

Facebook Gets Personal With Ad Targeting Plan

By VAUHINI VARA

SOCIAL-NETWORKING Web site Facebook Inc. is quietly working on a new advertising system that would let marketers target users with ads based on the massive amounts of information people reveal on the site about themselves.

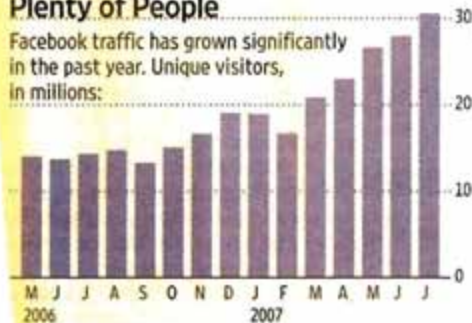
Eventually, it hopes to refine the system to allow it to predict what products and services users might be interested in even before they have specifically mentioned an area.

As the industry watches the Palo Alto, Calif., start-up to see if it can translate its popularity into bigger profits, Facebook has made the new ad plan its top priority, say people familiar with the matter. The plan is at an early stage and could change, but the aim is to unveil a basic version of the service late this fall.

People familiar with the plan say Facebook

Plenty of People

Facebook traffic has grown significantly in the past year. Unique visitors, in millions:



Source: comScore Media Metrix

wants to accomplish what Google Inc. did with AdWords, which lets anyone place ads next to search results by buying "keywords" online. It brought in

the majority of the search engine's \$10.6 billion in revenue last year. A Facebook spokeswoman acknowledged the company is working on an ad system, but declined to provide details.

Most users of Facebook treat it as a sort of online scrapbook for their lives—posting everything from basic information about themselves to photos to calendars of events they plan to attend. They create a social network by linking their own Web pages with the pages of other users they consider online "friends." Facebook already uses some information from users' pages in a rudimentary system that allows advertisers to go online, and starting at \$10, buy simple "flyers" that run as boxed ads on the left-hand border of Facebook pages. But for targeting, advertisers are limited to age, gender and location of the user.

The new service would let advertisers visit a

Please turn to the next page

MARKETPLACE

Facebook's Ad Plan Gets Personal

Continued from the prior page

Web site to choose a much wider array of characteristics for the users who should see their ads—based not only on age, gender and location, but also on details such as favorite activities and preferred music, people familiar with the matter say. Facebook would use its technology to point the ads to the selected groups of people without exposing their personal information to the advertisers.

These ads would show up differently than the banner ads and boxed flyers that appear on the borders of Facebook pages, say people familiar with the plan. Instead, they would be interspersed with items on the "news feed," which is a running list of short updates on the activities of a user's Facebook friends. In addition, the ads would show up on Facebook pages that feature services provided by other companies, one person says.

Facebook has already had some success in getting users to notice similar ads created in a separate initiative. Under that program, launched last year, advertisers say they typically spend about \$150,000 for a three-month campaign that gives them a special page on Facebook, as well as the news-feed ads. But customizing these campaigns can be a costly process for Facebook, which has to dedicate staffers to the efforts.

Facebook hopes allowing advertisers to buy customized ads online will be a less labor-intensive way to take advantage of the personal data people reveal on the site. A key part of this new plan is that Facebook would use an automated system to process transactions instead of requiring advertisers to work with a Facebook representative, people familiar with the plan say.

Next year, Facebook hopes to expand on the service, one person says, using algorithms to learn how receptive a person might be to an ad based on readily available information about activities and interests of not just a user but also his friends—even if the user hasn't explicitly expressed interest in a given topic. Facebook could then target ads accordingly.

Getting this right is important for Facebook, which was founded in 2004 by then-Harvard student Mark Zuckerberg and which has become Silicon Valley's latest darling.

While the Web site had roughly 30.6 million visitors in July, the company says it needs to do a better job profiting from its huge user base.

That's because unlike other hot Web start-ups such as MySpace and YouTube, which were acquired by large Web and me-

dia concerns, Facebook wants to stay independent and potentially go public. Last year it stepped away from talks with Yahoo Inc. and Viacom Inc. to be acquired for close to \$1 billion. The start-up's investors have publicly said they hope to take Facebook public at a valuation approaching \$10 billion. That would require the company to generate far more revenues and profits than it currently produces.

