



Book The Facebook Effect

The Inside Story of the Company That Is Connecting the World

David Kirkpatrick
Simon & Schuster, 2010

Recommendation

Statistically speaking – if Facebook and the internet keep growing at a steady rate – by 2013, every internet user will have a Facebook page, a remarkable achievement for an organization in operation only since 2004. In fact, Facebook is the best networking platform ever. Writer, editor and technology expert David Kirkpatrick examines its amazing start-up and covers “the Facebook effect,” the singular phenomenon that enables people globally to connect in new ways. Facebook is ubiquitous, with far greater penetration than any other mass medium. Most intriguing, information can bubble up from Facebook users and quickly spread from one online “friend” to another across an immense social network of nearly 500 million users worldwide. Kirkpatrick nails Facebook’s complex corporate biography and, even more tellingly, captures the personalities of the innovators involved, particularly genius CEO Mark Zuckerberg. *BooksInShort* recommends this book to all Facebook members, which if current trends continue, soon will be everyone online.

Take-Aways

- Harvard student Mark Zuckerberg and three friends began “Thefacebook” in 2004.
- It started as a social networking website for Harvard students, then Ivy League students, then U.S. college students, then everyone.
- In its first few months, Zuckerberg moved the operation to Silicon Valley.
- That September, three Harvard students sued Zuckerberg for intellectual property theft. He settled with them.
- Facebook’s expansion has been astounding, with nearly 500 million users worldwide.
- Its popular networking service operates in 75 languages and 180 countries.
- Because of its tremendous popularity, Facebook has never lacked investors.
- The company has always been focused on growth, not just on making money.
- Google and Microsoft are just two of the firms that wanted to buy Facebook.
- Because Facebook stores comprehensive personal data on hundreds of millions of people, many worry about its impact on privacy.

Summary

Ten Million People in the Street

Facebook is an immensely powerful internet application, or in CEO Mark Zuckerberg’s term, “utility.” For example, on Jan. 4, 2008, Oscar Morales, a civil engineer in Barranquilla, Colombia, created a Facebook group opposing Colombia’s Revolutionary Armed Forces (FARC) rebels and their terrorist tactics. He named the group Un Millón de Voces Contra Las FARC (“One Million Voices Against FARC”). By the next day, 1,500 people had joined; by that evening, 4,000 had signed up. Via Facebook, Morales proposed nationwide marches against FARC. But Facebook group members worldwide told Morales they also wanted to march in their countries. On Feb. 4, a month later, some 10 million people across Colombia joined in marches against FARC, as did two million more globally, from Buenos Aires to Tokyo, because of a one-month-old Facebook group that began with one angry member.

Opening the Book

In February 2004, Harvard sophomore Mark Zuckerberg, a brilliant computer science student, and his fellow undergrads Dustin Moskowitz, Eduardo Saverin and

Chris Hughes founded “Thefacebook,” a social networking site for Harvard students. “Houses,” or dorms, at Harvard maintain scrapbooks of residents’ pictures; the boys named their site after these “facebook.” The four students set out to create “an online directory that connects people through social networks at colleges.” At first, Thefacebook was available only at Harvard. But Zuckerberg and crew quickly began offering it at other Ivy League colleges and then at other U.S. universities. They formed a company to manage the site, which was an instant hit with college students. Just four months after the launch date, a financier offered Zuckerberg, then 20, and his friends \$10 million for Thefacebook. Knowing that they had struck gold with their insanely popular site, Zuckerberg “didn’t for a minute think seriously about accepting.”

“Facebook is all information all the time.”

By May 2004, Thefacebook had nearly 100,000 users at 34 different colleges. Zuckerberg and his friends contracted with an ad sales company, Y2M, to sell advertising on Thefacebook to firms such as MasterCard, which in one day garnered double the sign-up results it anticipated for its entire four-month campaign. Zuckerberg and Moskovitz moved – temporarily – to Palo Alto in Silicon Valley, the hotbed of technology development. Hughes left to study in France. Saverin, then business manager, went to New York to sell ads. Sean Parker, Plaxo co-founder and part of Napster’s launch team, joined Thefacebook and soon became president, with Zuckerberg as CEO.

