launched News Feed in late 2006.
- News Feed puts the entries that matter most to you at the top of your Facebook page in a type of "reverse chronological order."
- In February 2009, Facebook launched the "Like" button.
- Facebook bought Instagram, the second-ranked social media network, in early 2012.
- Despite a disastrous IPO in May 2012, Facebook rebounded and is worth billions today.
- Facebook offers a stripped-down, free version of its app in less-developed countries.
- Critics in these nations accuse Facebook of "digital colonialism" and violations of net neutrality.

# Relevance

## What You Will Learn

In this book summary, you will learn: 1) How Facebook developed and continues to grow, 2) How Facebook stays true to its mission, and 3) What Facebook may do in the future.

## Review

With more than one billion daily users – 90% using cellphones – Facebook has changed how people communicate. Silicon Valley veteran Mike Hoefflinger discusses Facebook’s ups and downs, beginning with its humble origins in 2004. Facebook has managed to stave off competition from MySpace, Google+ and others, but it has faltered on some internal projects, and it struggles to make inroads in less developed countries. This overview covers Facebook’s mission, explosive growth, acquisitions and future projects. Even though Hoefflinger was once a Facebook employee, his analysis of it seems objective. He does a good job of explaining its successes, struggles and failures. *getAbstract* recommends his overview to executives, manager, technology employees and Facebook users. You’ll like this detailed report and you may want to become its friend.

# Summary

*“You’d think free would be easy to grow. Not so much.”*

*“The reason a lot of people do not recognize opportunity is because it usually goes around wearing overalls looking like hard work.”*

## Mark Zuckerberg

Mark Zuckerberg, Facebook’s founder, was born in 1984 and grew up in a middle-class family in Dobbs Ferry, New York, about 20 miles north of Manhattan. He learned programming basics from his dad, and became obsessed with connecting people online. Before Zuckerberg created Facebook in his Harvard dorm room, he created CourseMatch, which allowed Harvard students to post their social and academic interests online, and then FaceMash. To launch FaceMash, Zuckerberg hacked into Harvard’s residence houses and uploaded student pictures, violating their privacy and US copyright laws. Harvard put him on probation, but this led to the founding of thefacebook.com on February 4, 2004.

## Explosive Growth

“Facebook’s success was, from the beginning, a conscious pursuit of constant growth.” In February, three other top universities quickly followed thefacebook.com – Columbia, Stanford and Yale. Six more universities followed in March. More universities joined in April, including the universities of Virginia and Illinois. Cross-school connections flourished. By the end of 2004, Facebook had about one million users across US colleges. In September 2005, Facebook opened to US high schools and to 20 United Kingdom universities. By the end of the year, 25,000 high schools and 2,000 US colleges had access, as did colleges in several other nations, including Canada, Mexico, Australia, New Zealand and Ireland. In September 2006, Facebook opened access to everyone. By 2007, it had 50 million users. Then growth stagnated.

Facebook decided to focus on “engagement” to measure growth, defined as “the number of people who found enough value to use Facebook on a regular basis.” Facebook became more precise and sophisticated in tracking user engagement. It made a deal with Google allowing Google users to search publicly available Facebook profiles. Users could import contacts from major email providers such as Hotmail, Yahoo, AOL and Gmail into their Facebook feeds, which meant they could send emails inviting all their friends to join Facebook. As of early 2016, Facebook was the top-ranked social network in

*“Computers may not reason easily, but they are very good at ingesting data and doing math.”*

*“When you are skilled but not challenged, you are bored. When you are not skilled but highly challenged, you are anxious. When you are neither skilled nor challenged, you are apathetic.”*

*“One of the most institutionalized examples of the engagement-focused culture at Facebook is the practice of newly hired engineers selecting their chosen team – as opposed to the other way around.”*

*“Reward the thoughtful. Punish the thoughtless.”*

129 countries and had one billion daily users. Instagram, which Facebook acquired, ranks second in 41 of those countries. Challenges remain in certain global markets, particularly China, Russia, Japan and South Korea. The government of China blocks Facebook, and local versions are more popular in Russia, Japan and South Korea.

## News Feed

Chris Cox has been on Facebook’s staff for more than a decade and still participates in new employee orientation, sharing the company’s mission “to make the world more open and connected.” In early 2006, Facebook had six million online users, but they were “bouncing” to other sites. Cox and his team came up with personal News Feed, to run the items that mattered most to individual users first on their Facebook pages. “Facebook News Feed launched on September 5, 2006. It did not go well.” News Feed showed what your connections were doing, but created privacy issues. Items that once were buried on your home page were now posted for all to see. Initially, most users disliked this exposure. News Feed became a dominant force just as cellphones became the most popular platform for viewing news, information and Facebook. News Feed benefits from economies of scale. As more people use it, the free market dictates what is most relevant to most users.

