SMC UNIVERSITY
Swiss Management Center – Transknowlogy Campus

Zurich, Switzerland

Facebook: A Case Study of Strategic Leadership

April 8, 2012

Prepared by:

Jeffrey S. Ray, P.E., Esq., PMP
Doctoral Candidate, SMC University
jeffrey.ray@student.swissmc.ch

Prepared for:

Swiss Management Center
Learning Center – Zurich
Seestrasse 463
8038 Zurich - Switzerland
Tel.: +41 (0)41 500 16 22
administration@swissmc.ch
http://www.swissmc.ch

Abstract

This paper is a case study validating that strategic leadership which results in a value proposition implemented on behalf of the customer has a tremendous effect on the success of business operations, perhaps even more so for online services. By managing the value propositions of its users and customers to ensure they had positive online experiences, Facebook was able to begin from humble origins and run competitor MySpace into the ground, replacing it as today's most relevant social networking alternative. This paper also contrasts Facebook's current position against Google as the later tries to enter the social networking market place and take market share away from Facebook.

From 2005 until early 2008, MySpace was the most visited social networking site in the world, and in June 2006 surpassed Google as the most visited website in the U.S. But MySpace failed to manage the quality of user experiences on their network, and began losing customers to Facebook. Facebook founder and CEO, Mark Zuckerberg, had a vision and offered a social network with a clean design and a better user experience. Facebook's unique focus on relationship management also enticed users to visit more often, and stay longer when they did visit, which drew advertisers willing to invest aggressively. Facebook quickly caught MySpace and dominated it by providing quality online services that resulted in positive user experiences.

Despite all the focus today's business world puts on information, and how to search for, use, and manage it, Facebook became a $100 billion enterprise in just 8 years because its leader defined a strategy that leveraged our desire to connect with people and maintain relationships. Facebook validates that people have a keen interest in a developing and maintaining human relationships and, when given the choice, would rather spend their time building networks of relationships, rather than networks of information. As a result, Facebook fundamentally changed how people use the web and find and access information.

Table of Contents

Facebook History and Background

This paper assesses the strategic leadership Facebook has demonstrated since it originated from humble beginnings and sustained tremendous growth to overtake MySpace and dominate the social networking service industry. It contrasts Facebook's performance and strategies with those of MySpace, and then switches gears and evaluates Facebook against its current rival, Google, which has been trying to dislodge Facebook for most of the latter's successful business life.

Strategy has been defined as a pattern or stream of decisions that are taken to achieve the most favorable match between external environments and organizational capabilities (Mitzberg, 1978). Facebook has been a master at matching their capabilities to the online environment and user needs. Never-the-less, it is not evident at first sight why Google is so concerned about Facebook. A top-level review of Google's financial stature in the business community seems to show a rock solid, top-performing business enterprise. A deeper look into the fundamental business strategies of these two companies, however, reveals that Facebook's focus on building a network of relationships has, in fact, been enticing internet users to change the way they interact and communicate online. Google is vulnerable because Facebook is changing the fundamental way people use the internet. People are moving away from a search for content approach, to one of managing relationships.

Facebook offers a business model where users get free access to a social network in return for posting personal information to facilitate connecting with "friends." Revenues are generated when Facebook leverages the personal information of its users in ways that benefit advertisers, who then pay generous sums in order to implement marketing campaigns targeted at specific demographics of interest. All the social data users input into Facebook, like products they just purchased online, or updating the status of events, helps Facebook serve up targeted

campaigns to advertisers by defining things we are more likely to want. This has made Facebook the go-to advertising service for marketing organizations hoping to do online brand advertising.

Facebook vs MySpace

This section addresses the history of MySpace and Facebook, assesses some of the problems with MySpace that may have made it vulnerable, and ends with an evaluation of the benefits Facebook offered which led to its growth into a leadership position in the social networking market place.

MySpace History

MySpace was founded in August 2003, and launched in early 2004. By February, MySpace had over 1 million users, which increased to 5 million by November. In July 2005 Rupert Murdoch of NewsCorp purchased MySpace for $580 million. By July 2006 MySpace beat out Google and Yahoo to become the most visited website in the U.S., and had a dominant 80% of all traffic to social media sites. In August 2006 Google paid MySpace $900 million for a 3 year advertising deal, causing MySpace's estimated valuation to increase. At this point MySpace's annual revenue was reported to be $525 million. Facebook and MySpace combined for $650 million in advertising revenues and collectively dominated the market with 72 % share. According to a 2007 article in Forbes magazine, MySpace was still getting twice as many unique visitors (68 million per month) as Facebook. From 2005 until early 2008, MySpace was the most visited social networking site in the world, and in June 2006 surpassed Google as the most visited website in the U.S. By late 2007 into 2008, MySpace was considered the leading social networking site, and consistently beat out main competitor Facebook in traffic. In April 2008, Facebook caught MySpace, and each network attracted 115 million monthly visitors. At its peak, when News Corp attempted to merge it with Yahoo!, MySpace was valued at $12 billion.

In April 2008, things began to turn around and MySpace was overtaken by Facebook in the number of unique worldwide visitors, and was later surpassed in the number of unique U.S. visitors in May 2009. Since then, MySpace has experienced a continuing loss of membership. MySpace failed to innovate and stuck to a "portal strategy" of building an audience around entertainment and music, whereas Facebook continually launched new features to improve the social-networking experience (i.e., its value proposition to users). While Facebook focused on creating a platform that allowed outside developers to build new applications, MySpace built everything in-house. MySpace's former head of marketing and content, said "MySpace went too wide and not deep enough in its product development. We went with a lot of products that were shallow and not the best products in the world" (Stenovec, 2011). The results are dramatic. In 2010 MySpace began losing $100 million a year, and the number of MySpace visitors dropped 20%, to 58 million per month, compared to over 148 million a month at Facebook. As a result of operating losses, Bloomberg Business Week reported that the MySpace valuation had decreased to $290 million. The damage continued, and in January 2011 the company laid off about 500 employees, and in April the company was officially put up for sale. MySpace then announced it would cut half of its 1100 person workforce (Sherman, 2011). Finally, in June 2011 it was sold for a mere $35 million to Specific Media.

