

Facebook Sells More Access to Members

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- Facebook is experimenting with new ways to leverage its greatest asset—personal data on about 900 million people—reigniting concerns about privacy. The strategy: selling access to its users.
- To amp up the effectiveness of its ads, Facebook in recent months has begun allowing marketers to target ads at users based on the email address and phone number they list on their profiles, or based on their surfing habits on other sites.



- It has also started selling ads that follow Facebook members beyond the confines of the social network.
- Ranking privacy advocates most, Facebook is using its data trove to study the links between Facebook ads and members' shopping habits at brick-and-mortar stores, part of an effort to prove the effectiveness of its \$3.7 billion annual ad business to marketers.
- But in doing so, the Menlo Park, Calif., company treads a fine line between using consumer data to attract marketer dollars and living up to its promises to users and regulators to keep that data private.
- Many of Facebook's new services echo ad-targeting capabilities that companies such as Google Inc. and Yahoo Inc. have offered for years, and Facebook said it takes pains to follow industry data practices.
- Facebook maintains it doesn't sell data about individual users to advertisers, or even let them directly see the data. But privacy advocates say Facebook deserves special scrutiny because it has in many cases more personal information about people's real identities than other Internet companies, raising the potential for abuse.
- At the core of Facebook's expanding ad strategy is the fact that the social network knows a lot about its users' true identities. While Google largely makes inferences about people based on their searching and browsing habits, Facebook is built on people volunteering personal information that's valuable to marketers, including names, friends, phone numbers and tastes.
- In September, Facebook began allowing marketers with their own lists of email addresses and phone numbers to target ads at specific groups of Facebook users of at least 20 at a time. Facebook matches up that outside data with information users have entered into their profile.
- Over the summer, Facebook also began using its identity data to experiment with selling ads on other websites and apps.
- Facebook recently began placing ads on game site Zynga.com, for instance, and in September announced it would begin placing ads on third-party smartphone apps. In both cases, it can target ads to specific people because they're logged in using their Facebook accounts.
- In August, the social network disclosed it was working with data-mining company Datalogix to track whether seeing ads on Facebook leads users to buy more products from those advertisers in physical stores.

- Datalogix collects information from retailers about what products customers buy in stores, and works with Facebook to compare that to email addresses and other data about Facebook users to understand which of those people may have seen Facebook ads for particular products.
 - The tests, which have run on nearly 50 Facebook ad campaigns, show that in 70% of cases, \$1 spent on Facebook advertising leads to \$3 in incremental sales, Facebook said.
- EPIC said Facebook had violated a settlement the company made with regulators in July that requires the social network to clearly disclose and obtain consent from users before sharing information with a third party.
- The open question is whether Facebook users will find the services unsettling enough to stop using the site. Facebook executives said users click on better-targeted ads—which is a sign that they like them.

Facebook Gives a Gift to Investors

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- A new product that extends Facebook's business from advertising into commerce is one of a series of initiatives that could very well make that surge possible.
- Right now, Facebook isn't able to generate much revenue from its billion-strong base of active users.
- The problem is made more difficult as users increasingly access the site from mobile devices, where the advertising market is in its infancy.
- The new product, called Facebook Gifts, lets users send items directly to each other using a new "gift" button. Being rolled out slowly, it is a natural extension of Facebook's postings of birthdays, wedding announcements and baby arrivals.
- And sending gifts on Facebook can be easier than other ways because you don't need to enter an address. Recipients fill that out themselves.
- Most promising, though, is a new piece of user information that Facebook captures in the process: credit-card numbers.
- For instance, businesses of all types have created Facebook pages. Why not post products for sale there? The ability to generate cash from "likes" isn't clear. But the commercial potential from a "buy" button, with commissions coming back to Facebook, could be quite large.
- For the moment, Facebook's biggest advertising play is an initiative allowing advertisers to buy space directly in the user feeds that stream posts from friends. The risk is that such ads alienate some users. Done right, though, the initiative should make more money than the ads running down the right-hand side of its pages.
 - the news feed is where user eyeballs are focused, both on desktops and mobile devices.
- Scale is the basic reason to be excited about Facebook in the long run. None of the company's revenue initiatives are likely to pay off right away. The good news for investors is that many users remain glued to its service, so there is time to get things right.
- mobile users don't generate as much advertising as desktop users, but Facebook says mobile users are 20% more likely to access its service every day.