In February 2009, Facebook launched the “Like” button, which changed News Feed’s algorithm. It allows users to click “like” for items they favor, and it lets Facebook more easily measure user engagement. It can gauge how quickly Likes increase or don’t increase for specific bits of information. Facebook started to use online surveys to request direct feedback. News Feed asked users what they want to follow or see more of, and what they explicitly don’t want to see. In June 2016, Facebook announced that family and friends would receive a higher priority on News Feed than messages from publishers and businesses, because “friends and family come first.”

## Instagram

By 2012, Facebook had more than 900 million users worldwide and had extinguished threats from MySpace, Twitter and Google+. Then came Instagram. Kevin Systrom, CEO of Instagram, first met Zuckerberg and Facebook co-founder Adam d’Angelo at Stanford in 2004. They were unable to convince him to join their newly formed company. In early 2010, Systrom and his deputy, Mike Krieger, created Burbn, a social network heavy on features and location information. Burbn topped out at 1,000 people and faced stiff competition from Foursquare, SCVNGR and Facebook’s Places. Systrom and Krieger worked feverishly to pivot Burbn into something users cared about: sharing photos in a social media app. On October 6, 2010, they launched Instagram, allowing users to: take square pictures, apply 11 filters, share pictures, including on other social media platforms, and discover and “like” images in a photo-only news feed.

Instagram remains virtually unchanged today, and that is its strength. It caught the attention of big investors, including Zuckerberg. Although Instagram had several suitors, including Twitter and the venture capital firm Sequoia Capital, Facebook purchased it after Zuckerberg invited Systrom to his house and made a \$1 billion acquisition offer. Two and a half years later, Instagram would have more monthly users than Twitter. By September 2015, it reached 400 million monthly users. The pricey gamble paid off for Facebook. It helped that both founders had similar visions and had first come to know each other years earlier.

## IPO Madness

Before its IPO, Facebook added the following statement to its S1 registration document

*“Facebook intends to respect and operate within the [Google] system on the way to finding success.”*

*“Remember that massive change in Instagram’s infrastructure back in 2013 when it had 200 million users and more than 20 billion photos? Me neither.”*

*“At more than 600 monthly million users as of December 2016, Instagram has grown to be larger than Twitter in terms of users and much larger than Twitter in terms of people’s time spent.”*

*“Virtual and augmented reality are powerful magic, so the current push is not the first time the industry has tried their hand at it.”*

on May 9, 2012: “We do not currently generate any meaningful revenue from the use of Facebook mobile products, and our ability to do so successfully is unproven.” Two days before the IPO, General Motors said it wasn’t seeing a return on its investment after having spent \$10 million or more the previous year to advertise on Facebook. But demand for Facebook was so high that NASDAQ could barely keep up on the morning of its IPO, May 18, 2012. Trading opened with a 30-minute delay, and Facebook trades took as long as three hours to process.

Facebook opened its IPO at \$42 per share, but by September 4, 2012, each share was worth only \$17.73. *The Wall Street Journal* labeled Facebook’s IPO a “fiasco.” Zuckerberg discussed his concerns at the TechCrunch Disrupt conference on September 11, 2012. The public found him refreshingly honest, and Facebook saw a 4.6% boost in its stock price after the conference. By October 24, 2012, Facebook shares had rebounded to \$23.32 and they continued to trend upward, reaching \$57.96 on December 24, 2013. By May 2016, the stock was up to \$120 per share, making Facebook worth nearly \$350 billion. It is the most-used app in the US and in most other nations; 48% of mobile phone users say Facebook is their most-used app, and 80% say it’s among their top three apps.

### Worldwide Access

As of 2015, four billion people worldwide lacked Internet access. In South Asia, only 17% of 1.4 billion people have an Internet connection and in sub-Saharan Africa, it’s 19% of 800 million people. Users in these areas may have cellphones, but they lack data plans and, thus, web access. Others lack electricity. Those in rural areas and women, who worldwide are more likely to be illiterate and have less money, particularly lack access. “The connectivity challenge is a vicious circle: It is harder to increase your income if you’re not connected, but it is harder to become connected if you cannot increase your income.”