Problems with MySpace

MySpace has had its share of problems, not the least of which is a total disregard for any kind of value proposition on behalf of their users. The MySpace user experience is known to have degraded over time. MySpace users have had to contend with pages cluttered with distracting advertisements, annoying features, an unstable host platform subject to crashing, and customizable profile pages that litter its network with garbage in the form of flashing pictures,

auto-starting music players, and tacky background pictures that can render text unreadable. MySpace is known to have more flexibility in terms of HTML formatting that allows multimedia content, but causes some sites to get bogged down to the point that users report page loads repeatedly time out. The logical assumption is the MySpace network is under-engineered, while the Facebook network can easily accommodate its user load. A former MySpace executive suggested that the $900 million three year advertising deal with Google, while being a short-term cash windfall, was a handicap in the long run (Stenovec, 2011). That deal required MySpace to place even more ads on its already heavily advertised space, which made the site slow, more difficult to use, and less flexible. MySpace could not experiment with its own site without forfeiting revenue, while rival Facebook was rolling out a new clean site design.

MySpace once dominated the social networking marketplace, but they lost sight of the value proposition created by the user's experience on the network. The problems degrading the user's experience on MySpace have been well documented. Users have consistently complained that MySpace: has way too much spam, has too many advertisements, and has profile pages that are not visually appealing, nor fun to browse through (Atal, 2007). In comparison, Facebook has less information intensity, has a standard profile page layout which allows users to quickly find information of interest, allows users to set up a webpage and create their own personal show about their experiences, and is generally perceived to be more fun by the younger generation. Since there was no coherent strategy or path forward for growing the audience, investors at MySpace lacked a good value proposition as well. The MySpace customers (advertisers) left in mass because Facebook offered advertising campaigns that could target key demographics and measure the success of online advertisements. Mark Zuckerberg, Facebook's founder and CEO,

is obsessed with figuring out how to collect more data, by getting more people, to spend more time, sharing more things, with their Facebook friends. MySpace lacked such creativity.

In 2010 MySpace released a remake of its user interface, the result of a major design overhaul. Improvements include reducing the number of advertisements per page, reducing the number of steps it takes to add a friend and, in general, offers an overall reduction in complexity. At this point, however, the general consensus is this is too little, too late. In 2010 Bloomberg Business Week reports that Google is demanding to renegotiate its $300 million-a-year advertising deal, and the redesign may just have been News Corp posturing to sell the company.

Facebook's Historical Setting

Calling the Facebook timeline remarkable is a bit of an understatement, as indicated below:

2004 – 2006

- In 2004 Facebook is launched for Harvard students. Zuckerberg coded the first generation of Facebook from his dorm room at the age of 19 to help undergrads communicate online using their real names.
- In 2005 Facebook opens registration to all college students and, later, to high school students if they are invited by a college student. This creates a frenzy with college bound high school students wanting to join, and guarantees Facebook's popularity for another generation of college students.
- In 2006 Facebook opens registration to the public (anyone with an email address).

2007 – 2009

- By 2007 Facebook has approximately 26 million users log in per month, and has annual revenues that reach $125 million.
- According to an article in Forbes magazine, the number of Facebook visitors ages 12 to 17 increases by 149 %, while at the same time MySpace lost 27 % of its teens (Miller, 2007). Speculation implies the MySpace demise started with a migration of teenage users to Facebook.

- By 2008, amid the worst recession in a generation, Facebook earns $300 million in annual revenues.
- Zuckerberg settles a law suit over Facebook paternity for $65 million.
- By 2009 Facebook customers are now connecting to new friends at a rate of 10 billion times a month.

2010

- By 2010 Facebook has 500 million users, employs 1700 people, draws 148 million visitors per month, and earns $2 billion in annual revenues. As a result, Facebook's valuation increases to $35 billion (Hardy, Pomerantz, & Hill, 2010).
- In 2010 1 million developers were working with Facebook data worldwide.
- By 2010 Facebook customers are connecting to new friends at a rate of 30 billion times a month according to Forbes magazine.
- Facebook is now a market place for everything from clothes, books, music, and insurance, under the premise that people will trust their friends more for purchasing influence than Google advertisements.
- In July 2010 Zuckerberg responds to word that Google was developing *Buzz*, a Facebook killer, by calling on employees to work overtime, and leading an effort to develop new Facebook features. The press calls this Facebook's "*summer lockdown*." By September Facebook releases updates to features for photos, events, and better grouping tools.
- In October 2010 the movie *The Social Network* hits theaters and portrays Zuckerberg as an overly ambitious mogul who chooses his company over his friends (Hardy, et. al., 2010).

2011 – 2012

- By February 2011, Facebook has 630 million users, 150 million of which are from the U.S. As a result, Facebook's display advertising revenue increases 81 %, compared to Google's increase of only 34% (Helft & Hempel, 2011).
- Facebook's 2011 advertising revenues hit $4.3 billion, and it employs roughly 3200 employees. Goldman Sachs reports it will invest $500 million in Facebook,

which causes Facebook's valuation to increase to $50 billion (Sherman, 2011).

- In response to the release of Google +, Facebook directs employees to work around the clock to replicate the most praised Google + features. At the company's annual F8 developer's conference in September, Zuckerberg unleashes a number of new features to be incorporated into Facebook (Helft & Hempel, 2011). *Timeline* is one of the new features and it replaces Facebook's aging, but beloved, profile pages.
- In May 2011 Facebook hires public relations firm Burson-Marsteller to plant anti-Google stories in papers and blogs. The plan backfires when word gets out and Facebook receives criticism for bad judgment.
- After several years of raiding Google, 4 of Facebook's top 11 executives have been hired away from Google. Google has responded to the talent war by offering top engineers and executives up to $10 million in equity and bonuses if the stay at Google (Helft & Hempel, 2011).
- By 2012 the Facebook community increases to 800 million users. If all Facebook users formed their own country, it would be the third largest country in the world.
- Facebook's 2012 valuation, likely spurred on by talks of an IPO, reaches $100 billion as reported by Newsweek in their March 12, 2012 weekly magazine.

Benefits of Using Facebook

The benefits of using Facebook are many. The value proposition to the user ensures and enjoyable online experience. Facebook's minimalist approach to design features and screen layout are attractive to users and companies. The network is set up to allow such users to pick their favorite features, products, companies, etc., and showcase their favorite brands. It provides a way to access information that is more fun, and does not require executing complex searches to discover desired content by weeding through large number of sites containing unwanted data.

Facebook also enjoys a better behaved user community. It originally flourished in college communities, and students needed an .edu email address to join the site. The result is

users were closely connected to their real identities, and their online and offline behaviors were the same. On MySpace it is understood there is a degree of fantasy involved, and users portray who they want to be in terms of an alter ego. Thus, their online behavior isn't as consistent (Atal, 2007). Ultimately, the two sites accomplish different value propositions for their users. MySpace lets users showcase their interests in music or film, find new artists to follow, or meet other users with similar tastes. Facebook is centered around relationships rather than content, and helps users keep in touch with college or professional colleagues. It is their focus on relationships that makes Facebook unique, and is likely to primary reason it grew so fast into a leadership position (Alta, 2007). In contrast to MySpace, Facebook provides the ability to select and incorporate their friends into a network of personal relationships where information about products, services, and preferred brands can be shared.