“Really great leadership...especially in a start-up, is about knowing when to say no – evoking a vision very clearly, getting everybody excited...but knowing when to draw the line...you can’t do everything. That’s a lesson Mark didn’t know yet. That’s a lesson Mark learned.” (Sean Parker)

Living in a leased house, Zuckerberg, Moskovitz and Parker worked mightily to improve the site. Moskovitz handled details, including organizing databases for more universities. Front man Parker networked with financiers. Zuckerberg was the strategist, planning how Thefacebook would grow and evolve. The bottom of each online page carried the message: “A Mark Zuckerberg production.” He created “most of the software and...design.” When the company incorporated, Zuckerberg had 51% ownership. He and his colleagues removed Saverin from management (though he received an ownership stake) because he “had not done work he’d said he’d do.” Angry, upset and still in control of the firm’s finances, Saverin froze Thefacebook’s bank account. To keep operating, Zuckerberg and his family spent \$85,000 on servers and other expenses. Zuckerberg and Moskovitz dropped out of Harvard to stay in Palo Alto and continue to build their company.

“There was a sense among many at the company that they were participating in something historic.”

In September, Harvard students Divya Narendra and twins Cameron and Tyler Winklevoss filed suit against Zuckerberg and Thefacebook for intellectual property theft. Narendra and the two brothers had once hired Zuckerberg to help them develop a “Harvard-specific social network.” Zuckerberg dismissed their claim but settled with them for an undisclosed amount. The trio had a dissimilar site called ConnectU, but the configuration of another earlier site, Friendster, clearly influenced development of Thefacebook, ConnectU and other networking websites.

Money to Grow

By fall 2004 membership hit 200,000. Students across the U.S. clamored for Thefacebook to include their colleges, particularly after it added the instantly popular “wall” feature, which lets people leave comments on individual members’ pages. With its widespread acceptance, the company did not need investor funding until it had to buy many more servers to grow. That opened the door for investors. PayPal co-founder Peter Thiel invested \$500,000. *Washington Post* CEO Donald Graham, who also wanted to invest, made an extremely favorable impression on Zuckerberg. However, to secure the capital the site needed, Zuckerberg went with Accel Partners, a well-connected Palo Alto venture capital firm. Accel put in \$12.7 million, but Zuckerberg and Parker maintained control with “three out of the five board seats.”

“I need servers just as much as I need food. I could probably go a while without eating, but if we don’t have enough servers then the site is screwed.”
(Mark Zuckerberg)

With this hefty investment, Thefacebook now had money to expand, but it needed more people. Matt Cohler of LinkedIn joined the management team. His first hire was Steve Chen, who soon left to lead another start-up, even though Cohler told him he was turning his back on millions. However, Chen was committed to his new website: YouTube. At the time, Zuckerberg and Moskovitz were 21. Parker was 25. Cohler, 28, was the oldest member of the executive group until Robin Reed, who was in her 50s, signed on to handle recruiting. Then Marc Andreessen, co-founder of Netscape, joined the staff as an adviser to Zuckerberg. Although each person was impressive, the overall crew’s relative youth was not inspiring. Further, many experts thought social networks were fads.

“Facebook’s ultimate success owes a lot to the fact that it began at college. That’s where people’s social networks are densest and they generally socialize more vigorously than at any other time in their lives.”

In August 2005, Parker was arrested for cocaine possession (he maintains his innocence and was never officially charged). Still, he resigned as company president. Distrustful of venture capitalists who might eventually try to take over, Parker gave his board seat to Zuckerberg – a move, Parker says, that “solidified Mark’s position as the sort of hereditary king of Facebook.” In September 2005, the website formally became Facebook; by October 2005, it had five million members.

“Facebook still seemed to nonusers to be mostly about dating and doing pointless, possibly suspicious things like poking people.”

As it grew, Facebook added high school students as members and began offering photo hosting. Facebook photos swiftly became users’ favorite feature (now, three billion photos are posted monthly). To meet increasing expenses, Facebook’s leaders raised \$27.5 million in additional venture capital from an assortment of new and old investors, following various courtships, particularly with Viacom. In May 2006, Facebook added “work networks” for use inside companies, but the feature did not catch on except in the military. Still, advertisers loved Facebook. The Interpublic Group made a \$10 million one-year advertising commitment. Microsoft, the source of more than 50% of the firm’s 2006 revenue, continued as a huge advertiser, guaranteeing Facebook “\$100 million in revenue” for 2007.

“If you are friends with someone on Facebook, you may learn more about them than you learned in 10 years of offline friendship.”

To fuel continued growth in 2007, Facebook needed more money. Zuckerberg thought the proper valuation was \$20 billion, but he sought investment support at \$15

billion. Google invested and offered to buy the company. Microsoft also wanted to buy Facebook. Zuckerberg wouldn't sell, but he negotiated a new, advantageous deal with Microsoft, which also made a \$240 million investment in Facebook. With other investors, the total infusion was \$375 million.

