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From private data to private life: Can Facebook shift from monetizing your attention to improving your well-being?



Amidst the clamor surrounding data privacy, we shed some light on another emerging risk for the social media giant—mediating the negative impacts on users’ mental health and quality of life.

- We began engaging with Facebook on its data privacy policies as early as November 2014. Since then data privacy concerns have transitioned from an emerging ESG risk to a very real and very consequential data breach eliciting heightened scrutiny from regulators and investors.
- The political fallout may result in material changes to Facebook’s business model. Still, we believe it will successfully manage the medium-term transition.
- Mounting studies point to increasingly addictive behavior among social media users with negative impacts on social interactions and mental health. Facebook should re-align its business model, putting end-user experience and end-user value front and center. The alternative is almost certain displacement from newcomers in the long run.

Morphing Influence: from social games, to geo-politics, to addictive risk

Facebook's "free of charge" digital social platform, where users share, connect and engage with content and each other has been an unprecedented driver of adoption. What started as a frivolous "hot or not" game on the Harvard campus in 2004 has quickly turned into the world's largest media company. However, well before allegations of Russian election-meddling and the subsequent Cambridge Analytica revelations, users were becoming increasingly aware of the hidden costs associated with the platform. These are two-fold.

First, loss of control over personal data and second, the psychologically "addictive" element of the social media platform and negative impacts on health and wellbeing. As sustainable investors, Robeco and RobecoSAM were keenly aware of the data privacy issues and began an engagement with Facebook in late 2014. Following the Cambridge Analytica scandal, the data privacy risk has become acute. However, the negative impacts on mental health are not yet fully understood.

Connecting the world by optimizing advertising

Facebook's mission statement is to "bring the world closer together"¹, and with two billion users, this has arguably been achieved. However, what at the outset appears true, is questionable and almost contradictory upon further scrutiny of the platform's data collection activities. It seems instead that Facebook data collection efforts have been shrewdly targeted and intelligently optimized for the benefit of advertisers.

... the success in generating revenue from advertisers & businesses has come at the expense of the end user experience.

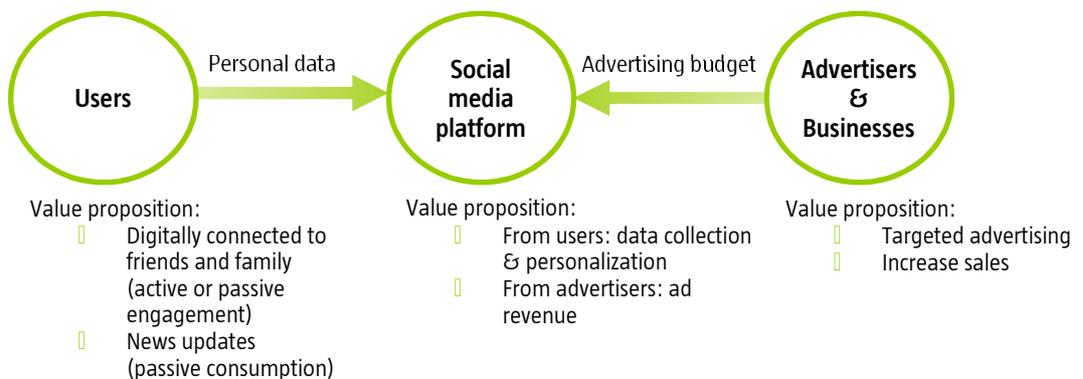
We argue that while Facebook's current three-way business model (see Figure 1) has been amazingly successful, the success in generating revenue from advertisers & businesses has come at the expense of the end user experience. Put in another way, even as it is monetizing users' attention and profits grow, its internal systems and value propositions have been in a state of steady decline. With only 52% of its users actively engaged as of 2015, evidence suggests that former FB fans have turned passive² and we believe many have abandoned the platform in one form or another. If suggestive data prove grounded, it would give Facebook's narrative an ironic twist; social engagement was part of its founding core, yet the company now finds itself failing to keep its own users engaged.

¹ <https://investor.fb.com/resources/default.aspx>

² <http://www.adweek.com/digital/infographic-gwi-active-facebook-users/>

Facebook's Value Proposition—Users as Raw Materials

User data is the essential raw material that oils the gears of the data revolution's biggest giants



Source: RobecoSAM

“If you’re not paying for it, you’re not the customer; you’re the product being sold.”³

Harvesting a new commodity

Users are the primary raw material employed by Facebook to create a service for paying customers. Given this business model, Facebook should be motivated to safeguard its supply by creating value for its users. Yet, we have identified three material shortcomings of the company’s current service offering to users and question whether the business model in its present state can survive in the long term.

