

IS ADVERTISING ON FACEBOOK VALUE-FOR-MONEY? ADVERTISERS RAISE DOUBTS

The Facebook logo, consisting of the word "facebook" in white lowercase letters on a dark blue square background.

Facebook's annual advertising business is a whopping \$3 billion, with more and more marketers falling for their promotion blitz. However, some advertisers have begun to ask questions whether the huge amounts spent on it, are justified and whether they are getting value for their money. Michael Sprague, vice president of marketing at Kia Motors Corp.'s North American division, "The question with Facebook and many of the social media sites is, 'What are we getting for our dollars?'" Kia Motors has been advertising on Facebook since 2009 and were planning to increase their advertising on the site. However, Sprague raises reservations how really effective is an ad on a site with 900 million users. Mr. Sprague said he's uncertain if "a consumer sees my ad, and does that ultimately lead to a new vehicle sale?" Sarah Hofstetter, president of digital ad agency 360i said, "If a marketer measures [return on investment] as direct sales from the Web, then Facebook may not be the ideal platform. But if the goal is to move the needle on brand health metrics, whether its awareness or engagement,... then Facebook should be a key part of the marketing mix for most consumer brands." Bankers and people keen on investing in Facebook's impending IPO, scheduled for May 18, are trying to place a value on Facebook to help them make investing decisions. American advertisers contributed 56 percent to Facebook's Advertising revenue kitty of \$3.7 billion in 2011. Like Google and Yahoo, Facebook also offers image and text-based ads, but whilst advertisers can track and gauge the return they are getting from Google and Yahoo, Facebook's reluctance to allow third-party survey's on its sites, means that there is no perfect yardstick to gauge their methods. Martin Sorrell, chief executive officer of WPP, the world's largest ad company said, "Clients, for the very first time, are starting to question the measurement issue" on social media. Many advertisers feel estranged with the autocratic attitude of the company, which continues to thwart efforts to initiate measures to find returns worthiness of their ads. Some brands have figured out ways to circumvent Facebook's measurement restrictions. They have hired ad companies like Buddy Media Inc, to give them feedback on how Facebook's promotions work or "install apps that offer advertisers the ability to track users by allowing people to opt in to cookies." Rob Griffin, global director of product development at Havas Digital, a unit of Havas said, "There's a pretty high degree of animosity right now with Facebook because they have become so powerful." Moreover, Facebook's first-quarter ad revenue was down by 7.5 percent from the previous quarter, October to December 2011, revealing that advertisers could be having second thoughts. Facebook dismissed the fall as a "seasonal trend." Every time viewership of a "sponsored story" ad on Facebook reaches 1000 an advertiser pays Facebook \$8. The advertiser would have to shell out \$ 1 million for the ad to be viewed by 125 million times. For the same amount the advertiser, at current ad prices, would have access to the following, more proven, ad avenues, two 30-second ads on the American Idol, two days on Yahoo Home page, 6.5 color pages in People magazine and 10 full page color ads in the New York Times. Facebook is seeking a \$100 billion valuation. That would be around 33 times of its advertising revenue, raising questions whether it merits such a high valuation. Jed Williams, an analyst at BIA Kelsey, said that in order to justify that valuation, Facebook's revenue would have to grow 41% annually for the next five years. Realizing that they could be alienating advertisers, Facebook is making attempts to quell and address their concerns. They are working with research firms like comScore Inc. and Nielsen to provide them with tools that will allow their advertisers to track their ad campaigns on their site.

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