Facebook Clicks on Commerce

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- The best part of the new Gifts product that the social network rolled out to "tens of millions" of U.S. users on Thursday night isn't simply that it is a natural way to get users to spend money. It's that when they do, Facebook will capture their credit-card information. And that could open up some interesting e-commerce opportunities.
- thousands of websites and mobile apps allow users to log in with their Facebook user name and password. What if, in addition to "logging in with Facebook," sites allowed users to "pay with Facebook?"

Facebook Executives Sell as Restrictions Expire

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- Facebook executives including Sheryl Sandberg have sold a portion of their stock in the social site as restrictions on insider sales at the company have lapsed, according to filings with the Securities & Exchange Commission.
- Ted Ulyot, Facebook's general counsel, recently sold nearly 150,000 shares at average prices ranging between \$20.99 and \$21.14, according to a regulatory filing.

- Meanwhile Facebook Chief Accounting Officer David Spillane sold 256,000 shares at an average price of \$21.04, filings show

Facebook to Join Nasdaq-100

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- Facebook, which made its market debut in May and has a market capitalization of \$30 billion, is the largest company not currently included in the Nasdaq-100, so its addition had been expected. The index tracks the 100 biggest nonfinancial firms listed on the Nasdaq exchange.
- Inclusion on Nasdaq's index wasn't expected to have a big impact on Facebook's share price. Its addition to the Standard & Poor's 500-stock index—which would spur buying by the many fund managers who track it—is considered likelier to give shares a boost. While the S&P requires at least six months of seasoning, it also retains further discretion over additions. Google Inc. for example, didn't join the S&P 500 for more than two years after its Nasdaq listing.

