**Facebook: Just a Social Networking Site or an Opportunity for Entrepreneurs?**

In May 2007, Facebook embarked on a venture to expand free services for members. The company invited software developers to write software programs that Facebook members could utilize to inform and entertain one another. As of June 2008, a quarter-million developers requested Facebook’s tools for building free software applications. Almost one-tenth (24,000) of those requests have resulted in actual software applications that enable Facebook users to play games, share movie preferences, and send each other virtual hugs, among many other things.[[1]](#footnote-1)

Some of the 24,000 software applications have been successful while many others have failed to arouse user interest. According to Ben Ling, director of platform marketing at Facebook, the Facebook platform doesn’t turn something that is not useful into something that is useful. Ling also says that “[e]ntrepreneurs need to ask themselves, ‘What is the problem I’m trying to solve? What is the need I’m trying to address?’”[[2]](#footnote-2)

One possible entrepreneurial venture that could use a platform such as Facebook to solve members’ problems and satisfy their needs above and beyond social networking itself is group buying. This potential application focuses on group purchasing of products and services⎯something that started and failed elsewhere in the 1990s but which has arisen anew in a different form in China, where it is highly successful. The concept is called *tuangou*, and loosely translated it means “group buying.”[[3]](#footnote-3)

In the 1990s, when online businesses were springing up overnight, online group buying companies like LetsBuyIt.com and Mercata.com followed a simple business model that enabled online shoppers who were hunting for the same items to consolidate their orders in hopes of obtaining sizable discounts.[[4]](#footnote-4) “It seemed like a great concept. The sites were free for consumers and made money by charging commissions and fees to the sellers of the products. Support was strong from investors, vendors and media. Within a few years, however, virtually all of the services failed. Traffic on the sites slowed after an initial boom. Most visitors didn’t make purchases, and as the number of buyers went down, prices went up.”[[5]](#footnote-5)

Like the group buying Web sites of the 1990s, China’s *tuangou* is based on the Web. But, it has moved significantly beyond those earlier Web sites. China’s experience with *tuangou* may help others to capitalize on Web-based social networking for group buying activities. “Lessons offered by *tuangou* suggest there are enormous opportunities for online services that are able to position themselves as intermediaries as people increasingly connect in online forums and social networks and demand more value via collective bargaining.”[[6]](#footnote-6)

Facebook offers to group buying the same potential that it has accorded to advertisers. “Advertisers love the Internet because its mathematical and technological tools enable them to analyze anonymous data to detect patterns in peoples’ interests and consumption habits and to match ads to them, adding precision, accountability and productivity [that] consumer marketers previously had lacked.”[[7]](#footnote-7)

Two major entrepreneurial opportunities may be on the horizon for merging information gleaned from Facebook with various group buying activities. One opportunity involves businesses using text-analytic software to probe the content of member profiles and posted messages with the intent of identifying their interests in specific products or services. The buying groups would then approach these Facebook members with tailor-made, pre-negotiated deals on services and products. Another opportunity exists in analyzing Facebook profiles and postings to identify people who are opinion leaders and therefore more likely to influence others. Group buying services could then provide these opinion leaders with incentives to recruit new members to the buying service.[[8]](#footnote-8)

Are these two entrepreneurial opportunities an illusion or reality? The answer may hinge on how Facebook members react to their profiles and postings being used to glean the information needed by the group buying services.

Perhaps Facebook’s previous experience with its Beacon feature in late 2007 provides an instructive perspective as Facebook, in conjunction with other entrepreneurs, seeks to mine, for commercial purposes, the wealth of information contained in member profiles and postings. Beacon, launched as an advertising scheme to provide the bang that marketers wanted from their advertising dollars, tracked Facebook members’ activities and purchases on the Web,[[9]](#footnote-9) and communicated them to their friends.[[10]](#footnote-10) This provided a tremendous potential benefit to marketers by providing the means to pinpoint precisely the likes and dislikes of millions and millions of people.[[11]](#footnote-11) However, members very quickly complained about the invasion of their privacy,[[12]](#footnote-12) aruging that Facebook “was exploiting for commercial purposes personal information members hadn’t intended to share.”[[13]](#footnote-13) Under increasing pressure, Facebook altered its implementation of the Beacon feature.[[14]](#footnote-14)

Is the reaction to Beacon a harbinger of what may be in store for attempts to mine Facebook profiles and postings in order to serve the commercial interests of group buying services?

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**Discussion Questions:**

1. From your perspective, is the use of the Facebook platform to host more and different applications an appropriate and viable way for contemporary businesses to capitalize on social networking? Explain the reasoning behind your answer.
2. How has change created opportunities for entrepreneurs to develop businesses that utilize the Facebook platform?
3. Would you participate in a group buying experience on Facebook if one were available? Why or why not?
4. Do you think the two group buying business opportunities are genuine given Facebook’s previous experience with Beacon? Explain your answer.

**Suggested Responses:**

1. R. Richmond, “Enterprise: Some Facebook Applications Thrive, Others Flop; Popular Programs Are Useful, Entertain and Let Friends Mingle,” *The Wall Street Journal* (Eastern edition) (June 10, 2008): B7. [↑](#footnote-ref-1)
2. Ibid. [↑](#footnote-ref-2)
3. C. S. Tang, “Business Insight (A Special Report): Marketing; United We May Stand: In Their First Incarnation, Group Buying Services Failed; A Similar Concept in China May Provide a Road Map for How to Do It Right,” The Wall Street Journal (Eastern edition) (May 12, 2008): R10. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. Ibid. [↑](#footnote-ref-6)
7. R. Rothenberg, “FAcebook’s Flop,” *The Wall Street Journal* (Eastern Edition) (December 14, 2007): A 21. [↑](#footnote-ref-7)
8. C. S. Tang, “**Business Insight (A Special Report)”, R10.** [↑](#footnote-ref-8)
9. J. Tsai, “Facebook’s About-face: The Social Networking Company Introduced a Marketing Plan Many of Its Members Hated⎯and Changed Course Accordingly,” *Customer Relationship Management* 12(1) (January 1, 2008): 17. [↑](#footnote-ref-9)
10. V. Vara, “Facebook Rethinks Tracking; Site Apologizes, Makes It Easier to Retain Privacy,” *The Wall Street Journal* (Eastern edition) (December 7, 2007): B4. [↑](#footnote-ref-10)
11. L. Musthaler, “Facebook Fiasco Highlights Privacy Concerns,” *Network World* 25(1) (January 7, 2008): 30. [↑](#footnote-ref-11)
12. Anonymous, “Business: Everywhere and Nowhere; Online Social Networks,” *The Economist* 386(8572) (March 22, 2008): [↑](#footnote-ref-12)
13. R. Rothenberg, “Facebook’s Flop,” *The Wall Street Journal* (Eastern edition) (December 14, 2007): A21. [↑](#footnote-ref-13)
14. V. Vara, “Facebook Rethinks Tracking”, p. B4. [↑](#footnote-ref-14)