

COLUMNS

Facebook's mobile crisis points to online business model demolition

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Without sounding too dramatic, Facebook's admission last week that it was struggling to monetize mobile even as roughly half of its user base accesses the social network through non-PC devices is an issue that assuredly is keeping all Internet giants awake.

In the same boat as Facebook are all the stars of the traditional Internet: Google, Yahoo, Microsoft and the leading newspaper publishers as well as the biggest blogging platforms including AOL and Gawker and their ilk. Their audiences are rapidly moving to mobile devices, but their revenues are not.

It brings back memories of what the Internet did to the print world in the late 1990s and early 2000s.

The migration to the Web slowly but surely sapped the life and margins out of formerly highly profitable media and content owners. And now mobile is doing to the companies eking a living from the traditional Web what they did to print.

While mobile is the ultimate complement to most channels, it is also a major cannibalizer, as Facebook is discovering.

Is there a solution in sight? A quick-fix? Most certainly not.

Mobile: friend or frenemy?

There are only three ways to monetize content for social media is nothing but user-generated content by another name on mobile: paying for access, advertising support or sponsorship by third parties. If there is another model, it has not been invented, or if it has, it is not viable enough to carry an entire organization's expenses and generate a profit after meeting costs.

In other words, Facebook is stuck. And stuck big time.

Almost a half-billion Facebook users now access the network on mobile devices such as smartphones and tablets. The ads that Facebook serves that generated revenues of \$3.7 billion last year were mostly on the traditional Facebook.com.

Facebook has been extremely coy on the results of those text ads or sponsored posts. Truth is, consumers go to Facebook to chat, catch up on family and friends and research. They are in the mood to be social. Which is one reason why Facebook commerce is also suffering to the point where the audience is hard to monetize, despite the fact that the site is now the No. 1 display advertising destination online.

Make no mistake: Facebook is set to face the struggle of its life to monetize mobile even more so after expectations

go up with the IPO this month. Consumer appetite for non-relevant marketing on mobile, especially social media, is not that high.

In other words, consumers do not associate Facebook online or on mobile in the same way they do Amazon a shopping destination. Inserting too many ads or sponsored stories in the midst of Facebook feeds or sections may even result in a backlash with diminished user experiences.

The only way Facebook can inoculate itself against a dodgy future is by making its service so indispensable that users are willing to pay and subscribe for access. Similarly, it must make itself so indispensable to marketers that they pay to maintain a presence on the network.

Other than that, once the migration from PC Web to mobile reaches a tipping point in the latter's favor, Facebook will come to a fork in the road: ram advertising down users' throats on mobile or ask them to pay for access, even if the content is totally consumer-generated.

Well, perhaps some good luck should also be thrown in. So far, consumers have shown little appetite for paying for mobile access unless it is a highly personalized experience or a 360-degree content offering from, say, The New York Times, The Wall Street Journal or Consumer Reports.

So the jury's still out on whether Facebook is cut for the Mobile Age.

And that dilemma is also Google's.

Searching for answers

The search giant derives the bulk of its revenue from paid search on the traditional Web. Mobile revenues are not even discussed publicly, except for an industry guess that Google's paid mobile search and mobile display ad revenue accounted for half of the \$1.5 billion mobile advertising market nationwide.

See what is happening with search it is migrating to mobile and most of it conducted on Google. To its credit, Google's mobile search is far superior to any offering out there local, targeted and call-connected. It is just what search was supposed to do, bar the limitations of the PC Web.

But is Google able to monetize its mobile search to the point where that can carry the company once most search migrates to mobile devices? There is no evidence of that. Android barely generates revenue and is mired in intellectual-property lawsuits with a host of companies including Oracle. And other Google mobile products are all free and do not have a mobile-revenue model.

So how will Facebook and Google support the tens of thousands of engineers and the constant innovation around online and mobile products once mobile becomes the point of entry for almost all work, home and play activity initiated on machines?

Prepare for another bloodbath in three years' time when the mobile-first approach becomes a reality and not a possibility. The future looks bleak unless Facebook, Google and their ilk quickly reinvent themselves and ask users to share in the costs of delivering quality content and experiences.

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