

Facebook IPO has privacy implications, advocates say

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Facebook's IPO could be one of the most successful in history, but that very success could force the company to make a choice between protecting users' privacy and exploiting their personal data.

While the widely popular social network has grown rapidly and now counts 900 million users around the world, that increase in members will certainly slow. But Wall Street's lofty expectations for the [company](#) will put tremendous pressure on the company to find another way to keep increasing sales and profits, and fast.

That means the company will have to figure out ways to sell even more [advertising](#). One of the likeliest ways is to more finely target those ads, and to do that it needs to gather even more information about its users and make more extensive use of the information it already has.

"Facebook is about to go into hyperdrive to make sure the data it collects more effectively services the advertisers to deeply penetrate the lives of its user base," said Jeff Chester, executive director of the Center for [Digital Democracy](#), a [consumer advocacy group](#), and a longtime critic of Internet companies' privacy practices. "They can't grow their business unless they extract more data."

He and other [privacy advocates](#) say consumers should be wary of those prospects, or at the very least understand what information is being collected about them and how it is being used.

Facebook representatives declined to comment for this story because the company is in what's called the "quiet period" as it prepares for its IPO. But the company has said it recognizes the importance of protecting users' privacy.

"Trust is a cornerstone of our business," the company said in a recent regulatory filing promoting its stock offering. "Our objective is to give users choice over what they share and with whom they share it."

In that IPO filing, Facebook forecasts that it would sell its stock to investors at between \$28 and \$35 a share. Using one of the basic ways Wall Street values stocks, that gives the company a price-earnings ratio of between 65 and 81 based on its 2011 results. Google's ratio, by comparison, is 20, and the higher the number the more growth in profits [Wall Street](#) expects.

"They need to grow revenue to about \$15 billion by the end of 2015 to justify that valuation," said Michael Pachter, a financial analyst who covers the company for Wedbush Securities.

Last year, Facebook's revenues totaled \$3.7 billion, up from about \$2 billion in 2010.

Up to now, Facebook's sales have increased largely through the extraordinary growth in the numbers of its users, now 901 million monthly. But, noted Arvind Bhatia, a stock analyst with Sterne Agee who covers Facebook, "There's only a finite number of people on this Earth."

That's why Bhatia and other analysts expect the company to make increased use of the [personal data](#) it already collects, which would allow it to better target ads.

Facebook already serves up targeted advertisements. But analysts such as

Pachter say it could do a lot more, putting ads in mobile apps, for instance, or helping partners more easily market and offer promotions to Facebook users who have "liked" their pages.

"Those are really big opportunities that they aren't exploiting yet, and I think they will," Pachter said.

Few users might object to such use of their data. But privacy advocates say that users often don't understand what information Facebook is collecting about them. And they warn that Facebook's uses of such data could go far beyond what members thought was benign or helpful.

Facebook already tracks users movements when they are off Facebook through the "like" button that can be found on many Web pages - even if users never click on it, noted Justin Brookman, director of consumer privacy at the Center for Democracy and Technology.

"That's a lot of data that people could be sensitive about," said Brookman, such as the state of their health or their finances. While Facebook has promised not to use that data, he said, "they could change their mind about that."

The company last Friday unveiled a series of proposed updates to its privacy policy. The changes included ones that would give users more access to the data Facebook collects about them and would attempt to better explain how the company tracks them. But they also would allow [Facebook](#) to retain certain user data longer than it has in the past and would give it greater latitude to target [users](#) with advertisements when they aren't on Facebook's own site.

Some privacy advocates think the IPO might put more of spotlight on the company and the issue of privacy.

"The IPO can be a watershed in that critical national, if not global, discussion," said James Steyer, CEO of Common Sense Media, an advocacy group.

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