

Facebook looks to cash in on user data

April 22 2011, By Jessica Guynn

Julee Morrison has been obsessed with Bon Jovi since she was a teenager. So when paid ads for fan sites started popping up on the 41-year-old Salt Lake City blogger's Facebook page, she was thrilled. She described herself as a "clicking fool," perusing videos and photos of the New Jersey rockers.

Then it dawned on Morrison why all those Bon Jovi ads appeared every time she logged onto the social networking site.

"[Facebook](#) is reading my profile, my interests, the people and pages I am 'friends' with and targeting me," Morrison said. "It's brilliant social media, but it's absolutely creepy."

For Facebook users, the free ride is over.

For years, the privately held company founded by [Mark Zuckerberg](#) in a Harvard dorm room put little effort into ad sales, focusing instead on making its service irresistible to users. It worked. Today more than 600 million people have Facebook accounts. The average user spends seven hours a month posting photos, chatting with friends, swapping news links and sending birthday greetings to [classmates](#).

Now the Palo Alto company is looking to cash in on this mother lode of personal information by helping advertisers pinpoint exactly who they want to reach. This is no idle boast. Facebook doesn't have to guess who its users are or what they like. Facebook knows, because members volunteer this information freely - and frequently - in their profiles,

[status updates](#), wall posts, messages and "likes."

It's now tracking this activity, shooting online ads to users based on their demographics, interests, even what they say to friends on the site - sometimes within minutes of them typing a key word or phrase.

For example, women who have changed their relationship status to "engaged" on their Facebook profiles shouldn't be surprised to see ads from local wedding planners and caterers pop up when they log in. Hedgehog lovers who type that word in a post might see an ad for a plush toy version of the spiny critters from Squishable.com. Middle-aged men who list motorcycling as one of their hobbies could get pitches from Victory Motorcycles. If a Facebook user becomes a fan of 1-800-FLOWERS, her friends might receive ads telling them that she likes the floral delivery service.

Marketers have been tracking consumers' online habits for years, compiling detailed dossiers of where they click and roam. But Facebook's unique trove of consumer behavior could transform it into one of the most powerful marketing tools ever invented, some analysts believe. And that could translate into a financial bonanza for investors in the seven-year-old company as it prepares for a public offering, perhaps as early as next year.

But privacy watchdogs said Facebook's unique ability to mine data and sell advertising based on what its members voluntarily share amounts to electronic eavesdropping on personal updates, posts and messages that many users intended to share only with friends.

"Facebook has perfected a stealth digital surveillance apparatus that tracks, analyzes and then acts on your information, including what you tell your friends," said Jeffrey Chester, executive director of the Center for Digital Democracy. "Facebook users should be cautious about

whether the social networking giant ultimately has their best interests at heart."

Bon Jovi fan Morrison said she removed some information from her profile to make it more difficult for advertisers to target her: "I thought, 'Wait a minute, I didn't give you permission to look into my life,' " she said.

Facebook said it does not disclose information that would allow advertisers to identify individual users, instead filtering based on geography, age or specific interests. It also lets users control whether companies such as 1-800-FLOWERS can display the users' names to others to promote products. But any information users post on the site - hobbies, status updates, wall posts - is fair game for ad targeting.

Facebook's first experiment with paid ads was a flop. In 2007 it rolled out Beacon, which broadcast information on Facebook about users' activities and purchases elsewhere on the Web without their permission. Facebook pulled the program after settling a lawsuit brought on behalf of Facebook users.

This time around company officials appear to be proceeding more cautiously. David Fischer, Facebook's vice president of advertising and global operations, said Facebook delivers ads that are relevant to users' lives.

"This is an opportunity for brands to connect with you," Fischer said. "When someone likes a brand, they are building a two-way conversation, creating an ongoing relationship."

A lot is riding on getting it right. Last year, online advertising in the U.S. grew 15 percent to \$26 billion, according to the Internet Advertising Bureau.

People familiar with Facebook said its ad revenue doubled to \$2 billion in 2010, and is expected to double again this year as more major advertisers including American Express, Coca-Cola and Starbucks climb aboard.

In February, more than a third of all online display ads in the U.S. appeared on Facebook, more than three times as many as appeared on its closest competitor Yahoo, according to research firm ComScore Inc. Facebook's moneymaking potential has wowed investors. Its market value is estimated at \$55 billion on the private exchange SharesPost.

"If you take a look at the history of media, ad dollars go where the eyeballs are," Wedbush Securities analyst Lou Kerner said. "If you look at Google today, with annual revenue of \$29 billion, it's not hard to think of Facebook generating that kind of revenue in four or five years. That's why we continue to be bullish on Facebook even at these price levels."

Facebook still faces some skepticism from big brands that question how often people click on the ads or how effective they are in getting people to buy something. One recent survey found that Facebook ads performed about half as well as traditional banner ads.

But Facebook's ability to pinpoint paying customers has dazzled some small-business owners, including Chris Meyer. Over the past 18 months the Minneapolis wedding photographer had Facebook aim his ads specifically at female users who divulged the following information about themselves on the social networking site: college graduates, aged 24 to 30, who had just gotten engaged and lived within a 50-mile radius of Minneapolis.

Meyer said his \$1,700 ad buy generated \$110,000 in sales.

"I could not have built my business without Facebook," Meyer said.

It's much the same for Anne Puthoff. Her store, Emmy's Bridal, is located in Minster, Ohio, population 2,800. She managed to pack the shop for a special weekend trunk show of prom dresses - in February, no less. Her secret weapon: \$200 worth of Facebook ads targeting high school girls from the surrounding area.

"Our fan base has grown steadily in an economy where stores are going out of business or not thriving," Puthoff said. "I think that's due largely to the new customers we are bringing in via Facebook."

Indeed, Facebook users such as Kara-Noel Lawson said they enjoy receiving ads that from merchants they like instead of useless spam. The 30-year-old mother of three from Rancho Santa Margarita, Calif., said she routinely "friends" businesses on the social media site and clicks on advertising that interests her. More often than not, she said, she is rewarded with coupons, gift cards and discounts.

"I don't feel any weird privacy thing," she said. "We are all putting everything out there already."

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