The ability to collect and package user preference data enables advertising targeted at desired demographic groups, thus ensuring the customers (advertisers) get an outstanding value proposition. As the advertising revenues keep pouring in because the customers are getting good value for their advertising investments, investors reap the rewards as stock prices increase. A recent survey of small businesses found that Facebook generates traffic and drives new sales. 49 % of the small businesses surveyed had Facebook pages, and of the ones that didn't, 60 % report they plan to create one (Tampone, 2011). Facebook is regarded as an easy to develop business tool that can capture new customers, and help stay in contact with existing ones.

Google vs Facebook

This section addresses the history of Google's ill fated attempts to enter the social networking market, and contrasts their business strategies. As seen below, Facebook could have improved its performance by maintaining an innovative posture, but instead fell into a reactive

mode that responds to industry threats created by Google.

Google's History in Social Networking

Interestingly, Google has a long list of failed attempts to penetrate the social networking business area:

- In 2004 Google released *Orkut* and tried to enter the social networking business alongside Facebook. It is considered a flop and is largely irrelevant outside of Brazil (Helft & Hempel, 2011).
- In 2007 Google leads the *Open Social* effort to rally MySpace and other social networks into alliance to counter balance the emerging Facebook leadership position. It is another flop.
- In 2009 Google introduces *Wave*, a new social networking service, only to kill it after only a few months (Helft & Hempel, 2011).
- In 2010 Google introduces *Buzz*, an attempt to manipulate gmail users into a new social network. Helft & Hempel (2011) report this effort quickly turned into one of Google's biggest blunders as *Buzz* exposed user's gmail contacts to others and triggered a Federal Trade Commission (FTC) investigation that forced Google to revamp its privacy policies and accept government monitoring for a 20 year period.
- In 2010 Google's current CEO, Larry Page, began development of Google +, the company's latest attempt to break into the social networking market. Page ties employee bonuses to how the company performs in the social networking area.
- In July 2011 Google releases Google +, a new social networking platform that has users create circles of friends that allows for their categorization. Google reports that 40 million users signed up in the first four months.
- In response to new features announced at the Facebook's F8 developer's conference, Google begins to incorporate new features into Google + at a furious rate (100 new features in 90 days).

Despite these setbacks, things have been going good for Google in their core competency areas, as indicated by the following:

- By 2011 Google owned 41% of the U.S. online advertising market, which is estimated to be over $31 billion. Growth in search advertising, however, is slowing as advertiser put more of their limited funds into Facebook with its 800 million users who spend large amounts of time on the network.
- In response to the talent war initiated by Facebook, Google gives its entire workforce a 10% raise.
- In 2011 Google postures itself for a long war of attrition by hiring 2600 employees, almost as many that work at Facebook.

Why Google is threatened by Facebook?

This section identifies what is at stake in the war between Facebook and Google. Google perceives Facebook as a threat because it represents a fundamental change in how information can be accessed on the internet and, as such, could evolve into a substitute product. While Facebook offers advertisers the ability to conduct advertising campaigns targeted at specific demographics of choice based on collected user preference data, Google sells more traditional advertisements tied to search results. The following subsections highlight why Google should be threatened by Facebook.

Facebook Offers a Fundamental Shift in how Information is Accessed

By dislodging MySpace, Facebook now has a leading position in social networking that it is trying vigorously to maintain. Google, in comparison, is a company that has organized the world's information, and showed everyone how to find it, but is now fighting to remain relevant as the internet of hyperlinks gives way to the internet of people (Helft & Hempel, 2011). From the Google perspective, everything needs to start with a search. If you are interested in a current event, the score of a sporting event, or need to buy a car, the first thing you should do is an online search. In this reality Google's algorithms, which have been refined for over a decade, respond perfectly to the challenge. The Facebook perspective, in contrast, makes it is easier to

find relevant information by monitoring Facebook newsfeeds and seeing what your friends with common interests are doing. Rather than search the web for a good book, one would browse the profile pages of their friends and wait for them to recommend one to read. Facebook is trying to change how information is accessed online from an approach that is primarily search based, to a social one where a user's first step is to see what interests their friends have, and then pursue areas of common interests based on the recommendations of the friends in their network. Consequently, Facebook represents a significant risk to Google, and the later has responded predictably. Porter (1979) referred to this as a threat of substitute products or services.

The Fear that Facebook could evolve into a Substitute Product

By encouraging a fundamental shift in how people use the internet and collaborate, Facebook has ended up at the center of a new social networking universe, and much of what people do today starts in the Facebook network (Helft & Hempel, 2011). As such, Facebook should be viewed by Google as a threat of a substitute product. A substitute "performs the same or a similar function as an industry's product by a different means" (Porter, 2008, p. 84). When the threat of substitutes is high, industry profitability usually suffers (Porter, 2008). Substitute products or services limit an industry's profit potential by placing a ceiling on prices (Porter, 2008). If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability and growth potential. Thus, Google may be in danger of losing significant percentages of its advertising revenues if it has to share with Facebook, and has rallied to do battle. In 2011 Facebook's advertising revenue grew by 81%, compared to only 34% at Google. Helft and Hempel (2011) report that industry analysts doubt that either company can grow by the billions investors expect in advertising revenues without directly challenging and taking market share from the other company. Half of

Facebook's active users log in every day, and the average user has 130 friends, is connected to 80 community pages, groups, or events, and creates 90 pieces of content every month (Voivod and Voivod, 2011).

The Genius behind Facebook's Advertising Services

It's interesting to contrast Facebook's users with its customers. As users we get access to a free social network where we can collaborate with our connected friends. The only thing we give up for this service is our data. The data is used in the form of targeted information about our preferences which is then packaged and sold to Facebook customers, i.e., the advertisers footing the bill.

But how does Facebook collect all of our personal preference information? Well it all starts with the *I Like* button. As Facebook users rummage through the social network, or bump into movies, songs, restaurants, books, services, or other things they like, the acknowledge their satisfaction by clicking the *I Like* button and making an entry that ends up on their profile page. The *I Like* button tells you things your friends like that may be worth trying yourself. The *I Like* button is said to create "*social proof*" that induces others to become fans of products and services. They are more likely to try a product if they know one of their fiends already tried, and like it (Voivod & Voivod, 2011). The "*social proof*" component is a strategic Facebook advantage that advertisers love and cannot be overstated. Seeing that friends endorse businesses, products, or services, provides users a quick visual impression about their friend who likes it, and users learn to align themselves with the recommendations of some friends over others (Voivod & Voivod, 2011). By leveraging the data that results from the *I Like* button, the Facebook platform offers a remarkable level of targeted advertising. Advertisers can limit advertisements to appear only on someone's birthday, can specifically reach only 25 year old males within a certain

distance of a designated city, and can advertise based on a user's friendships, attended events, and page likes (Voivod & Voivod, 2011).