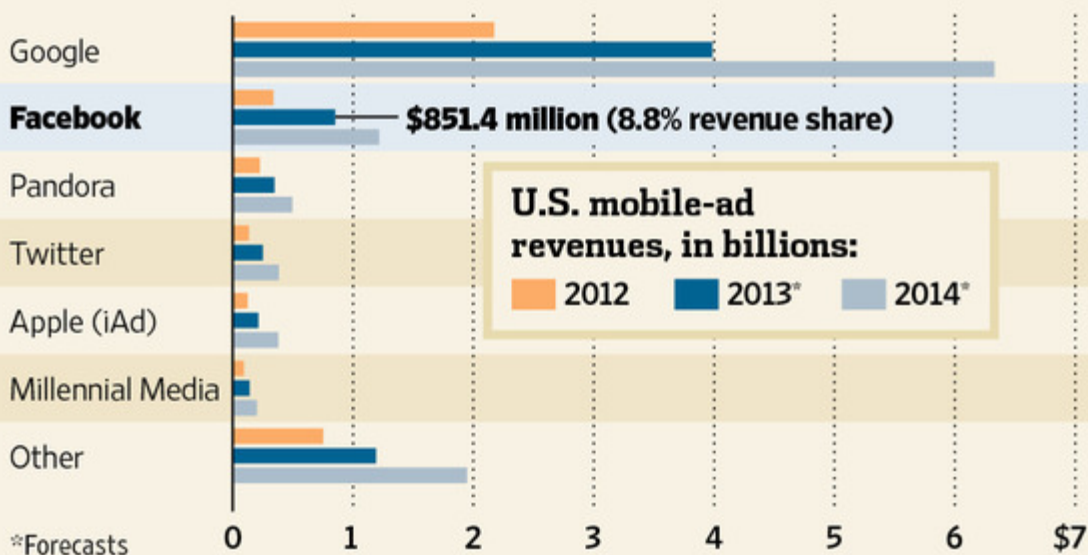
Facebook's Wal-Mart Gambit

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- Over the next 72 hours Facebook and Wal-Mart rolled out the social network's biggest mobile-advertising campaign ever, consisting of 50 million ads. Wal-Mart's discounted deals on toys and televisions popped up in the Facebook mobile news feeds of tens of millions of people.
- Unlike previous campaigns, for which companies paid Facebook only after users saw their ads, Wal-Mart prepurchased the ads and edged out other retailers for space during the all-important kickoff to the holiday shopping season.
- Facebook now is considering making the option available to other companies.

On the Small Screen

Facebook introduced mobile advertising only earlier this year, but it is expected to generate the second-highest amount of mobile-ad revenue among its rivals next year.



Note: Includes display (banners and other, rich media and video) and search; net revenues excluding traffic acquisition cost; ad spending on tablets included.

Source: eMarketer, Dec. 2012

The Wall Street Journal

- Wal-Mart's results from the Facebook advertising push ended up mixed. While Mr. Quinn said he "never saw this level of engagement" before with a digital-ad campaign, which attracted more than 100,000 comments, the

retailer's Facebook page also was littered with comments from users complaining about unwanted ads, among other things.

- it increasingly is moving beyond that question and trying to deepen relationships with some of the world's biggest advertisers by tailoring ads to those companies and using those brands as labs to test new ad products
- The battle ahead is shaping up to be a long one. [General Motors](#) Co. [GM 2.34%▲](#) pulled its Facebook advertising budget on the eve of the social network's IPO after deciding that paid ads on the site had little impact on consumers' car purchases. The auto maker hasn't resumed ad purchases with Facebook. There also is concern that Facebook's coziness with big brands could alienate other companies who don't get the same treatment.
- Facebook has tried to reposition itself as more attuned to advertisers' specific needs. Over the past 12 months, it reorganized its marketing team around industries, such as retail and automotive. And in September, Facebook began pushing staff to begin their approaches to advertisers with questions about their needs, instead of making a generic sales pitch.
- Facebook is applying customized ad techniques to other companies, such as [Samsung Electronics](#) Co. [SSNHZ 0.00%▲](#) In a recent ad campaign for Samsung's Galaxy S III smartphone, Facebook worked with the South Korean company to serve special video ads and promote Facebook posts from the handset maker's partners. Both features had never been used before. Samsung said it is now committing about a third of its total digital-advertising budget exclusively to the social network, up from less than 10% a year ago, but declined to reveal the underlying numbers. The ad campaign led to about \$129 million in sales, about a 13 times return on investment, Samsung and Facebook said.
- This summer, Facebook worked with [General Electric](#) Co. [GE 2.76%▲](#) to create a health application ahead of the London Olympics. Facebook engineers guided GE's team through the social network's programming code and gave suggestions on design. GE, which didn't have a page or ads for the company itself on Facebook until last year, later bought Facebook ads to promote the app.
- Using Facebook helped Wal-Mart make some quick changes. When Wal-Mart saw a pair of \$88 speakers weren't selling as quickly as expected on Friday, it posted the item on its Facebook page as a "special buy." Wal-Mart said the item soon sold out across the U.S.
- Wal-Mart's Mr. Quinn said the campaign nonetheless reaffirmed how social media, and particularly Facebook, are becoming central to his business.

Facebook's Rally: Can It Last?

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- Facebook buoyant stock price has surprised the doubters, including me, by weathering a flood of shares entering the stock market.
- There are lots of reasons for the turnaround. The biggest: a \$2 billion stock buyback announced Sept. 4. As a matter of value, the move wasn't significant. It represented just 5% of the company's stock-market value at the time. Its real value was as a gesture; the move showed Facebook was concerned about its value and image among investors.
- Perhaps just as significant was a simultaneous pledge by [Mark Zuckerberg](#), Facebook's founder and chief executive, that he wouldn't sell his shares or exercise options for at least another year.
- Two more waves of shares will hit the market in the next six months. The next pile comes Dec. 14, when a lockup on 149 million shares expires. In May, another 47 million will become eligible for sale.