Three major obstacles inhibit connectivity: availability, affordability and awareness. Today, more than one billion people live in areas with no Internet connectivity. Infrastructure costs a lot but offers little return on investment. Facebook must work with local providers to develop communication networks. Affordability doesn’t rest on the cost of the phone – many smartphones sell for \$50 or less – but on the cost of the data plan. In a survey of 42,000 people across 11 countries in Latin America, the Asia Pacific and Africa, “85% of the unconnected did not know what the Internet is, and half had never even heard that word.” To solve this problem, Facebook built a simplified experience called Free Basics to introduce users to the Internet. This stripped-down version of the Facebook app works with local telecommunications networks. Free Basics launched in Zambia in July 2014. By April 2016, it had spread to 25 million people in 37 countries.

The service provoked controversy. Facebook faced accusations of “digital colonialism” and criticism for undermining “net neutrality,” the “principle that no telecommunications operator should throttle, differentially price or block access to any service on the Internet.” Advocacy groups criticized Free Basics because it offered only a small portion of the Internet for free. Digital colonialism occurs when a strong group of people takes advantage of a weaker group. More than 60 advocacy groups from 31 countries expressed their concerns to Facebook in an open letter in May 2015. India’s Telecom Regulatory Authority (TRAI) blocked Free Basics in February 2016, despite Zuckerberg’s close relationship with the Indian Prime Minister and his op-eds in *The Times of India*.

Facebook is still working with local governments on these issues as it embraces the future with new technologies, such as virtual reality (VR) and augmented reality (AR). On

*"In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking risks."*

*"An appetite for wildly irrational levels of risk and celebration of failure are two of the most central aspects of Silicon Valley and its lore."*

*"It's impossible to be bold without the best people, and for the very best people, it's not a matter of where they can work but where they want to work."*

March 25, 2014, Facebook acquired Oculus VR for \$2 billion. Oculus designed high-tech goggles that give gamers a unique experience. With VR, you can watch an NBA basketball game as if you're sitting courtside, or view a professor teaching a class in a lecture hall halfway around the world. Augmented reality (AR) seeks "to overlay visual information on your existing world rather than replacing that world entirely." Like its VR cousin, AR will come in glasses with clear lenses that display information. VR and AR will deliver three-dimensional experiences, hence Facebook's interest. While VR and AR are not yet widespread, they will become more mainstream in the future.

### Threats, Failures and Lessons Learned

Facebook dominates social media because of its people: Zuckerberg, COO Sheryl Sandberg, Cox and chief technology officer Mike Schroepfer may be irreplaceable. Other than possible loss of key personnel, Facebook's threat vectors include shifting consumer attention spans, product effectiveness and revenue, host platforms, government intervention, and more. Will people keep using Facebook, or drift to other platforms such as Snapchat Discover or Twitter? Facebook dominates on cellphones, but it could lose ground if viewing habits shift to VR and AR – which is why Zuckerberg pre-emptively purchased Oculus VR. Facebook depends on "two landlords": Apple's iPhone iOS and Google's Android phone. Facebook must abide by their terms and conditions. The three depend on each other. Facebook also is subject to government intervention, especially in nations that restrict content.

Facebook has institutionalized its risk and chance of failure. Facebook has bounced back after failing at many things, including: Virtual Gifts (2007-2010), Deals (2011), Sponsored Stories (2011-2014), Karma (2012-2014), Home (since April 2013), Poke (2012-2014) and Paper (since January 2014). Some were failed applications or mobile applications. Others were failures in advertising or acquisitions. Examining its successes and failures, Facebook learned 10 lessons:

1. **"Know whether this is your next thing or your last thing"** – When Zuckerman turned down Yahoo's million dollar offer, he knew what the future could hold.
2. **"Add by subtracting"** – Overloaded users need "fewer things that matter more."
3. **"Know your north star"** – Understand your "magic moment" and "core product value," so you can track what matters to your audience.
4. **"Democratize something for customers of all size"** – Facebook sells News Feed ads by auction so they are accessible to companies at scale.
5. **"Speed is a feature"** – Maximize infrastructure to make your service quicker.
6. **"Crossing the chasm is the best defense"** – In a competitive race, reach out to customers and work your strengths.
7. **"Disrupt yourself before someone else does"** – Disruption is coming, so do it yourself.
8. **Play the "long game" but don't neglect business** – Zuckerberg can pursue Japan, China and India for the long run because Facebook is doing well elsewhere.
9. **"Employee engagement is everything"** – Assign people "their most engaging work."
10. **"Care more"** – Facebook succeeded by being passionate about its mission.

## About the Author

**Mike Hoefflinger** is the entrepreneur-in-residence at XSeed Capital in Silicon Valley. He has worked in Silicon Valley for 25 years, including stints at Intel and Facebook.