As a result of its focus on providing advertisers a quality value proposition, Facebook has become the world's most robust marketing database (Voivod & Voivod, 2011). Google offers tools like AdWords and AdSense to help advertisers reach large numbers of customers that already know what they are looking for, and may have been using Google to conduct searches to find it. In contrast to Google, Facebook offers social advertisements for helping people discover new things they don't know they need yet. It caters more to persuasive advertising. Facebook is expected to launch an ad network in the near future as well.

Using Ansoff's Matrix to Categorize Risks

Applying the Ansoff (1957) matrix we notice that using existing products in existing markets (the Facebook situation), is referred to as *Market Penetration*, where a business seeks to achieve growth with existing products in their current market segments, aiming to increase its market share of that segment. This approach has a low risk level. Applying the matrix to the case of developing new products for introduction into new markets (the Google + situation), which is referred to as *Diversification,* and we note this approach results in the highest risk levels of any of the growth strategy approaches. Thus, from Ansoff's point of view, the Google + initiative has considerably more risk associated with it compared to Facebook's situation.

Facebook's Strategic Situation

As the web is being built around people and, in particular, Facebook's graph of human relationships, Google may end up on the sidelines with its relevance eroding day by day (Helft and Hempel (2011). Google + cloned much of what users like about Facebook and eliminated what they hate about it. Learning a lesson from their *Buzz* fiasco, Google + makes it easy for

users to decide who can see what's posted on a site and, therefore, is considered an improvement that addresses user privacy issues. Facebook to this day is still accused of manipulating user privacy preferences given they make users opt out of sharing, rather than establishing a more conservative opt in approach. Until recently, Facebook lacked a good way to separate out friends from work, classmates from school, and real friends. Google + has been built around *Circles,* an intuitive way to group friends into categories. In response, Facebook improved how it categorizes and groups friends. The redesign also adds *Timeline* which improves the user interface (and provides more personal data that can be sold to advertisers), and provides deeper social integration with external services like Netflix and Spotify (Helft & Hempel, 2011). Users can now find and listen to a friend's music playlists directly from Facebook. This new source of social preference data should prove to be invaluable to advertisers.

Critical Success Factors to Track

Facebook should use Critical Success Factors (CSFs) to solidify strategy and tract the progress made resulting from new value propositions which encourage targeting of user social preferences. CSFs are the essential activities required to ensure the success of a business pursuit. They refer to the limited number of quantifiable areas of metrics where satisfactory results will ensure successful competitive performance of an organization. For the purposes of this paper, CSFs will be used to compare the performance and market posture of Facebook, MySpace, and Google +. By using CSFs to highlight a few key factors of each company's performance, we can estimate the likelihood of their success when expanding market share, or new products into new markets. The results will then be used in the trend analysis below.

Where data is available to support them, the following metrics will be used to assess the performance of each company with regards to the social media market area:

- Total number of registered users.
- Total annual advertising revenue.
- Market Capitalization (total value of the tradable shares of a publicly traded company).
- Total company valuation.
- Number of employees.
- Number of unique visitors per month.
- Average time each user spends on the network per month.
- Number of friends the average user is connected with.

Table 1 indicates the metrics identified for each company at different time periods.

Table 1. MySpace, Facebook & Google Organizational Performance Metrics.

Tracking Metric	MySpace						Facebook						Google+	
	2004	2006	2008	2010	2012	2016	2004	2006	2008	2010	2012	2016	2011	2012
# of registered users [million]	5	67	75.9	73	33	22	0	7	100	500	845	1200	0.6	90
Annual Revenues [millions]		$525	$800	$288	109	45	0	$0	$300	$2,000	$4,300	$8,000		
Earnings [millions]				($100)	($165)	($10)	0	0	$50	$600	$1,500	$3,000		
Market Valuation [billions]		$0.58	$12	$0.29	$0.35	0.5		$1	$15	$35	$100	$250		
# of Employees	35	270	1000	1600	600	300	1	150	750	1700	3200	4200		
# of unique visitors [millions per month]		60.8	115	60	25.1	23		19.1	115	148	173	200	18	67
Ave. Time Spent [minutes per month]		234.6	179.3	59.3	8	6		150.4	169.4	352	393	425	3.3	3

Table shows the data used to assess the operational performance of each company. News Corp. didn't report MySpace earnings during its ownership. Google has published propaganda statistics about Google+ and now claims it has 90 million registered users. With an average time spent of only 3 minutes per month, it is clear the number includes gmail account holders that are not active users.

The values depicted in the table are the results of web searches that typically ended at weekly business magazines like Forbes, Newsweek, and Business Week. The 2016 values are forecasted by linear extrapolation based on the 2004 thru 2012 values. The critical success factors important to the social networking industry are the ones that advertisers, the main source of revenue for these companies, would desire to ensure wide reaching marketing efforts. Advertisers want to know a lot of users are using the site and will be exposed to their

advertisements, and that they are staying on the network a long time to increase the likelihood users will eventually review the advertisement. Table 1 clearly shows why advertisers pursue Facebook in large numbers. Facebook dominates the number of registered users (845 million), the number of unique visitors per month (173 million), and the average time spent on network (393 minutes per month). No other competitor is even close. As a result of their dominance in these areas, advertisers are pursuing them, they are generating large revenues, and as the other factors in Table 1 indicate, Facebook is growing at a remarkable rate. The results indicated in the table are the basis for the trend analysis conducted in the next section. Facebook should monitor these factors daily in a dashboard. If tracking these critical success factors starts to reveal that Facebook is losing users, revenues, market capitalization, the length of time each user spends on Facebook per month, then, as it was for MySpace a short while ago, it will be a sign that market competition has caught Facebook and the time to make dramatic turnarounds through innovation may be at hand.

Current Market Area Trend Analysis

A trend analysis can illustrate how successful Zuckerberg has been at Facebook, and its vulnerability to new threats. Figure 1 depicts a trend analysis comparing Facebook, MySpace, and Google + using the data from Table 1. In Figure 1 the colored balls represent the current (2012) posture of the products, while the white balls indicate the future (2016) posture. The size of the ball graphically indicates how strong the product is in the market space. If Google is expecting Google + to continue growing, which is not unreasonable given it was just released, then the size of the ball would increase in size to represent the anticipated 2016 value. The location of the ball on the grid indicates whether the product has low, medium, or high market attractiveness, and a low, medium, or high competitive posture. As Facebook continues to

transform the way people use the web, the market attractiveness will keep improving.

