

Facebook sees slowing growth

9 February 2012, By Mike Swift



Few experts were surprised when Facebook disclosed in its recent IPO filing that its user growth had slowed in the U.S. and Canada. But a deeper look at Facebook's user numbers shows its growth is also slowing in Europe and Asia, untapped markets seen as vital to its fast-growing business, putting more pressure on the company to assure investors it can keep its revenue and profit expanding.

The Menlo Park, Calif., [social networking](#) giant added 45 million regular users - defined as members who accessed Facebook in the past 30 days - in the last quarter of 2011, its smallest increase since spring 2009, and now counts 845 million total users. But even in Asia, where a small share of the population of countries like India, South Korea and Japan are Facebook users, the social network's fourth-quarter growth was its weakest in six quarters.

Analysts say they are not alarmed about Facebook's slowing growth, which they say was inevitable, given its overwhelming popularity in many countries. Still, they say it means the company must find new ways to entice people to spend more time on the social network, to show them more advertising while they are there - and perhaps to enter the world's largest [Internet market](#), China, from which it's now blocked because of government censorship.

With the days of its runaway growth apparently over, Facebook's future [financial success](#) will be more and more tied to "Zuckerberg's Law" - founder and CEO Mark Zuckerberg's 2008 prediction that each year, people will share information about themselves at double the rate they had the previous year.

Facebook is "still going to surpass a billion people, even with slowing growth," said Lou Kerner, an analyst with SecondShares. "So I think the question is, 'Is Zuckerberg's Law going to continue to hold?'"

Compared with the end of 2011, early 2010 was an online gold rush for the world's largest social network. The number of people using Facebook on a given day grew by more than half a million people with each successive day during the first quarter of 2010. But Facebook added only an average of about 290,000 daily users each day in the final quarter of 2011.

"The worldwide user base is going to slow in growth," said Rebecca Lieb, an analyst with Altimeter Group. "You can't have hockey-stick growth forever."

But the slowdown also means analysts this week are picking through Facebook's newly revealed "engagement" numbers, which reveal how frequently people come back after they join the social network. They are looking for signs of what has come to be called "Facebook fatigue," as they try to determine whether the company should be valued as high as \$100 billion when its stock begins to trade later this year.

"There is always a fear of Facebook fatigue, because we've seen this from most social networks that have been created. You have an enthusiastic user base that later peels off and does other things," said Rick Summer, an analyst with Morningstar who says a \$100 billion valuation for Facebook is possible, but remains "a stretch."

One positive sign for Facebook is a new study by the Pew Internet & American Life Project, which found no evidence of Facebook fatigue among longtime users.

"On the contrary," the new study says, "the more time that has passed since a user started using Facebook, the more frequently he/she makes status updates, uses the 'Like' button, comments on friends' content and tags friends in photos."

Facebook declined to comment for this story, citing rules that bar companies from commenting during the IPO process, but in its filing it pointed to a positive trend with engagement. Worldwide, the company said, 57 percent of its regular, monthly users engage with the social network on a daily basis, up from 54 percent a year ago.

Looking more closely at some regions of the world, however, it's unclear whether that trend will continue. In both the U.S. and Canada and in Asia, the ratio of regular users who use the social network each day dropped in the last quarter of 2011 from the previous quarter.

Facebook is also getting some heat for its definition of what constitutes an "active user." More than 40 pages into its S-1 IPO filing, the company disclosed that it counts someone as an active user not only if they log in to the social network through a desktop computer or a mobile app, but if they simply click a Facebook "Like" button on another website once a month on average.

Facebook in recent months has been concentrating on getting people to spend more time on its desktop and mobile products, announcing in September integration with Spotify and other digital music services, as well as other apps that allow users to share experiences like gym workouts, dining, movies and travel back to their Facebook friends.

Facebook also says it still has room to grow its user base, although Wedbush Securities analyst Yoni Yadgaran said the bulk of those new members will be in poorer countries, and won't produce the same advertising revenue per user as members in wealthier North America and Europe.

And Facebook continues "to evaluate entering China," the company said in its IPO filing, but faces a difficult political situation with the Chinese government's censorship policies, as well as strong potential competition from Chinese social networks like Renren, Sina and Tencent.

"We do not know if we will be able to find an approach to managing content and information that will be acceptable to us and to the Chinese government," the company said.

Still, analysts said, the fact that Facebook has a massive audience of 845 million regular users, and over half of those people use the social network every day, is a powerful argument for the company's future success.

"It's beyond remarkable that the same company has both of those things" in the size of audience and the level of engagement, said Kerner, who believes Zuckerberg's Law will continue to hold.

SLOWING GROWTH:

Facebook has 845 million regular users, but the social network gained fewer new users in the last quarter of 2011 than in any quarter since the second quarter of 2009.

On average, Facebook users who access through a personal computer spend an aggregate more than 9.7 billion minutes per day on the social network.

Will Zuckerberg's Law continue to hold? [Facebook](#) users generated an average of 2.7 billion Likes and Comments per day during the last quarter of 2011.

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