Facebook Case Study

Analyze the information outlined below on the Facebook Case Study. Please perform additional research as what is provided here is just a synopsis. To analyze a case study you must examine closely the issues confronting the organization, in this case, Facebook. Your final submission will cover four sections:
1. The history, development, and growth of Facebook.
2. The nature of the external environment surrounding Facebook
3. The kind of corporate-level strategy that Facebook is pursuing
4. Recommendations for Facebook

To completely analyze the Facebook case you will need to apply the concepts from the course in each of the above outlined areas. For additional help into each of the areas review pages C1-C8 in the back of the book.

THE CASE

The case traces the founding and rapid growth of Facebook, a company hosting social networking by the same name. Founded by Mark Zuckerberg to offer an online portal for his fellow students at Harvard, its popularity was infectious and it rapidly expanded to other campuses and high schools in a very short time. While focusing on the technical aspects of running and improving the networking site, Zuckerberg had to learn to manage its rapid growth. Some of the issues that he had to deal with were developing an organization structure, constructing a management team, developing the core values of the company, addressing privacy concerns, and finally, keeping ahead of the many emerging competitors in the nascent industry. One of the biggest decisions had been to raise finances without giving up too much ownership to early stage investors.

STRATEGIC ISSUES

The social media industry was developed because of the talent and creativity of technology savvy people, combined with financiers willing to take risks on the new platforms and products. The following characteristics define the industry:

Relatively low barriers to entry – threat from potential competition is high

* Tech-savvy talent can design a new product at a very low cost
* A good technological solution spreads rapidly via referrals from trustworthy people using it (viral marketing), becoming an almost overnight sensation
* No out-of-pocket cost to the user reduces switching costs
* A big barrier to entry is the network effects – the value to each user of any one site depends on how many other users are available on that site – hence pressure to grow at a rapid rate
* Another barrier may be learning cost to the user – once users get used to a format and upload a lot of content, may be reluctant to start all over with a new networking site
* Creativity is distributed throughout the network: the website hosts provide the creativity of formats and lay down the boundaries. The content is provided by the users of the site. Thus the final product is co-produced by the firm as well as individual users.

Users do not pay for the content, but they are important for the value of the industry

* User numbers, and the amount of time spent on the site may determine how much advertisers will pay for sponsoring the sites

The business model of the industry is still under evolution

* Industry in investment mode with trying to keep up with the growing number of users
* Advertisers still trying to figure out the right price for their ads

How did Mark Zuckerberg ensure that Facebook was on sound trajectory for growth?

Zuckerberg showed a good knack for putting together the company.

* While dedicated to the company, he did not try to do everything himself – but assembled an early team of trustworthy friends
* Moved his burgeoning company to Silicon Valley, where he could find other mentors and advisors
* In particular, hiring of Sean Parker, co-founder of Napster and Plaxo, probably sped up the growth of Facebook – technology-based start-ups are considered high risk, and intangible resources such as social capital and social networks are important to shepherd the venture in its early stages
* Throughout the growth, Zuckerberg tried to keep the culture open – preserved “culture of experimentation” within only a few strategic priorities. This enabled the company to utilize the creativity of all its employees rather than forcing them to follow commands from a few thinkers at the top
* The organization structure is organic – new positions are added as and when needed
* Perfected the product – tried to maintain a fine line between privacy and availability of information to make the site safe and useful for its users
* Maintained control – was patient - did not sell out the organization to other investors, which could lead to major changes in strategy (due to differences in opinion about the time horizon of payoffs), and may interfere with Zuckerberg’s vision of the organization and the product

Place Facebook’s strategy in terms of Mintzberg’s model of strategy development, and evaluate its suitability.