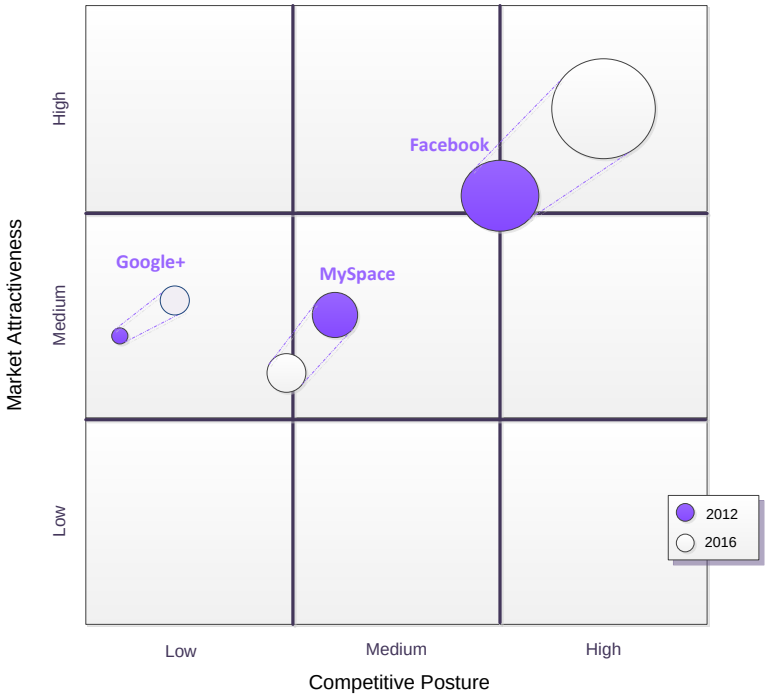

Figure 1. Modern Trend Analysis. The figure depicts the current strength of a product relative to its competition (size of the colored balls), the anticipated future strength of the product relative to its current state (size of the white balls), the current industry market attractiveness (location of the colored balls on the Y-axis), the future industry market attractiveness (location of the white balls on the Y-axis), the current competitive posture of the industry (location of the colored balls on the X-axis), and the future competitive posture of the industry (location of the white balls on the X-axis), all in one chart.

Thus, Facebook and Google are shown to move up the Y-axis in Figure 1. Facebook is realizing amazing growth, and there is no indication that it will stop growing, so the Facebook ball in Figure 1 is shown to increase in size. Similarly, although the Google+ market share is very small, with Google behind it there should be some growth by 2016. MySpace has switched owners and really hasn't done anything to provide a value proposition to support the number of users it currently has, so Figure 1 predicts it will decrease in size from 2012 to 2016. Consequently, as depicted in the figure, the market trend analysis indicates Facebook has the upper hand. Facebook does a better job of balancing short and long term objectives, while

Google is more about short term objectives and wants to bring about too much change, too soon. The *Wave* and *Buzz* initiatives, for example, were abandoned shortly after their initial releases. In Figure 1, the health of each company, their market conditions, and their growth potential, are effectively illustrated in one picture.

The Logic behind Facebook's Leadership Position

The logic behind Facebook's success can be broken down into some essential factors. First, from day one, Facebook had a defined growth strategy. By initially opening enrollment to Harvard students, then to all college students, then incorporating high school students and, finally, opening the network up to anyone with an email address, Zuckerberg let the network sell itself. As the younger generation raved about its capabilities, older professionals became curious and jumped on the chance to sign up as soon as they could. The second factor is Facebook offers a value proposition centered on strengthening personal and professional relationships. By facilitating the connection between friends, Facebook encourages users to create a "relationship network" that makes it easy for users to keep in touch with their contacts. Another factor behind Facebook's success was Mark Zuckerberg's strategic focus on advertising. By collecting user preference data on the social network, Facebook enabled marketing campaigns to target key demographics based on user preferences. The final factor, and probably the most important, is the leadership characteristics demonstrated by its leader, Mark Zuckerberg. A subsection below identifies the characteristics that strategic leaders need to demonstrate, and then assesses whether Mr. Zuckerberg has them. By demonstrating Mr. Zuckerberg's strategic leadership skills, it becomes obvious why Facebook has been so successful at the expense of MySpace.

One Smart Move: Defining a Growth Strategy

Sherman (2011) reports that Facebook did something quite clever and almost inadvertent, it built its audience first among college students at an expanding number of educational

institutions, then moved to high school students while leveraging the widespread interest of younger people wanting to participate, and then moved on to the general population. In other words, they had a growth strategy. Starting at colleges, where relationships and collaborations are more important and integrated into daily life, allowed Facebook to create a perception of coolness based on the user's value experience when they accessed the network. Only after they had the youth following firmly in hand, did they open the doors to adults by which time they could bet on the dynamic of adults adopting the youth culture (Sherman, 2011). The problem is the easy growing (i.e., from generation to generation, young to old, etc.) has mostly been done. For Facebook to keep growing, they must attract new generations of the young which, evidently, has the power and fickleness to flock to a newer, cooler, service at the drop of a hat. Similarly, older users must be offered something to retain their interests if Facebook is to keep growing. Current college students that started using Facebook in high school have basically been using the same tool for 8 years. Sherman (2011) reports he has already begun hearing such students refer to Facebook as an old and established entity that has lost their image of coolness. The newest younger generation, therefore, likely thinks of Facebook as their parent's tool.

A Value Proposition that Encourages Relationships

As discussed above, Facebook, in contrast to MySpace, provides users the ability to select and incorporate their friends into a network of personal relationships where information about products, services, and preferred brands can be shared. Since Facebook is centered on relationships rather than content, it is unique, which is one of the reasons it grew so quickly into a leadership position.

A Focus on Integrating External Applications

From its inception, Facebook has had a focus on integrating external applications. Alta

(2007) asserted that Facebook's focus on integrating useful applications helped turn the network into a networking homepage where users would log into it first. In 2007 Zuckerberg decided to allow outside programmers access to the Facebook source code to facilitate integration of external applications. Within a few weeks games and other applications appeared in the Facebook network, and new Facebook signups spiked as a result. Zuckerberg also hosts annual F8 developer conferences where industry is briefed on new Facebook features being developed to facilitate integration of their products.