With Instagram, Facebook Spars With Twitter

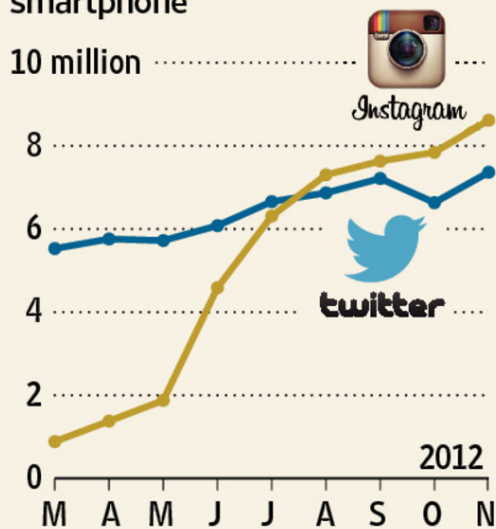
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- Facebook Inc.'s Instagram was caught in an Internet uproar over new terms of use for its photo-sharing service. After hours of irate customer reaction, Instagram clarified its approach, saying that it would not—as users feared—sell photos or use them in advertising.
- Facebook is pushing to churn profits from Instagram, which had no revenue when it agreed to an April purchase for roughly \$1 billion.

- And to do so, it is heightening a rivalry with Twitter Inc., which was once the primary venue for sharing Instagram's stylized photos online. In recent months, the two have been increasingly at odds over their technology, strategy and now competition for mobile advertisers.
- Last week, Instagram disabled a feature that allowed its users to post their photos directly into Twitter.
- Twitter quickly struck back, announcing new digital image "filters" for its own photo-posting features. The filters, which are similar to those on Instagram, allow people to make over smartphone snapshots in black and white or in movie-style looks.
- Instagram has quickly become a formidable threat to Twitter. In August, Instagram reached 7.3 million daily active users, exceeding Twitter's 6.87 million for the first time, according to comScore.
- Since then, the gap has widened. Last month, Instagram had 17% more daily active users than Twitter, according to comScore data. On average users spent 321 minutes on Instagram in November, versus 146 minutes on Twitter, according to comScore.

Snapping Up

Average daily visitors via smartphone*



*Data includes iOS, Android and RIM platforms
Source: comScore The Wall Street Journal

- it is unclear what Instagram ads will look like. On Instagram's blog, Mr. Systrom said the company is still planning to experiment with ad products, but he said one type of ad could promote the accounts of brands that a user's friends are following.
 - That type of ad would be somewhat similar to Twitter's Promoted Accounts, which appear throughout the site and encourage users to follow relevant brands.
- On Monday and Tuesday, Instagram users flocked to Twitter and to Instagram's Facebook page to air their grievances over the new terms of service. Even celebrity Instagram users such as actress Tiffani Thiessen said they were planning to close their accounts. National Geographic said Tuesday on Instagram that it would suspend new posts because it was concerned about "the direction of the proposed new terms."
 - Late Tuesday, Instagram scaled back its terms of service, which go into effect next month.
 - In a blog post, Mr. Systrom announced the company was tweaking the language of the policy to make it clear that Instagram would not sell users' photos.
 - He also said he would remove language that implied that users' photos could be part of advertisements.
- Still, Mr. Systrom reminded users that Instagram was designed to ultimately make money: "From the start, Instagram was created to become a business."

