Reduced Estimate For Facebook Revenues

Contributed by eMarketer
Monday, 03 September 2012
Last Updated Monday, 03 September 2012

Ad, other revenues at the site will fall short of expectations

eMarketer estimates that, while robust growth rates will continue for the foreseeable future, advertising revenues at Facebook will not fly as high this year as earlier predicted.

Ad revenues at the social networking giant will continue to rise this year, though at a significantly lower rate than in the past. Revenues will reach $4.23 billion, up 34.1% over 2011, and eMarketer predicts revenue increases in the double digits to continue through 2014, when Facebookâ€™s worldwide ad revenues will reach $6.81 billion.

In February, eMarketer predicted ad revenues at Facebook would reach $5 billion this year, but underperformance throughout the first half of 2012, along with questions about the effectiveness of some of the siteâ€™s ad products, have led to a downward revision of close to $1 billion.

Paid advertising accounts for the vast majority of Facebookâ€™s total revenue, though its share has been dropping over the past several years. As recently as 2009, advertising accounted for 98% of the companyâ€™s intake; this year that percentage is down to 83.9%. Total revenues at Facebook will break the $5 billion mark this year, an increase of 35.9% over 2011.

Revenues from Facebook Payments and other sources are rising more quickly than ad revenues, but from a much smaller base. This year the social networking site will take in $811 million from sources other than advertising, which represents an increase of 45.6% over last year.

Earlier this year, eMarketer predicted that Facebookâ€™s total revenues in 2012 would surpass $6 billion, but after the site underperformed eMarketerâ€™s expectations in both Q1 and Q2, the forecast has been revised downward. The new forecast represents a decrease in expectations for this year of more than $1 billionâ€”a significant drop in confidence in the siteâ€™s revenues.

While there is question about the effectiveness of advertising on Facebook, as some high-profile brands have dropped their efforts on the site, eMarketer believes the technology underlying the Facebook Marketplace ad-buying platform is robust and will continue to support higher levels of spending. The infrastructure supporting these ads, which typically appear on the right side of the page, is efficient and effective, and eMarketer believes that as Facebook rolls out similar technologies to its Sponsored Stories and newsfeed ads, those ads will become more effectiveâ€”especially as performance marketers adopt them. For now, however, the performance of Premium ads on Facebook is both more doubtful and more difficult to measure.

eMarketer bases its estimates of advertising and other revenues at Facebook on the analysis of reported revenues from Facebook company releases; estimates from other research firms; Facebook usage trends; and eMarketer interviews with executives at ad agencies, brands, online ad publishers and other industry leaders.

31 August 2012