So Much for Privacy

As Facebook grew, amassing personal data about millions of users, privacy became a more pressing issue. Zuckerberg and his team believe in “radical transparency”; their philosophy says that openness is everything. Many older users find this attitude about personal information and privacy troubling. Some people think they should be able to present different aspects of themselves online, with varying degrees of authenticity, but Zuckerberg believes in a unified, “holistic version.” Facebook operates accordingly and that seems to work. A 2009 survey named it the “10th-most-trusted company” in the U.S.

“You can make a dollar off a user today, but if you can get them to invite 10 friends, then you’ll make \$11.” (Dustin Moskovitz)

As envisioned by Zuckerberg, Facebook has become an essential platform for other internet applications. Within six months after it began hosting other applications, 25,000 came on board. Now Facebook hosts 350,000 applications; games are the most popular. For gamers, Facebook is “the nexus of an ecosystem,” a vast space where they operate. Facebook lets web partners make money from their applications. They can even sell ads in competition with Facebook on its own turf, because Zuckerberg thinks the result is more page views and more growth, his main goal.

“Zuckerberg had a knack for making software people couldn’t stop using.” “Facebook is the most targetable medium in history.”

Amid its investment and ad triumphs, Facebook made one huge mistake: Its “Beacon” alert service trod on too many toes. Users who bought something on Facebook could tell friends about it on Beacon, but people resented the service’s semiautomatic, hard-to-bypass nature. People who were angry about having their purchases divulged without their permission formed Facebook protest groups; within three weeks, the company made Beacon optional.

“You’d better take CEO lessons, or this isn’t going to work out for you.” – Facebook recruiter Robin Reed to Mark Zuckerberg “Facebook’s software makes information viral.”

Visionary as always, Zuckerberg permitted other firms to create free Facebook pages. The idea: get corporations to operate in the Facebook universe and make money from them later. Zuckerberg recruited Google executive Sheryl Sandberg to become COO and make Facebook profitable. Her strategy was to turn its enormous people power into a force that “would generate demand” – beyond just selling products. Facebook now runs “engagement ad[s],” small messages that spur users to act, for example, by taking a coupon for free Starbucks coffee. Advertisers like Facebook because members provide so much personal data.

Worldwide Facebook

In 2008, Facebook invited people around the planet to translate pages into their own languages. This initiative worked so well that by year’s end Facebook was operating in 180 countries, in 75 languages. Facebook’s global penetration is amazing. “Well over 20% of the 1.7 billion people on the internet worldwide now use Facebook regularly.” In Norway, 46% of the population is on Facebook; in Canada, 42% and in the U.K., 40%. By focusing on openness and transparency, Facebook is shaking up closed societies. “A more transparent world creates a better-governed world and a fairer world,” Zuckerberg says.

“Ironically, Zuckerberg was not a heavy user of Thefacebook . Nor in fact were any of its founders and early employees.”

As Colombian Oscar Morales learned, Facebook is the ideal medium for protest groups. However, protesting requires far more commitment than holding a sign in a parade. On Facebook, your name accompanies your protest, unlike the anonymous situation on much of the internet. Globally, politicians have turned to Facebook. U.S. President Barack Obama used the site so masterfully in his 2008 campaign that the result is sometimes called “the Facebook election.”

Whither Facebook?

The site now offers Facebook Connect, which lets users log in to 80,000 websites (the number is growing) through their Facebook accounts and export their Facebook identities wherever they travel on the web. Facebook Connect may become a “universal Internet log-in.” The groundbreaking Facebook Open Stream application programming interface (API) enables outside companies to publish their Facebook feed on their sites. In response to Twitter, Facebook is shifting to include a form of micromessaging in its service.

“At Harvard, Dartmouth, Colombia, Stanford, Yale and other schools, Thefacebook quickly became an essential social tool.”

Facebook now has 1,400 employees and “revenues could reach \$1 billion in 2010.” Eventually, it will be so ubiquitous that, as Matt Cohler (now a former Facebook employee) puts it, “There won’t be a distinction between being on and off Facebook. It will be something that goes with you wherever you are communicating with people.” For many, that is energizing. For others, it’s Orwellian. Zuckerberg himself “sees Facebook as a work in progress” and “an exercise in crowd psychology.” For him, its technological improvements are not as challenging as its unfolding social role. He wants it always to be a force for good. But what happens if control of the company ever shifts into other hands? Could Facebook, with its massive data on millions – and perhaps, one day, billions – of people “become a giant surveillance system”? After all, Facebook’s visionaries already see its potential to become a “directory of the entire human race,” or at least the portion of humanity that’s hooked to the internet.

About the Author

David Kirkpatrick is a *Fortune* magazine editor and author of its Fast Forward column. A leading authority on technology, he developed *Fortune*’s Brainstorm conference.