Apple vs. Google vs. Facebook vs. Amazon

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- Software giants including Google and Amazon are interested in ramping up hardware to boost customer loyalty and to extend control over their software services and the revenues that flow from them. That is heightening their collision course with Apple, which is responding by building more of its own software to make its devices stand out.
- Facebook Chief Executive [Mark Zuckerberg](#) riffed on the myriad ways that friends could provide useful answers. He said the company would expand its search capabilities in the future.
- "They are all getting into each other's market," said Opus Research analyst Greg Sterling. "It is a land grab in a way" to appeal to developers, who can help make their services truly ubiquitous.
- And to counter Facebook, Google has pushed users of its search engine, Gmail and other services to sign up for Google+, which is a cross between Facebook and Twitter Inc. that allows people to share news, photos, videos and more
- Next year, the focus will be on the social network's continuing transformation into a mobile-centric business and how far it is willing to go to own the smartphone experience.
- Over the past year, the Menlo Park, Calif., company has rewritten its mobile applications, rolled out mobile-advertising products and promoted new stand-alone mobile applications, such as its messenger service.
- Mr. Zuckerberg has publicly quashed rumors that the company is building a Facebook phone, calling such a move "wrong strategy." However, people close to the company said Facebook has worked closely with handset manufacturers, such as [HTC](#) Corp., to design phones.
- Facebook is also expected to ramp up its search offerings next year. This month, it released a new mobile feature that helps users discover nearby businesses based on their friends and the broader social network.
- And e-commerce will become increasingly important to Facebook, as it builds its recently launched Gifts business. The e-commerce platform—which lets users send goods, like [Starbucks](#) gift cards and cookies, to friends—poses a threat to Amazon, especially as Facebook adds more retail partners.

Facebook Simplifies Privacy Settings

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- Facebook, which has been criticized in the past for its handling of user data, changed the design of its site to make privacy controls more prominent and said the shifts make it easier for members to manage what they are sharing.
 - The changes include the addition of a new shortcut in the main tool bar to manage key settings such as how to block certain users, more language throughout the site to clarify how information is being shared, and a tool that makes it easier to change privacy settings on multiple photos at the same time.
- With the changes, Facebook is also taking away the option to hide oneself from the main search tool. Previously, a user could opt to keep his or her timeline outside of search. The company said very few people used this option, and a person's timeline was discoverable through other avenues on the site, which made the option less relevant.
- The move rankled some privacy experts, who believe it could violate Facebook's recent settlement with the Federal Trade Commission. Earlier this year, Facebook reached a settlement with the FTC related to privacy changes it made in 2009, which regulators deemed "unfair and deceptive." As part of the settlement, Facebook agreed to privacy audits for 20 years.
- While Facebook wants to be seen as a trusted guardian of information, its value as a social network and as an advertising platform is directly correlated to the amount of information that users share on its site via status updates, photos, "likes," and other actions. At several turns in Facebook's eight-year history, privacy advocates have taken the service to task for not clearly communicating how personal information is being used and not providing adequate controls.
- Under the new changes, Facebook users can now review the history of their activity by type of post, such as photos and comments, and further sort the content by audience. The feature allows users to see in more detail which posts are being seen by different audiences
- In addition, Facebook is changing the way members give third-party applications permission to make posts on their behalf. In the past, people gave applications permission to post on their behalf when they signed up for the app. Now, apps will have to ask users for that permission in a more prominent separate screen.

Facebook Tests Charging \$1 to Send Some Messages

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- Facebook said Thursday it has begun testing a system for users to send messages to people outside their immediate circle of social contacts for a payment of \$1, as the company continues to find new ways to capitalize on its popularity.
- Only individuals would be allowed to send messages using this feature. So a brand such as [Coca-Cola](#) couldn't send bulk emails to groups of users.
- For now, Facebook said it is limiting the feature to a small group of people in the U.S., and capping the number of messages that anyone can receive through this route to one per week.
- The latest move comes a few months after Facebook started testing a separate service that enabled users to pay \$7 to make their personal posts more visible among contacts on the site.

SEC Postpones Ruling on Nasdaq's Facebook Plan

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- In July, Nasdaq proposed a \$62 million, all-cash compensation package that would be split up among afflicted firms—a plan that itself was modified after an outcry over the terms of the original \$40 million proposal of cash and discounted trading fees. Estimates of Wall Street's total losses in the Facebook debut on May 18 have been put at some \$500 million.

