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Case 16.2

Facebook's Rise From Dorm Room to Board Room

In February of 2004, Harvard University sophomore Mark Zuckerberg cofounded a Web site as a "facebook" (formerly the term for a physical photo album provided to a student body) where he and his classmates could post their photos and basic profile information. It caught on so quickly that just a month later, Zuckerberg opened it to students at other colleges and universities. By summer, Facebook had become a national phenomenon. Zuckerberg moved the company from his dorm room to California's high-tech Silicon Valley, and he hired more engineers to write software for new features like the "wall," where users post messages, photos, and videos.

Year after year, millions of new users logged on to "friend" friends, acquaintances, family, and classmates. Businesses also created pages to promote themselves and their products. Facebook's rapid growth soon attracted the attention of Microsoft, which in 2007 invested \$240 million to buy a tiny stake in the feisty firm. Zuckerberg and his team were already hard at work on a new round of upgrades to make Facebook even more social.

In early 2008, Facebook Chat went live. Although engineers had argued for a chat feature to allow private, real-time typed conversations between users, top managers weren't enthusiastic. Engineers continued development and demonstrated its use again and again until they finally won Zuckerberg's approval. Today, it remains one of the site's most popular features. By 2009, Facebook had more users worldwide than its primary competitor, MySpace. A year later, Jesse Eisenberg starred as Mark Zuckerberg in *The Social Network*, an Academy Award-winning movie about the legal battles embroiled in Facebook's financial bonanza.

Most of the company's revenues come from advertising. Facebook knows a lot about its users, so it can help advertisers like Domino's Pizza reach highly targeted audiences, such as people in certain age groups and people who have "liked" a particular brand or product. Now, with nearly 1 billion users, Facebook earns more than \$3 billion every year from advertising

revenues alone. Because the majority of Facebook users in the United States, Brazil, India, and other large markets access their accounts via smartphone, the company is working on ways to sell more mobile advertising.

Facebook is also trying to find an appropriate balance between its advertisers' need for marketing data and its users' need for privacy. A few years ago, it violated its own privacy policy by allowing advertisers access to some individually identifiable user data and by sharing some user data with outside software developers. After a public uproar and a government investigation, Facebook agreed in a settlement with the Federal Trade Commission that it would obtain the consent of users before making changes to their privacy settings. Under this settlement, Facebook must allow independent auditors to check its privacy controls and activities every other year for the next 20 years.

Facebook became a publicly traded corporation in 2012 by selling \$16 billion worth of common stock. The money it raised will fuel its global expansion and pay for the next generation of social media services to meet users' needs now and into the future. "We don't build services to make money," CEO Mark Zuckerberg says. "We make money to build better services."³⁴

Questions

1. Every day, millions of people use Facebook to connect with friends, relatives, and businesses. As a result, Facebook is now the world's leading social media company. In your opinion, what factors have led to Facebook's success?
2. What is Facebook's e-business model, and how does this model fit its customers' social media needs and interests? How does this social media company generate revenues and profits?
3. Because Facebook is a public corporation, it is now accountable to shareholders. If you owned Facebook shares, how would you react to the CEO's statement about making money to build better services, not building services to make money?

Building Skills for Success



① SOCIAL MEDIA EXERCISE

The purpose of the first part of this chapter is to introduce you to social media and its importance to business. After reading the chapter, choose a business that you either know something about, want to start, or is the company you already work for.

Assignment

1. Develop a social media plan for that business using what you learned in this chapter.
2. What are the objectives of your social media plan?

3. What social media tools would you choose and why? How would you measure success?
4. Prepare a report that describes how this exercise has helped you understand the material in this chapter.

② JOURNALING FOR SUCCESS

Today, more and more people use the Internet to purchase products or services. And yet, many people are reluctant to make online purchases because of identity and privacy issues. Still others are "afraid" of the technology.



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