

Facebook's 'mobile first' strategy pays off on Wall Street

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Just one year ago, the world's largest social network was in Wall Street's doghouse. Facebook Inc.'s highly touted stock market debut had fizzled, and the company's share price was spiraling lower and lower, as critics charged that youthful CEO Mark Zuckerberg had somehow missed one of the biggest shifts to hit the tech industry in years.

After all, by spring 2012, hundreds of millions of people were already using smartphones or tablets, instead of PCs, to keep in touch with friends on the social network. Yet Facebook, whose business is built on [advertising revenue](#), acknowledged it had virtually no ability to show ads on [mobile](#) screens.

But in a dramatic turnaround, Zuckerberg is now boasting that mobile ad sales will soon account for more than half of the company's multibillion-dollar ad business. After publicly embracing a "mobile first" strategy last year, Facebook has been rewarded with a surge in [mobile ads](#) that has sent its [share price](#) soaring to its highest level since the company went public last year. And some experts say Facebook is setting the bar for other online services that are grappling with the [mobile computing](#) trend.

"We're starting to see it with Twitter, LinkedIn. I think a lot of these companies are going to follow what Facebook is doing," said Hussein Fazal of AdParlor, a company that helps clients manage Facebook campaigns.

Facebook says it began laying the groundwork for its mobile ad business

more than a year ago, although there were few signs of it then.

After rebuilding its apps for iPhones and Android smartphones - making them faster and adding more features - and introducing new advertising tools, the company says it sold more than \$650 million worth of mobile ads in the most recent quarter, or 41 percent of its \$1.6 billion in ad revenue.

While some say Facebook ads are still relatively new and untested, industry experts say the company has developed a format uniquely suited to the small screens of smartphones and tablets, using one of the core features that many Facebook members scan repeatedly through the day.

Instead of showing ad "banners" or commercials at the side or bottom of a Web page, Facebook is inserting ads directly into the News Feed, the never-ending stream of fresh posts and friend updates that dominates both desktop and mobile screens. And it makes sure those ads aren't too jarring or dissimilar in appearance from other posts.

Because the ads appear right in the stream and can't be missed, News Feed is a powerful vehicle for delivering commercial messages on a mobile screen - especially when combined with Facebook tools that let advertisers target groups of users based on their demographics or even their past shopping habits, said Clark Fredricksen at the eMarketer online research firm.

Anecdotally, some users have complained about seeing more ads. And analysts warn that Facebook must be careful not to overload users with too many commercial messages. Zuckerberg has said he's mindful of that concern.

Facebook now shows an average of 1 ad for every 20 posts in a user's feed, Zuckerberg told analysts last month. While users haven't reported

"a meaningful drop in satisfaction," he added, "people have told us that they notice the ads more. So we're going to invest more in improving the quality."

While the growth of Facebook's mobile business appears dramatic, Jim Squires, a director of product marketing at the company, said in an interview that the company started planning for News Feed ads in 2010. Until last year, however, Facebook primarily put ads in boxes on one side of its main page - a format poorly suited to the smaller screens of mobile devices.

Facebook launched the first News Feed ads in early 2012, with the first mobile ads appearing that March. Even so, the company said in a securities filing two months later that it was generating no "meaningful revenue" from mobile ads - "and our ability to do so successfully is unproven."

Soon after its initial stock offering May 18, 2012, Facebook's stock fell into a deep slump as critics declared the company had missed the mobile wave. Fredricksen and other analysts believe that's what forced Zuckerberg to put Facebook's mobile ad program into overdrive last summer.

Around that time, Facebook executives began declaring publicly that the company had adopted a new strategy of "mobile first." Zuckerberg reorganized Facebook's engineering teams so that, instead of a separate mobile group, each product group had its own mobile software experts and was responsible for making its product work on mobile devices.

Squires said he was part of a team that looked at ways to improve Facebook's mobile services for both users and advertisers, starting in spring 2012.

"The News Feed is such an important part of the Facebook experience," he said last week, when asked why the company didn't ramp up News Feed ads sooner. "We wanted to make sure the experience was right for people before we scaled it and introduced it across all devices."

Facebook had to be careful not to alienate users by introducing ads too quickly, agreed James Borow at Shift, a digital marketing firm that helps advertisers manage online campaigns. He added that Facebook has "done a really good job of not overdoing it."

Facebook is still a long way from the size of Google, its biggest rival in the online advertising business. Google will sell \$9 billion worth of mobile ads this year, according to eMarketer projections, compared with about \$2 billion for Facebook - although Google's mobile ads are a smaller piece of its overall advertising sales, which are projected to reach \$40 billion this year.

And while many advertisers use Facebook to promote their brands, businesses like showing ads to users of Google's popular search engine because those users often are searching for things they want to buy. But some advertisers aren't convinced that searchers on smartphones are as ready to make a purchase as those using desktop computers.

At Facebook, Squires said he has noticed a shift in thinking about mobile ads. Advertisers used to think of a "mobile strategy" separate from their primary marketing campaigns, he said. Now mobile ads are central to every marketing strategy.

"That's been a big mind shift in the industry," he added.

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