Facebook IPO: How Will It Impact Brands And Companies?

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The Facebook IPO is an important milestone in the transition of social media from a niche interest into the mainstream.

Euromonitor International investigates what the IPO means for companies which use Facebook to interact with users.

The IPO has generated a tremendous amount of interest among both investors and users. It is regarded as the biggest IPO of any internet company and is expected to raise even more than the US$1.67 billion achieved by Google Inc in 2004. Friday IPO valued Facebook at just over US$100 billion, raising around US$16 billion in cash. Without delving into the valuation of the company, this strong interest signifies the opportunities for businesses (and the revenues for Facebook) which social media could generate.

More than an advertising channel
Currently, Facebook's revenue is primarily generated through advertising. Facebook reported revenues of US$3.7 billion in 2011, 87% of which was generated through advertising. Click to tweet! Its services to users are free. While the company is testing some paid services (such as having a paid option for status updates in order to highlight them and make them prominent), it is likely that user services will remain free. In order to continue to achieve revenue growth Facebook will need to innovate in terms of the services it offers businesses and the ways it uses user information to sell to advertisers.

User data is extremely important to social networks as so far it has allowed them to offer extremely well-targeted advertising. This is an area Facebook is likely to pursue more actively in the future. At present, Facebook is making good use of this data to sell very well-targeted advertising.

Google, which reinvented online search, also reinvented advertising on the web, emphasising on well targeted text ads within its search results and moving away from banner advertising which dominated the internet before Google.

Sponsored Stories
An example of the use of sponsored stories alongside user generated content

Like Google, Facebook will also need to reinvent how companies interact with users through the Facebook platform. Facebook's advertising efforts were previously mostly banner advertisements. However, in 2011, the company developed â€œSponsored Storiesâ€• to tie in marketing content with user activity. While banner advertisements have been criticised for not being very effective, â€œSponsored Storiesâ€• have been found to generate a higher click-through rate and lower cost per click.

As social media is still in its early stages, it is likely that new formats to promote relevant information to interested users (paid or unpaid) will emerge. In the meantime, companies remain divided on the usefulness of Facebook advertising. General Motors is the latest high-profile company to cut its adspend on Facebook, while focusing on expanding its presence through the free company page tools which Facebook offers. On the other hand, other companies, among them car manufacturers such as Ford and Subaru, report positive results from using Facebook and social media in general and have committed to increasing their investment in the channel.

Facebook committed to mobile
Mobile technology is emerging as the next big thing. Mobile phone penetration has surpassed that of the internet, with smartphone penetration also growing very rapidly. Mobile access to the internet and to social networks is surpassing that through PCs. Facebook recently announced that of its 901 million monthly active users, more than half access the site through mobile devices. Click to tweet!

Facebook has been rather slow to accept mobile technology as its core features are still tailored to the desktop experience. While the company is aware that mobile is important, its mobile app on the iPhone has received below average reviews and a number of complaints from users. Facebook has also been slow to release a dedicated iPad app. However, with the recent purchase of the popular photo sharing app Instagram for a staggering US$1 billion, Facebook is showing that it is serious about mobile. One of the ways it can benefit from its investment is to utilise the talent which has made Instagram's simple and intuitive design work so well on mobile devices.

This is important to brands and companies as the majority of smartphone users access Facebook while on the go. In fact, Facebook is one of the most frequently downloaded apps. By making its platform easier to use on mobile devices, Facebook could extend brands' reach to those mobile users thus saving brands from having to specifically tailor their offerings to mobile devices.

Deepened integration

More importantly (at least in the shorter term) to businesses and the social media industry will be the new services Facebook can offer businesses to interact and connect with users. The company has already introduced important changes to the site, some of which have a particular emphasis on business users. One of these is the one-to-one communication introduced via the switch to TimeLine, which allows users to interact one-on-one with brands and can be used in customer service queries to resolve sensitive issues directly on the Facebook platform.

â€œSponsored Storiesâ€• is also an example of how to bring advertising closer to the natural interaction and sharing which occurs on the site.

Social business

Facebook is the poster child of the social media explosion, and while users and investors alike are divided over the long-term prospects of the company, it is clear that internet users across both the globe and the age spectrum are adopting social media to connect with friends, family, colleagues and even brands and companies.

Social media (and Facebook) will play an important role in business as it impacts consumer choices through the purchase decision process. The internet has already transformed purchase decisions through price transparency and the abundance of information, particularly in the pre-purchase and purchase phases. Social media has the opportunity to impact the post-purchase phase as well as the pre-purchase phase through the ease of sharing and finding relevant information. Similarly, in the way that e-commerce has had a transformative effect on businesses and brands, social media will have an equal or even stronger impact as it matures.

Facebook is already making good use of user data â€“ both to sell advertising and also to figure out how to provide better services for business. However, user data is a double-edged sword. Any improper use, as perceived by users, can quickly generate a backlash. Badly implemented changes to privacy controls in the past are proof of the strong negative reaction of users if their information is misused.

In a similar fashion to the way Google has transformed the way companies advertise on the internet, it can be expected that Facebook has the power to transform how companies interact with consumers using social media channels. The IPO raised about $16 billion and will provide resources for the biggest social network site in terms of active users to invest in creating the tools to make sharing even more effortless and meaningful. Most importantly, the IPO will also make it crucial for Facebook to deliver such results.

Social media is already important for businesses, although many are still finding out how best to use it. Facebook could play a decisive role in building a platform where this can happen and teaching companies and brands how best to utilise it.

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