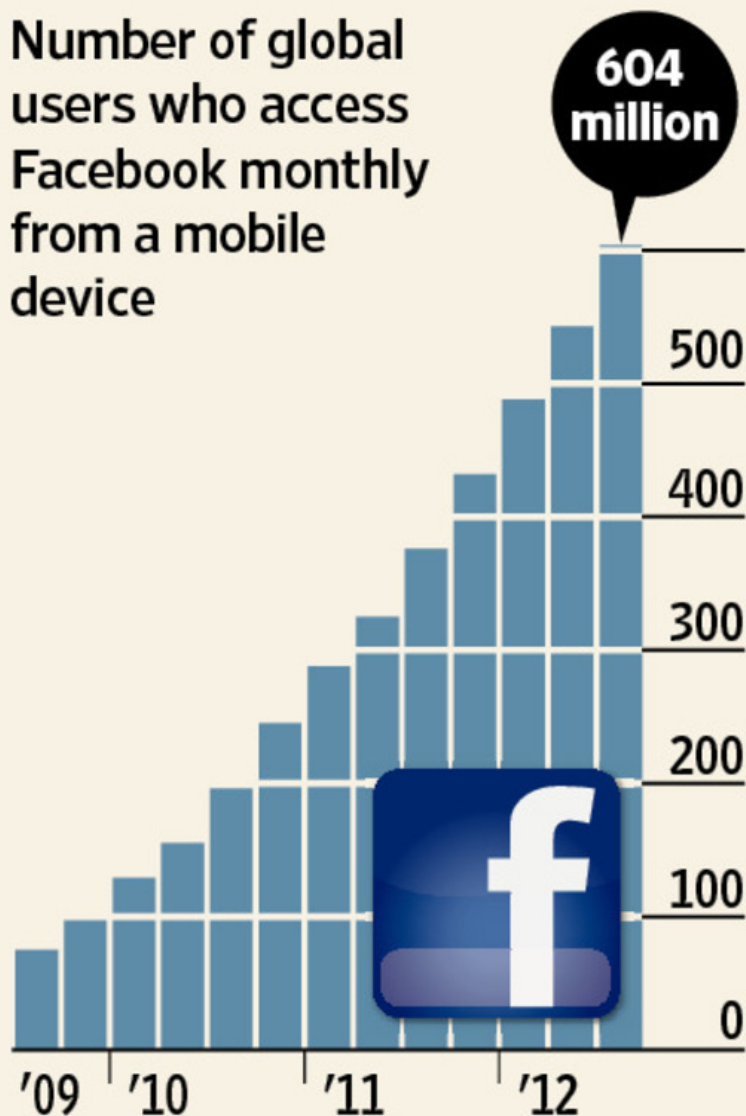
Even Facebook Must Change

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- To reclaim its status as a \$100 billion company, Facebook is re-engineering itself into a mobile business.
- Just over a year ago, Facebook's mobile business barely existed. Less than two dozen engineers were working on mobile applications as the social network focused on growing its desktop business to a billion users. While Facebook was a popular mobile app on [Apple Inc.'s AAPL 2.26%▲](#) iPhones, users complained the software was slow and frequently crashed.
- All of that began to shift in late 2011 when Facebook Chief Executive [Mark Zuckerberg](#) realized he had miscalculated. Facebook's own data showed that a large number of users—the company declined to say how much—were going to their phones' Web browsers to access the social network. Meanwhile, mobile startups such as photo-sharing service Instagram were emerging as threats.
- Today, hundreds of Facebook's roughly 1,000 engineers are coding for mobile on any given day, including those acquired from Facebook's purchase of Instagram last year.
- Facebook is holding on-campus classes on Google Inc.'s Android and Apple's iOS mobile operating systems. And it has bombarded consumers and marketers with new mobile products, such as a number of mobile-ad formats and a messaging and photo-sharing application called Poke.
- "Facebook's initial brilliance was Web development," said Cory Ondrejka, vice president of mobile engineering. Now, however, "I couldn't imagine a model where all of Facebook wasn't working on mobile."
- In the prior quarter, Facebook showed some glimmers of mobile growth, posting mobile-ad revenue of \$153 million, up from zero a year ago.
- Facebook's missteps with mobile go back to 2006, when the company began building mobile applications. The company bet heavily on HTML5, a programming language that created a basic mobile experience across smartphones and allowed Facebook to be less dependent on Apple and Google's operating systems. But relying on HTML5 also meant Facebook didn't make more fully-featured and speedier apps to run on Android or iOS operating systems.