* Mintzberg’s model of realized strategy utilizes contributions from planned and emergent strategy. Facebook’s strategy seems to be a large dose of emergent strategy, and a very small proportion of planned strategy. Some aspects of Facebook’s strategy that suggest this mix:
* The initial product was only targeted to students at Harvard University, and other universities were added partly driven by requests from students at those universities, and partly by the similarity of those universities with Harvard University
* There doesn’t seem to be a comprehensive plan in the organization, outside of very broad goal of constantly developing a social networking platform
* Employees have a large amount of discretion in what they do – very little of their work is dictated from the top – there is a lot of experimentation
* Aspects of planned strategy are going for the alumni and high school market – but the pace and geographical coverage decisions are made on an emergent basis

Is such a large reliance on emergent strategy suitable?

Overall, it is suitable –

* high-tech company with low entry barriers
* provides the company rapid response capability
* enables the company to utilize and harness the creativity of all its employees

But –

* Some overarching idea of geographical scope and competitive advantage can develop some differentiation advantage, and keep competitors at bay

Evaluate the competition in the social networking industry

The competition is not intense

* Each social networking site seems to have very specific customer base
* Wide differences in the number of registered users also makes the competitors much different in size and scope, reducing the intensity of competition

The market appears ripe for some consolidation as smaller sites may get absorbed in the larger ones – the value of each site depends on the number of registered users, so acquiring company may be interested in the smaller sites if it offers net new users

Exit barriers are high as sites are started by entrepreneurs aiming to grow them into mega brands – do not wish to quit – and a variety of venture capital funds means that sites can shop around for funding with a high chance of success

What are Facebook’s biggest strategic challenges?

* Facebook has been growing fast, and so far, Mark Zuckerberg has kept the site focused on providing good features to its users. However, there are some strategic challenges emerging:
* Keeping the venture capitalists interested – Facebook’s revenue model is still not clear. While revenues are not a big concern for a growing social networking site, ultimately, the site has to show that it has the potential to make money to keep the financiers interested
* Maintaining the organizational culture of experimentation – as more experienced executives are hired to grow the organization, the organization may become more bureaucratic – Zuckerberg has to make sure that the culture of experimentation is maintained
* International expansion – Facebook has to make decisions about a global strategy – if it is too late in going global, it may find that it is facing entrenched competitors in other countries (e.g. Bebo in UK and Ireland). Then it may have to pay for acquiring these competitors, which could be expensive, as well as take the risk of integrating different organizational cultures.
* Independence – evaluate whether after a certain size, it makes sense for Facebook to be part of a global media company, such as Timer Warner, or Disney, since there may be some possibilities to leverage the media infrastructure of the parent company (MySpace is owned by Rupert Murdoch’s News Corp.)
* Freshness – Facebook has high retention rate currently – however, after the novelty wears off, and its young audience gets busy with their careers, there is a danger of user retention to drop off
* Increasing the security of the site – as Facebook becomes larger, it may be an attractive target for hackers

What are the social and ethical challenges that Facebook has to wrestle with as it expands its user base?

* Protecting the privacy of its registered users – if users do not trust Facebook for keeping their information safe, then they will share less, and may even stop using Facebook
* Target audience – As Facebook targets high school students and other impressionable groups, it may consider taking the responsibility of teaching these groups how to use Facebook responsibly – including: What kind of information to provide,Befriending strangers on Facebook site, Parental controls, Falling for sales pitches from other Facebook users
* Checking the authenticity of registered users – Facebook may feel the need to make sure that the users are authentic and do not have fake profiles – since profiles are an important part of what Facebook provides to other users, if there are many fake profiles, Facebook could be unwittingly providing a forum for some anti-social behavior
* Making it easier for users to quit Facebook – Having a hassle-free way to quit the site, and removing all information from the servers after the users have quit, would seem to be the right thing to do
* Deciding how much commercialization to introduce on the site – the pressure of increasing revenues, may lead to increasing commercialization of the site. Facebook could make sure that the commercial aspects of the site are clearly outlined and distinct from the social aspects of the site, and the commercial aspects do not overwhelm the social aspects of the site