A Strategic Advertising Focus

As previously noted, Zuckerberg created a business model where he offered users a social network for free, collected personal information to facilitate users connecting with long lost friends, and then focused its revenue generating strategy on how to leverage the personal information in ways that would benefit advertisers. All the social data users input into Facebook, like the product they just purchased online, or the update of the status of wedding plans, helps Facebook serve up targeted campaigns to advertisers for things we are more likely to want to buy. This has made Facebook the go-to advertising platform for big marketing organizations hoping to do online brand advertising (Helft & Hempel, 2011). The company recently released *Timeline* to replace their aging profile pages. *Timeline* expresses a user's life on a timeline and is intended to entice users into making Facebook a living digital scrapbook by making it easy to track, and categorize, when and where photos, postings, and other content, originate. While users may like this new Facebook feature, advertisers will love it. It will provide all kinds of user data that can be analyzed, processed, and turned into algorithms in support of targeted advertising campaigns.

The Role of a Strategic Leader (in terms of Characteristics)

Given the unprecedented growth Facebook has experienced over an 8 year period, the inescapable conclusion is that Mark Zuckerberg has outstanding leadership characteristics which allowed him to evolve Facebook into a leading social networking position.

Strategy is said to be the main tool for managing organizations (Barnard, 1968). In contrast to some historical theories, recent studies contend strategic leadership is neither a dependent variable, nor a benign construct, but rather, is a major catalyst that serves to orchestrate change (Thompson, 1999). Wanasika (2009) did a survey of research literature and noted how various researchers defined *strategic leadership,* and then analyzed each definition to identify its most important characteristics. In the study Wanasika defines the essential strategic leadership characteristics necessary to effectively manage globalization challenges, while maintaining a better strategic focus in light of the increased environmental turbulence. The study found that essential strategic leadership characteristics, such as future orientation, propensity to take action, propensity to take risks, and absorptive capacity, can be integrated to realize combinatory effects. Wouldn't it be interesting to compare Mark Zuckerberg's public persona against these leadership characteristics? Doing so may give us insight into why Facebook has been so successful, and also could reinforce the characteristics Wanasika identified.

It's hard to talk about Facebook, or Mr. Zuckerberg for that matter, without noting its relevance to the current wave of globalization. By its very nature, Facebook is a communications platform that supports globalization by encouraging collaboration, much of which is across cultures. Facebook is not merely influenced by globalization, but globalization is occurring in its current state as a result of tools like Facebook. With features like the *I Like* button which tells you things your friends like that may be worth trying yourself, and the ability

to select and incorporate their friends into your personal network, Facebook has started a social media revolution. In a February 1st, 2012 letter to shareholders included in the Facebook Initial Public Offering (IPO) package to the Security and Exchange Commission (SEC), Mark Zuckerberg describes five core values at the company. These values, which give insight into Zuckerber's leadership capabilities, include: a focus on impact, moving fast, being bold, being open, and building social value. The letter reveals an aggressive corporate culture and management style that pushes Facebook employees to keep innovating and improving the social network (Evangelista, 2012).

Absorptive capacity capabilities enable the CEO to learn, synthesize new information, and embrace new paradigms (Boal & Hooijberg, 2000). Prior related knowledge brings with it an ability to recognize the value of new information, assimilate it, and apply it effectively (Wanasika, 2009). Cognitive structures and learning are critical components of absorptive capacity. Organizations must be able to learn quickly when interpreting complexity, ambiguity, and unfamiliar environmental conditions, and to translate the knowledge into actionable information (Wanasika, 2009). In the absence of a learning capability, strategy is difficult to identify and impossible to execute (Wanasika, 2009). Zuckerberg's *move fast* core value enables Facebook to build more things faster and learn quicker. Zuckerberg reasons that "as most companies grow, they slow down too much because they are more afraid of making mistakes than they are of losing opportunities by not moving fast enough" (Zuckerberg, 2012, p. 2). The ability to move fast must be accompanied by an impressive absorptive capacity, which implies that Zuckerberg has this leadership characteristic given how fast the organization responded to Google + by releasing a new version of Facebook.

Future orientation is having the audacity to disrupt current operations and take risks in order to sustain future viability (Rowe, 2001). MySpace leadership lacked this characteristic. Since strategizing is concerned with consolidating available information and using it to predict the future, effective strategic leaders are not stuck in the past or present, but are constantly developing strategies and inspirational visions relative to the short and long-term futures (Wanasika, 2009). Zuckerberg's *build social value* is a core value proposition that indicates a future orientation. He asserts that "Facebook exists to make the world more open and connected," and that he expects "everyone at Facebook to focus every day on how to build real value for the world in everything they do" (Zuckerberg, 2012, p. 3). This is clearly a man with a vision of the future, a better vision that is.

Having the *propensity to take action* is also a key characteristic to be possessed by strategic leaders. The capacity to take action at the right time has been conceptualized as a deliberate capability of enacting events at their strategic inflection points (SIPs) (Grove, 1996). Strategic leaders need to time strategic actions around seismic organizational events which occur around SIPs, such as global events, or changes in technology or new products (Wanasika, 2009). Strategic leaders must also be astute at *risk taking*. They need the capability and willingness to take calculative risks with the expectation of over-performing the market (Wanasika, 2009). By defining the *be bold* core value at Facebook, Zuckerberg demonstrates a propensity to take action. He states, "[b]uilding great things means taking risks….In a world that's changing so quickly, you're guaranteed to fail if you don't take any risks" (Zuckerberg, 2012, p. 2). This sounds like a leader that knows when to act. Think about how Zuckerberg, as an undergraduate student at Harvard, created the first version of Facebook. He saw an opportunity, realized the time was right, and implemented Facebook in time to compete with MySpace. Similarly,

sensing a more competitive marketplace, he recently submitted an IPO to ensure favorable valuations before the marketplace becomes too competitive.

In summary, it appears Zuckerberg excels at all four of the characteristics that Wanasika found strategic leaders need to possess. In order to facilitate sustainable competitive advantage, strategic leaders need to possess a combination of these essential leadership characteristics (Hill & Ireland, 2005).

Facebook Vulnerabilities

Facebook vulnerabilities point to areas where Zuckerberg's strategic leadership of Facebook could have been improved, and can be grouped into industry threats, and threats resulting from Google's targeting of them. Each is described below.

Industry Threats

Industry threats include the risk that substitute products will be developed and take away market share, and the privacy concerns inherent in collecting personal user data used for profiling by advertisers. Each one is addressed below.

