

# After IPO, Facebook will face new profit pressures

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This Oct. 15, 2011 file photo, shows Facebook CEO Mark Zuckerberg smiling during a meeting in San Francisco. Will Facebook list its stock on the New York Stock Exchange or the Nasdaq? It comes down to "where Mark Zuckerberg wants to get his picture taken," the founder of one market research company says. (AP Photo/Paul Sakuma, File)

(AP) -- For all the huge numbers in Facebook's IPO papers, a surprisingly small figure stands out: \$4.39, the amount the site generated per user last year.

It's one of the company's major challenges because the total is paltry compared with competing Internet companies. [Google](#) makes more than \$30 a year from each registered user. Even struggling [Yahoo](#) and AOL make \$7 and \$10, respectively.

Once Facebook goes public, [Wall Street](#) will surely demand more. That means the social network will almost certainly have to attract a lot more users or be more aggressive with its advertising, perhaps by mining [personal data](#) even more than it does now.

But can Facebook do all that without spoiling the [user experience](#)?

The company may have a tough time increasing the number of ads on a site that has become primarily a home for online conversations.

"It's a communications tool. Can you imagine what a turn-off it would be if we were talking on the phone and AT&T tried to play an ad in the middle of our conversation?" said University of Notre Dame finance professor Tim Loughran, who studies IPOs.

Facebook stock probably won't begin trading until at least May, but analysts already believe the company will try to sell shares at a price that will give it a market value of at least \$100 billion - more than Yahoo, AOL and Hewlett Packard Co. combined.

To justify a valuation like that, Facebook will need to maximize its revenue to get closer to Google, one of its biggest rivals. Google's revenue of nearly \$38 billion last year translated into about \$35 per registered user.

Facebook recorded \$3.7 billion in revenue last year.

The question is whether it can bring in more money without alienating the 845 million users who have become accustomed to hanging out with friends and family on the social network without an onslaught of ads.

Part of that online environment has been by design. Facebook co-founder and CEO Mark Zuckerberg wanted to get as many as people as

possible to create profiles on the website before figuring out the best ways to profit from all the information about their interests and connections.

In theory, those insights should enable Facebook to target ads to people most likely to be interested in certain products or services. That should appeal to marketers, giving the site enough leverage to charge more for its ads than other sites. If the ads work, Facebook should easily be able to increase revenue per user to \$10 to \$12 annually, said Wedbush Securities analyst Michael Pachter.

Before Google went public, it also faced questions about its ability to make money from selling ads next to search results, in emails and within videos. Evidently most users don't mind because Google's annual revenue is now about 25 times higher than in 2003.

Advertising isn't the only way Facebook can make money. It charges a commission for some of the sales of games and other services on its website. Although advertising accounted for 85 percent of Facebook's revenue last year, that was less than at Google, where ads accounted for 96 percent of revenue.

Most of Facebook's non-advertising revenue comes from commissions paid by Zynga Inc., the maker of such popular Web games as CityVille and Words With Friends. In its IPO papers, Facebook says it may try to increase its revenue by introducing fees for other e-commerce features on its website.

Facebook, which is based in Menlo Park, Calif., easily could offer sales of movies, music, even houses and cars. But believing it can expand into those markets requires a huge leap of faith, said Hudson Square Research analyst Daniel Ernst.

"It's like saying because Chipotle has been good at selling burritos in certain urban markets in the U.S., it should be able to make more money selling Chinese food in France," he said.

Facebook says roughly half its audience - about 425 million people - now gets access to its service on smartphones, tablet computers and other [mobile devices](#). But the site acknowledges it hasn't figured out the best way to make money from mobile users.

The application-driven systems on mobile devices pose another threat because they could allow Zynga and other services to offer their own mobile apps to bypass Facebook and connect directly with users.

The rise of mobile devices also opens up an opportunity for Google to expand the audience of Plus, its social networking alternative to [Facebook](#). Although it hasn't done so yet, Google could make Plus part of the Android operating system that runs 250 million smartphones and tablets.

Zuckerberg, Facebook's controlling shareholder as well as its leader, is promising to put users' interests ahead of the company's financial interests.

"Simply put: We don't build services to make money; we make money to build better services," Zuckerberg wrote in a letter included in Wednesday's IPO filing. "These days, I think more and more people want to use services from companies that believe in something beyond simply maximizing profits."

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