

# Facebook risks alienating touchy users with new ads

February 27 2012, By Mike Swift and Peter Delevett

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Advertising on Facebook is about to gain a more prominent place, as the company works to boost revenues in advance of an initial public offering of stock.

With [Facebook](#) planning a major event on Wednesday - an invitation-only conference for marketers at the Museum of Natural History in New York - internal documents suggest the Menlo Park, Calif., company will announce upgraded "Premium Ads" that will be more prominent on the social network.

The new ads also will have more of what Facebook calls "social context," meaning the friends of the people who are fans of a particular product that advertises on Facebook - not just those who have hit the "Like" button for that brand - will see an enlarged version of the product's advertising. Those ads will say the user's friend likes the brand, adding a [social context](#) that Facebook says will make the ads 80 percent more likely to be remembered.

Company officials declined to comment on the documents, which were obtained by this newspaper. But analysts debated the implications of Facebook's plans to increasingly target ads by leveraging the connections between its 850 million users.

"It's really very important and very interesting, because it almost brings advertising into the realm of the testimonial and word of mouth," said Rebecca Lieb, an analyst with the Altimeter Group.

Founder and CEO [Mark Zuckerberg](#) has long resisted making advertising too central an element of Facebook. Nevertheless, ads produced \$3.15 billion in revenue in 2011 - 85 percent of Facebook's total revenue and a 69 percent increase over 2010.

But with Facebook's global user growth slowing, the company needs to get people to spend more time on the site and make each ad exposure more valuable for Facebook. Doing so is key to justifying an expected valuation as high as \$100 billion when the company goes public later this year.

"Going into their [IPO](#), they were going to have to be a lot more aggressive in terms of how they approach advertising," said Yoni Yadgaran, an analyst with Wedbush Securities. "Facebook in the past has always been user experience first, and careful not to make (advertising) more intrusive. The sense we're getting now is that Facebook is willing to sacrifice a little bit of that in order to ensure monetization."

Facebook faces a delicate balance in linking ads to the connections between friends.

"People do like getting information from friends, but as soon as that's outed as paid [advertising](#), people are going to see it as less trustworthy," said Karen North, who heads the University of Southern California's Annenberg Program on Online Communities. "If all of a sudden you have [ads](#) in there, it steps on Facebook's mantra about authenticity and trust."

One analyst warned that Facebook's making such big changes could indicate its revenue growth has weakened.

"These are the types of actions ad-supported companies save for a rainy day," said Sam Hamadeh, CEO of PrivCo, which tracks financial data on

private companies. "It should be a red flag for investors."

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