Substitute Products and Services

There will be a constant threat of substitute products in this market place as the world's most innovative business leaders try to invent new ways for people to communicate and collaborate effectively online. According to Lyons (2012), people like social media sites much better than TV because they get to participate and be part of the show. Sites like Facebook, Twitter, and Google + are said to be performance spaces where ordinary people can entertain friends and strangers alike (Lyons, 2012). While competitor sites are relatively inexpensive to launch, most of them just languish in obscurity. A recent top-performer coming out of Silicon Valley is Pinterest, which represents the latest of an ongoing series of companies that constitute a

substitute product risk to Facebook. The concept behind Pinterest allows users to identify pictures they like and "pin" them to a digital pinboard to be shared with friends. It basically takes the hassle out of managing pictures. But how could such a simple concept be a threat to large corporations like Facebook and Google? The answer is any use case model that could potentially get users to initiate their online activities a different way, to collaborate with their friends a different way, is a serious threat to Facebook (who wants the user universe to revolve around its social media site) and Google (who wants users to start every activity with a search at their website). Pinterest, for example, only employs a few dozen people and is already valued at $200 million and has raised $37.5 million in funding. $200 million for a few dozen person company isn't chump change. Lyons (2012) reported in Newsweek Magazine that the average Pinterest user spent 89 minutes a month online pinning their pictures and perusing the pinboards of their friends. This is a key metric for advertisers and is more than any other social network except for Facebook and another site called Tumblr.

Privacy Concerns

Another threat affecting the social networking industry as a whole is the use of a customer's personal information. In a survey conducted by Forbes Magazine, 63% of Americans don't trust Facebook with their personal information, yet 90 % of those polled were Facebook members (Hardy, et. al., 2010). Zuckerberg has become targeted by activists who fear corporate exploitation of shared personal information. In response, Facebook recently rolled out new personalized privacy settings, giving members more control over who has access to their photos and updates. Even so, Facebook was criticized for allegedly duping consumers since the default settings for the new features allowed everyone to access the information (Hardy, et. al., 2010). Proposed legislation by Representatives Rick Boucher (D-Va) and Bobby Rush (D-Ill.) may

require social networks to get users to sign agreements whenever a website collects data about them. Such potential new laws could have a devastating effect on social networking as it would limit access to information between connected users, reduce the value of the user experience, reduce the benefits to advertisers, and make Facebook vulnerable to a constant stream of substitute products that may not have such constraints.

Latest Threats from Google

Google is attempting to turn the table and use the same strategy that Facebook used to beat out MySpace. They are making significant improvements to the core value proposition for users of social media. Google + has everything people like about Facebook, and has features that fix everything people didn't like about Facebook integrated. One obvious threat to Facebook is if Google + becomes the new generations' social network of choice. If a new generation of young people perceives Google + as cool and flock to it, then it will compete with Facebook for market share. Google will undoubtedly leverage its existing services like gmail, maps, and youtube.com to promote Google +. But getting users to switch from Facebook may take more since there is some work involved in setting up a new profile, and even more work to reconnect with all your friends, many of which won't be on Google +. The challenge for Google is to offer users a new value proposition or, in other words, an improved user experience, which is unique from Facebook and will compel users to switch in mass numbers. Facebook must stand guard and respond to their user needs and desires with innovative solutions that keep pace with, or outperform, Google development efforts. The key metric for Facebook to maintain its lead is the number of users and visitors, and the length of time they spend on the network. Facebook really needs to make sure they don't have any future mishaps as Google + will be an immediately available option should Facebook release network updates the user community doesn't like.

Another risk Facebook may face is Google could potentially purchase MySpace. Sherman (2011) raises an interesting argument that implies Google should purchase MySpace. He looks past the hard times MySpace is having and notes the percentages of visits that come from search engines increased from 10 to 20 percent during a two year period from 2009 until 2011. Facebook's percentage actually fell off slightly during the same period. Thus, MySpace is said to be a better answer source for people's questions or interests, and has a greater capacity to organically match people with niche interests (Sherman, 2011). This could be interpreted as an indication that MySpace's long term goal of becoming a hub to discover music, entertainment, and games, seems to be working. Regardless, it does seem there is an obvious synergy link that could be exploited should Google decide to purchase MySpace. As the current state of the company deteriorates, it may drive their market value down to where an acquisition by Google will be even more attractive. Under the theory that a good defense is a good offense, Facebook should consider purchasing MySpace for $35 million and enter negotiations with Yahoo to collaborate with its search engine. This would put Google on the defensive in one of its core competency areas.

Summary Conclusions and Recommendations

Facebook has had a tremendous ride behind Mark Zuckerberg's strategic leadership. While it is hard to criticize such a successful enterprise, it seems that recently Facebook lost track of its commitment to the user's value proposition and let their user profile pages get dated, leaving the opening for Google+ to steal market share.

Facebook must leverage its knowledge of the online social media users experience and come up with creative ways to improve the value proposition, outperform Google, attract even more users, and continue to integrate value propositions for advertisers that facilitate targeted advertising based on user social preferences. Before conducting the research effort for this

paper, the author confesses to having never really grasped the significance of the Facebook – Google battle, and what was at stake. It seemed trivial, and what's more, how could anything be at stake if logging into these site locations was free? I have a hard time understanding the business model where a company's products are given away free. Well, this rather insignificant bit of business, and the corresponding business model just questioned, was trivial enough to turn a college student (Mark Zuckerberg) into a $100 billion business empire (that's billion with a "b") in just 8 years. The whole point of Facebook's social network is that it makes search engines, and correspondingly Google, less relevant. The web is being built around people and human relationships, rather than search engines. Finding relevant information using search engines requires some work. You define a number of key words, do a search, and then wade through hundreds or thousands of sites trying to find information that interests you. It can be an inefficient process when you have to keep visiting websites and expend effort only to find out the information you desire is not there. Facebook establishes a network of relationships that allow users to find information quicker, and it's more fun while they are doing it. By browsing the Facebook pages of friends, one can select items of common interests and pursue them without conducting all the search activities. Every transaction doesn't have to be turned into efforts that simulate tedious research. You can find new music, books, or ideas, just by browsing the Facebook pages of your friends. It is this author's opinion that the social media approach will be more successful in the future since it is based on human characteristics. The critical success factors analyzed above support these conclusions as Facebook now has 845 million registered users, gets visited by 173 million unique visitors per month, and even more astonishing, enjoys an average time spent of 393 minutes per month by each user. That is over 6 hours and 30

minutes per month per user. It is evident why advertisers are investing so aggressively. Figure 3 depicts the extent to which Facebook dominates these key success criteria's.

