

[Closing Case Has Facebook Solved the Mobile Ad Problem?]



The Business Problem

In 2012, Facebook (www.facebook.com) was unsuccessfully managing the shift of online activities from computers to smartphones and tablets. Immediately before its initial public offering (IPO) in May 2012, the company revealed that it was not earning “any significant revenue” from either its mobile Web site or its mobile app, despite the fact that more than half of its members used its service on their mobile devices.

Facebook had to deal with the two most common problems associated with mobile devices: small screens and gaps in marketers’ ability to measure the impact of mobile ads. These factors made ads look far less effective on mobile devices. Consequently, marketers were less willing to pay for them.

Compounding these issues, Facebook’s advertising team was too preoccupied with pushing a new kind of desktop Web ad, called Sponsored Stories, to pay much attention to mobile. Sponsored Stories are actions by a Facebook member, such as “liking” a page or checking in at a store, that marketers can then promote, for a fee, to the member’s friends. CEO Mark Zuckerberg viewed these ads as the future of Facebook advertising because users were more likely to respond to real posts from friends.

By August 2013, the widening gap between mobile usage and revenue caused Facebook shares to drop by 50 percent of their offering price. Zuckerberg admitted in September 2013 that the company had made a “bunch of missteps” in mobile.

The IT Solution

Facebook discovered that integrating ads directly into a user’s flow of natural activities—in Facebook’s case, the main feed where people view updates from friends—is far more effective than banners and pop-up ads. Although these “native ads” might be controversial, they appear to be advertising’s most successful adaptation yet to mobile computing.

Facebook began running its ads not just in the right-hand section reserved for ads but also on its prime real estate: the news feed, where people spend most of their time on the social network. Facebook executives realized this was a risky step—particularly when they extended the same type of ads to mobile as well. What if the ads in the news feed really annoyed people?

Fortunately for Facebook, that fear did not materialize. Sponsored Stories still got more clicks than it had previously. However, the mobile ads got twice as many clicks as Sponsored Stories and commanded nearly three times as much revenue from advertisers as ads on the desktop, according to a study by advertising agency TBC Digital. Within a short time, the mobile ads were grossing \$500,000 per day.

Facebook then launched other mobile ads, including one that allowed makers of mobile apps to encourage users to

install their games or programs. This step was an even bigger leap. It was the first ad in the mobile news feed that did not require advertisers to wait for a “Like” or some other social action to create it. Advertisers instead could use Facebook’s huge quantity of biographical data from user profiles to target likely prospects, as they already were doing with traditional ads.

This process worked as well. For instance, Cie Games used app installation ads to draw players for its first iPhone game, Car Town Streets. The cost of acquiring the ads was 40 percent lower using Facebook’s ads than using ads from other mobile ad networks. In addition, Walmart purchases 50 million mobile ads from Facebook annually.

The Results

Consider this trend for Facebook mobile ads:

- Revenue from mobile apps totaled \$305 million for the fourth quarter of 2012, a figure that amounted to 23 percent of overall Facebook ad sales.
- For the fourth quarter of 2013, Facebook reported that mobile ads accounted for 53 percent of the company’s total ad revenue, for a total of \$1.24 billion.
- Facebook’s ad revenue in the fourth quarter, 2014, totaled \$3.6 billion, with mobile ads comprising nearly 70 percent of this total, or \$2.5 billion.

Facebook’s success has exploded several myths concerning mobile marketing. Advertisers often complain that they cannot run big, flashy ads on tiny screens. However, Facebook’s mobile ads take up a larger part of the screen than desktop ads do, which is one reason why they attract so many clicks. In fact, an increasing number of mobile ads now contain photographs, and Facebook is actively looking to incorporate video into mobile ads.

Industry analysts worried that users might balk at ads that are mixed with posts from friends. So far, that has not happened. Research revealed that the ads reduced comments, likes, and other interaction with posts by only 2 percent, a decline that Facebook considers acceptable. However, Facebook will have to be careful not to overdo mobile ads to the point of overloading its users’ feeds.

Sources: Compiled from C. Farivar, “Those Mobile Ads Work: Facebook Gobbles Up \$701M Profit in Q4 2014,” *Ars Technica*, January 28, 2015; D. Goldman, “Facebook Is Growing—So Are Its Costs,” *CNN Money*, January 28, 2015; T. Huddleston, “Mobile Ads Fuel Facebook’s Growth, Again,” *Time*, January 28, 2015; A. Campos, “Why Facebook Is Releasing News Feed Video Ads,” *The Motley Fool*, March 17, 2014; Z. Terrelonge, “Facebook Officially Launches 15-Second ‘Premium Video Ads,’” *Mobile Entertainment*, March 14, 2014; S. Parkerson, “New Premium Video Ads Are Facebook’s Latest Move to Dominate Ad Dollars,” *App Developer Magazine*, March 14, 2014; E. Price, “Prepare Yourself: Facebook Video Ads Are Headed Your Way Soon,” *Engadget*, March 13, 2014; J. Edwards, “Facebook Is Powering Millions of App Downloads a Year,” *Slate*, March 13, 2014; H. Weber, “Facebook Finally Launches

Autoplaying Video Ads on Desktop and Mobile," *VentureBeat*, March 13, 2014; R. Tate, "Facebook Lures Developers with Mobile Ads and a Promise of Riches," *Wired*, March 12, 2014; D. Serfaty, "Why CMOs Must Change Their Plans for Facebook," *Forbes*, March 11, 2014; L. White, "Digital Ad Spend Quickly Shifting to Mobile: Are You Ready?" *Marketing Land*, February 27, 2014; M. Mawad, "Facebook Mobile Strength Breeds Apps in Hunt for Ad Dollars," *Bloomberg*, February 24, 2014; M. Charski, "Facebook, Twitter Retargeting Tools Appeal to Creators of Mobile Ads," *Data Informed*, February 18, 2014; www.facebook.com, accessed March 18, 2015.

Questions

1. Explain why mobile ads are so effective on Facebook. Provide specific examples to support your answer.
2. You are accessing Facebook on your smartphone or tablet. Would ads placed directly into your news feed bother you? Why or why not?
3. You are accessing Facebook from your desktop computer. Would ads placed directly into your news feed bother you? Why or why not?
4. If there is a difference between your answers to questions 2 and 3 above, explain why.