Finding a way to use people's interests and personal connections to show them relevant ads has "always been the promise of social networking, but we're still waiting to see the big successes," says Debra Aho Will-

son, an online-advertising analyst at New York-based eMarketer Inc.

Facebook is on track for \$30 million in profit this year on \$150 million in revenue, say people familiar with the matter. About half of that revenue is expected to come through an ad deal with Microsoft Corp. that lets Microsoft sell many of the major display ads on Facebook's U.S. site. The deal will likely bring in \$200 million to \$300 million for Facebook through 2011, and potentially much more if Facebook's traffic grows rapidly, say people familiar with the matter.

However, advertisers say the addictive quality of social networking means users are so busy reading about their friends that they hardly notice display ads and, even if they do, are loath to navigate away to an advertiser's site. Advertisers say the percentage of people that click on display ads is lower on Facebook, News Corp.'s MySpace and other similar sites than on other popular Web sites like Yahoo Finance and CNET

Networks Inc.'s News.com site. As a result, Facebook has needed to diversify its revenue sources away from just display ads. The new ad plan is being spearheaded by Matt Cohler, vice president of strategy and business operations, and Chamath Palihapitiya, vice president of product marketing and operations, with input from CEO Mr. Zuckerberg, say people familiar with the matter.

Facebook's plan, if it works, could be potentially powerful for advertisers. While Google's keyword-targeted ads aim at "demand fulfillment"—that is, they are triggered by Internet searches conducted by people who are actively looking for something that they want—Facebook's new ad plan could help advertisers address an area called "demand generation." This involves using available information—

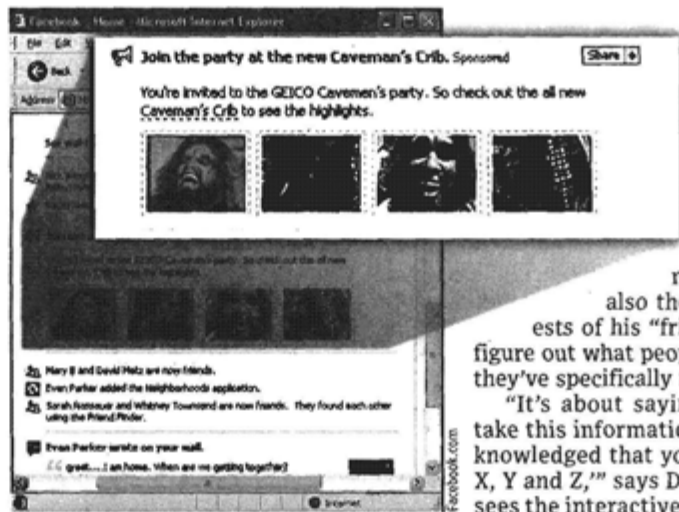
not just from a user but also the activities and interests of his "friends" on the site—to figure out what people might want before they've specifically mentioned it. "It's about saying, 'We are going to take this information because you've acknowledged that you have an interest in X, Y and Z,'" says David Blum, who oversees the interactive division of Sausalito, Calif., ad agency Butler, Shine, Stern and Partners.

But Facebook's new plan faces hurdles. It could upset Microsoft, which is itself trying to build technology to make it easier for advertisers to place targeted ads on Facebook. A Microsoft spokeswoman declined to comment on this issue.

While Facebook plans to protect its users' privacy and possibly give them an option to keep certain information completely private, some Facebook users might rebel against the use of their personal information for the company's gain.

And the perceptions that targeted ads create can be as much of a problem as the reality. "Most people don't realize how targeting works; it becomes so good that even though it's anonymous, you feel like they know you," says Rishad Tobaccowala, CEO of Publicis Groupe-owned consulting firm Denuo Group. However, he says Facebook needs to be careful in implementing any targeted ad system, lest loyal users "find it creepy."

—Kevin J. Delaney contributed to this article



A news-feed ad from Facebook's current program

Facebook's current program

Facebook's current program

Facebook's current program