Facebook is the largest social networking site in the world. Founded in 2004 by Mark Zuckerberg, the site had over 500 million worldwide users as of October 2010, and has long since surpassed all of its social networking peers. Facebook allows users to create a profile and join various types of self-contained networks, including college-wide, workplace, and regional networks. The site includes a wide array of tools that allow users to connect and interact with other users, including messaging, groups, photo-sharing, and user-created applications.

Although the site is the leader in social networking, it has waged a constant struggle to develop viable methods of generating revenue. Though many investors are still optimistic regarding Facebook's future profitability, it still needs to adjust its business model to monetize the site traffic and personal information it has accumulated.

Like many businesses of its kind, Facebook makes its money through advertising. Facebook represents a unique opportunity for advertisers to reach highly targeted audiences based on their demographic information, hobbies and personal preferences, geographical regions, and other narrowly specified criteria in a comfortable and engaging environment. Businesses both large and small can place advertisements that are fully integrated into primary features of the site or create Facebook pages where users can learn more about and interact with them.

However, many individuals on Facebook aren't interested in sharing their personal information with anyone other than a select group of their friends on the site. This is a difficult issue for Facebook. The company needs to provide a level of privacy that makes their users comfortable, but it's that very privacy that prevents it from gathering as much information as it would like, and the more information Facebook has, the more money it earns. Facebook's goal is to persuade its users to be comfortable sharing information willingly by providing an environment that becomes richer and more entertaining as the amount of information shared increases. In trying to achieve this goal, the site has made a number of missteps, but is improving its handling of users' privacy rights.

The launch of Facebook's Beacon advertising service in 2007 was a lightning rod for criticism of Facebook's handling of its private information. Beacon was intended to inform users about what their friends were purchasing and what sites they were visiting away from Facebook. Users were angry that Beacon continued to communicate private information even after a user opted out of the service. After significant public backlash and the threat of a class-action lawsuit, Facebook shut down Beacon in September 2009.

Facebook has also drawn criticism for preserving the personal information of people who attempted to remove their profiles from the site. In early 2009, it adjusted its terms of service to assign it ownership rights over the information contained in deleted profiles. In many countries, this practice is illegal, and the user backlash against the move was swift.

In response, Facebook's chief privacy officer, Chris Kelly, presided over a total overhaul of Facebook's privacy policy, which took the form of an open collaboration with some of the most vocal critics of the old policies, including the previously mentioned protest group's founders. In February, Facebook went forward with the new terms after holding a vote open to all Facebook users, 75 percent of whom approved. The site now allows users either to deactivate or to delete their account entirely, and only saves information after deactivation.

In late 2009, tensions between Facebook and its users came to a head when the site rolled out new privacy controls for users, but had adjusted those settings to be public by default. Even users that had previously set their privacy to be “friends-only” for photos and profile information had their content exposed, including the profile of Zuckerberg himself. When asked about the change, Zuckerberg explained that the moves were in response to a shift in social norms towards openness and away from privacy, saying "we decided that these would be the social norms now and we just went for it."

The fallout from the change and is still ongoing, and more privacy problems keep cropping up. In October 2010, Facebook unveiled new features giving users more control over how they share personal information on the site with other users and third-party applications. These include a groups feature allowing users to distinguish specific circles of “friends” and choose what information they want to share with each group and whether the groups are public or private.
Shortly thereafter, a Wall Street Journal investigation found that some of the most popular Facebook applications (apps) had been transmitting user IDs—identifying information which could provide access to people’s names and, in some cases, their friends’ names—to dozens of advertising and Internet tracking companies. Sharing user IDs is in violation of Facebook’s privacy policies.

All these privacy flaps have not diminished advertiser interest. Facebook serves ads on each user’s home page and on the sidebars of user profiles. In addition to an image and headline from the advertiser, Facebook ads include the names of any user’s friends who have clicked on a button indicating they like the brand or ad. A Nielsen Co. study found that including information about individuals a person knows in an ad boosted recall of the ad by 68 percent and doubled awareness of a brand’s message.

To determine what ads to serve to particular people, Facebook abstracts profile information into keywords, and advertisers match ads to those keywords. No individual data is shared with any advertiser.

However, it’s still unclear how much money is there to be made from advertising on Facebook. The site insists that it doesn’t plan to charge its users any kind of fee for site access. Facebook’s 2010 revenue was expected to approach $1 billion, which is a far cry from a $33 billion private market valuation. But the site has already become a critical component of the Web’s social fabric, and Facebook management insists that it’s unworried about profitability in 2010 or the immediate future.


### Case Study Questions

1. What concepts in the chapter are illustrated in this case?

2. Describe the weaknesses of Facebook’s privacy policies and features. What management, organization, and technology factors have contributed to those weaknesses?

3. List and describe some of the options that Facebook managers have in balancing privacy and profitability. How can Facebook better safeguard user privacy? What would be the impact on its profitability and business model?

4. Do you anticipate that Facebook will be successful in developing a business model that monetizes their site traffic? Why or why not?