On Small Screens

Number of global users who access Facebook monthly from a mobile device



Source: the company
The Wall Street Journal

- Last August, Facebook released the revamped mobile app for iOS, followed four months later by an Android version. While the apps don't look different from Facebook's previous versions, they run substantially faster, a critical improvement to help keep users on the mobile app and serve them more ads.
- At the same time, Facebook ramped up its mobile-ad offerings. The first mobile ads in March were "sponsored stories," which would link back to a brand's mobile page. To make the ad format work, Facebook had to make sure that marketers had vibrant pages to promote.
- The company had to blow up some preconceived notions of how to make money off mobile. Previously, Facebook expected to profit from the sale of virtual goods in mobile games, much like how it takes a cut of such sales from desktop games that run atop the social network. Instead, Facebook found that many mobile game developers were reaching consumers directly with their stand-alone apps and didn't need the social network to host the games.

- So in October, Facebook rolled out a new ad program so developers could pay the social network to promote mobile installations of their games.
- Internally, Facebook's engineering corps also had to be retrained to better understand mobile technology. In July 2012, Mr. Shaver organized on-campus classes for mobile training, which are taught by outside consultants. So far, more than 400 people have gone through the program.
- Facebook also began recruiting more mobile experts. But because Facebook's mobile apps hadn't been cutting edge and the interview process was choppy, "we lost candidates," Mr. Ondrejka said. While the situation has improved, at the time, "people would fall through the cracks, or they just left."
- Poke App FB News: <https://about.fb.com/news/2012/12/introducing-poke-for-mobile/>
 - Still, Facebook's progress in mobile is coming in fits and starts, as underlined by the company's recent Poke mobile app. Released in December, Poke allows people to send messages and photos that self-destruct. The app competes against Snapchat, a popular rival mobile app.

Facebook Calls Up a Search Party for Revenue

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- Chief Executive [Mark Zuckerberg](#) on Tuesday announced Facebook's new search tool called "graph search." The promise of graph search, which uses the database of social information that Facebook captures on its site, is to answer the questions that a traditional search engine like Google can't compute.
- The commercial potential for such a tool is similar to the service Yelp offers today, though instead of random reviews from strangers on nearby restaurants, Facebook users might find out that a friend has been to the Maggiano's down the road and liked it a lot. That would be much more useful.
- Graph search is still in an early test phase, and so, to start, Facebook is rolling it out to only a limited number of users and not on mobile. But the social network recently unveiled a similar mobile tool that offers a peek at how graph search can help businesses. Facebook users that tap the "Nearby" tab in its mobile app see a collection of nearby establishments with Facebook pages that are "liked" by the user's friends. Those are potentially very powerful recommendations coming from friends.
- The challenge for Facebook is that its users may have to create lots more content for its social search tool to be very useful. Right now, it is doubtful that a given Facebook user's few-hundred friends click "like" frequently enough or "check-in" in enough places to create a sufficiently dense database of recommendations. Yelp has thousands of users regularly contributing content; even Google is collecting reviews for its own local search tool.
- Even if the commercial potential of Facebook's search engine is limited to start off with, it is still good news for shareholders that the company is investing in such tools to take advantage of the unique data it has linking people's likes and their human relationships. That should boost user engagement, driving revenue.
- Still, to steal a march on Google in search, Facebook users need to get even more engaged in mapping who, and what, they like.