

Facebook ads less than lucrative for many businesses

May 28 2012, By David Sarno

As the public joined the frenzy around Facebook Inc.'s Wall Street debut, well-connected institutional investors were hearing a more sobering message: The social network's main business, advertising, was sputtering.

The buzz around Facebook's [initial public offering](#) was based on the value of the information it harvests from its 900 million users and how that data can help marketers find consumers most likely to buy cars, skis or spa treatments.

But analysts say most advertisers are still at a loss about how to wring a profit from [Facebook](#) advertisements. General Motors Co. stopped trying altogether, deciding to stop paying for ads on the social network.

"A lot of the major brands have taken a step back this year in terms of reassessing their (Facebook) spending," said Debra Aho Williamson, an analyst at online ad metrics firm EMarketer Inc. "They spent a lot last year and may be taking a second look at the value of it this year."

That reality may have spooked big investors, who stayed away from buying shares when Facebook began trading May 18. The fallout from its troubled start as a public company has drawn investor lawsuits, regulatory scrutiny and calls for congressional hearings.

Among Facebook's big problems, analysts say, is that its [advertising technology](#), although powerful, is far too complicated for most

marketers to figure out.

Facebook gives marketers the ability to slice their [target audience](#) into hundreds or thousands of tiny slivers based on age, location, hobbies and preferences - and to alter campaigns on the fly based on which groups are the most responsive.

The technical skill necessary to run such a campaign, or to choose among the more than 30 kinds of ad products Facebook offers, can be overwhelming to marketers used to the simpler requirements of print and [television advertising](#).

Firms that can afford it have begun turning to specialized social ad agencies to handle their Facebook campaigns.

"But you've got the rest of the pack scratching their heads saying, 'Oh no, this isn't working,' " said Justin Kistner, whose firm, Webtrends, works with Facebook to run ad campaigns on the site.

Where businesses are going wrong, Kistner said, is that they're using Facebook's versatile ad system to advertise the old-fashioned way: by shooting out the same message to thousands of people.

But display advertising - the banner ads and "cube" spots common on many Web pages - has for years been a less-than-lucrative area for online ad firms. The inexpensive ads often tout low-end products and services or pitch cars or home loans to consumers who are not in the market for them. As a result, many Web readers have learned to tune them out.

Only about 1 in 1,000 Web readers clicks on the average display ad. On Facebook, that number is closer to 1 in 2,000, according to Webtrends.

Facebook's conundrum is compounded by another Internet trend - the shrinking screen, which could further stymie efforts to draw more revenue from ads.

In a regulatory filing, Facebook said that the growth of its advertising business wasn't keeping pace with the number of new users, who are increasingly using mobile devices to access the site.

More than half of Facebook users are getting to the site through smartphones and tablets. The smaller screens can't fit as many ads as PCs or laptops. The filing, coming days before the IPO, also cast a shadow over Facebook's first days on the [market](#).

Still, Facebook's popularity and its trove of valuable personal data have attracted many companies to the site to create so-called fan pages where they can promote a product for free. The pages also enable the firms to send offers, coupons and event reminders to users who have become fans.

Just before Facebook's IPO, GM, the nation's largest automaker, decided to forgo paying for ads and focus on beefing up its Facebook pages promoting various GM vehicles, which draw millions of followers.

But analysts say that, like GM, many companies that have built large Facebook audiences are still at a loss about how to turn that attention into profit.

"It was all built on the premise that brands had to be there because this is where everybody else is," Williamson said. "But now those companies are asking themselves, 'Well, what do I do next?'"

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