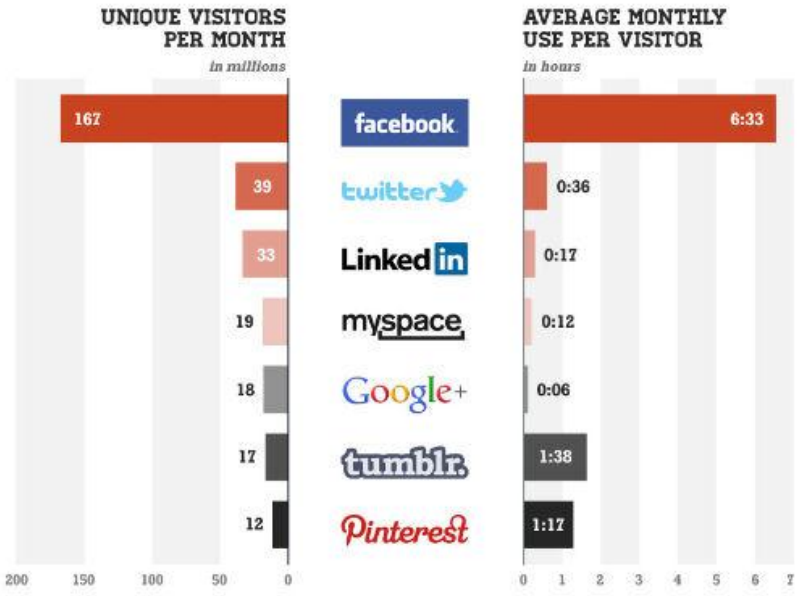

Figure 3. Comparison of Social Media Network Usage (Visits and Durations). The figure depicts the dominance Facebook has earned in the number of unique user visits, and the average time spent on network per month. Taken in its entirety from Van Grove (2012).

It's a herculean task for an entrenched company, especially a successful one, to really reinvent itself, but that is exactly what Facebook needs to do. Furthermore, it will need to continually upgrade its products and lead the market in terms of the perceived value proposition to users. It has recently taken the posture of following Google's lead, and must quit that and return to its innovative core competencies. Another issue confronting social media providers, is the extent their services can support the multitude of new communication access channels. Facebook already has mobile phone applications (iPhone, Android, etc.), and iPad applications that provide positive user experiences. They seem to have a competitive advantage with the supplemental access channels, and should strive to maintain this leadership position as well. Facebook must continue to integrate external capabilities into its network. Skype, Ltd., for example, has extended its partnership with Facebook by further integrating its internet video

calling service into the social network. A user can now make Skype calls to all their friends right from the Facebook network.

In summary, the future success of Facebook, or any social network for that matter, depends on the wealth of information they collect about us which can be used by marketers to implement advertising campaigns. Every attempt to monetize the value of the information, however, raises red flags and privacy activists immediately start trying to regulate the information exchanges. Zuckerberg is said to find the privacy debate confusing and contrary to customer behavior, which he understands all too well (Hardy, et. al., 2010). The marketplace has been kind despite the information privacy concerns. Forbes reported that over 1 million new users a day continue to sign up for Facebook services, in over 70 languages. When privacy activists tried to stage a "Quit Facebook" rally on May 31st, 2010, only 37,000 people agreed to quit the service (Hardy, et. al., 2010). Perhaps these kinds of events will allow Zuckerberg to gain the trust of regulators. Never-the-less, the issue remains about what strategic actions Facebook can take to protect its business model against the privacy issue.

Ultimately, it makes sense that Facebook won the social networking leadership position since it gave users a better experience and value proposition, was perceived as cooler to young people, had less annoying advertisements, had a more stable platform, leveraged the *I like* button as an effective communications channel, and facilitated targeted advertising.

References

Ansoff, I. (1957, September). Strategies for diversification. *Harvard Business Review*, pp. 113-124.

Atal, M. (2007, July 3). *MySpace, Facebook: A tale of two cultures*. Business Week Online. Downloaded at: http://web.ebscohost.com/ehost/detail?vid=16Hhid.

Barnard, C. (1968). *The Functions of the Executive.* Harvard University Press; Cambridge, MA.

Boal, K. and Hooijberg, R. (2000). Strategic leadership research: Moving on. *Leadership Quarterly, 11(4),* pp. 515-549.

Evangelista, B. (2012, February 3rd). *Zuckerberg leads Facebook the hacker way*. San Francisco Chronicle.

Goffe, R., and Jones, G. (2000). Why should someone be led by you? *Harvard Business Review,* September-October, 2000, pp. 63-70.

Grove, A. (1996). *Only the paranoid survive: How to exploit crisis points that challenge every company.* Doubleday Publishing; New York, NY.

Hardy, Q., Pomerantz, D., and Hill, K. (2010, October 11). *In Mark we trust*. Forbes Magazine, 186(6).

Helft, M., and Hempel, J. (2011, November 21). *Facebook vs. Google: The battle for the future of the web*. Fortune Magazine, 164(8).

Hitt, M. & Ireland, D. (2005). Achieving and maintaining competitiveness in the 21st century: The role of strategic leadership. *Academy of Management Executive*, *19(4),* pp. 63-77.

Lyons, D. (2012, March 12). *Will Pinterest be Silicon Valley's next big hit?* Newsweek Magazine.

Miller, C. (2007, July 23). *Social networking class war: MySpace vs. Facebook*. Forbes Magazine.

Mintzberg, H. (1978). Patterns of strategic formulation. *Journal of Management Science, (24)*, pp. 934-948.

Porter, M (1979). How competitive forces shape strategy. *Harvard Business Review.*

Rowe, W. G. (2001). Creating wealth in organizations: The role of strategic leadership. *Academy of Management Executive*, *15(1)*, pp. 81–94.

Sherman, E. (2011). *MySpace vs. Facebook: The fight isn't over*. CBSnews.com. Published online at: www.cbsnews.com/8301.

Stenovec, T. (2011, August 29). *MySpace history: A timeline of the social network's biggest moments*. The Huffington Post.

Tampone, K. (2011, October 7). Survey shows Facebook is driving new business. *The Business Journal*.

Thompson, J. (1999). A strategic perspective of entrepreneurship. *International Journal of Entrepreneurial Behavior and Research, 5(6)*, pp. 279-296.

Van Grove, J. (2012, February 17). *Americans spend 100K years on Facebook each month (infographics)*. VB/Social. Downloaded at: www.venturebeat.com/2012/02/17/facebook.engagement/.

Voivod, L., and Voivod, A. (2011, April). *Facebook Advertising 101*. Business NH Magazine. Downloaded on 3-30-2011 at: www.businessNHmagazine.com.

Zuckerberg, M. (2012). Letter to shareholders included in the Facebook Initial Public Offering (IPO) materials submitted to the Security and Exchange Commission (SEC) on February 1st, 2012.