“Material” issues:

1. mistreatment of data leads to increased data privacy prohibitions and a lower-value service
2. poor information quality (e.g. fake news and political interference); and
3. negative impacts on health and wellbeing from Facebook addiction.

Data privacy and information quality are clearly the focus of the market today. In Europe, the General Data Protection Regulation (GDPR) comes into effect in late May and requires user’s explicit consent prior to personal data transfers and processing.

Withheld consent may jeopardize Facebook’s advertising business since untargeted ads are 75% less valuable than their targeted variants⁴. Improving information quality (e.g. prevent fake news and regulate political ads) is also necessary

³ Andrew Lewis, <https://quoteinvestigator.com/2017/07/16/product/>

⁴ H. Beales (2010), The value of behavioral targeting, George Washington University

for restoring users' trust. However, these are known risks for investors which we believe Facebook has already begun to address.

Facebook seems to have lost its creative flair for cultivating added-value for its users.

With data protection measures already underway, we turn our focus to the long term, where Facebook's future challenge is to gain, retain and maintain users and their attention spans. Facebook seems to have lost its creative flair for cultivating added-value for its users—its core asset and lifeblood. In fact, the company may be hurting its users. A growing body of research uncovers the potentially harmful effects surrounding social media use that include negative impacts on user's social relationships⁵, physical well-being⁶ and mental health⁷.

The existential risk now facing Facebook is the emergence of newcomers with missions that go beyond bringing the world closer together, extending to additional enhancements that improve both the quality of life for the individual as well as the online community. This is a more material concern for Facebook which is used for news and entertainment than for companies such as Alphabet (i.e. Google) which are used mainly as tools for accomplishing specific tasks (i.e. search functions, document sharing). The risk for Facebook is that consumers get their entertainment (well-being) elsewhere from providers like Netflix, or from a new social platform dedicated to quality of life.

A facelift for Facebook

We believe that while users value the platform for its enabling power to connect, expand (and even deepen) their social network, they do not appreciate being unwittingly targeted to attract ad revenues. Furthermore, they are only now beginning to realize the negative impacts on health resulting from Facebook's "bait and hook" strategy that ensures user devotion to the platform even as it sells their attention to the highest bidder. For Facebook to continue the ad-supported business model, the platform will have to be interesting and useful enough for users to give their consent for accessing their personal data. With these facts in mind, we can imagine two plausible directions for Facebook's future.

1. The easy to imagine—Continue as a social and communication platform with a focus on friends, family...and freedom of speech

Facebook is currently working towards this future. In an effort to increase meaningful engagement and address mental health concerns, it prioritizes posts from family and friends.

⁵ E.g. Muschanell et al., (2013) Don't It Make My Brown Eyes Green? An Analysis of Facebook Use and Romantic Jealousy, *Cyberpsychology, Behavior, and Social Networking*, Vol. 16, No. 4. Grohol, J. (2013). FOMO addiction: The fear of missing out. PsychCentral. Retrieved from:

<http://psychcentral.com/blog/archives/2011/04/14/fomo-addiction-the-fear-of-missingout/>

⁶ Social media use likely encourages sedentary and displaced behaviors, which have been linked to physical health risks. E.g. Ainsworth et al., (2000) Compendium of physical activities: an update of activity codes and MET intensities. *Medicine and Science in Sports and Exercise* 32, S498–S516, Popkin, H. (2012, Dec 4). We spent 230,060 years on social media in one month. *NBC News*

⁷ E.g. Haferkamp and Kramer (2011), Social comparison 2.0: examining the effects of online profiles on social-networking sites, *Cyberpsychol Behav Soc Netw*. 2011 309-14, Zuo, A. (2014) Measuring up: Social comparisons on Facebook and contributions to self-esteem and mental health. Retrieved from Deep Blue, University of Michigan Library, and Vogel et al., (2014) Social comparison, social media and self-esteem, *Psychology of Popular Media Culture*, 2014, Vol. 3, No. 4, 206–222

In addition, to improve product quality, it is committed to preventing fake news and supporting high journalistic standards. Meanwhile, based on users' feedback and preferences, the company personalizes media streams and posts to keep the information feed relevant for users.

While we see the latter as a requirement to guarantee information trustworthiness, the effect of prioritizing meaningful posts is questionable. Prioritization is unlikely to resolve the deeper psycho-social challenges associated with social media addictions which, according to psychologists, stem from the need for social validation and self-comparison factor⁸. Failure to improve the value proposition as well as wellbeing, increases the risks that users will censure data use, hence threatening future revenue streams and Facebook's ad-supported business model.

2. A stretch for the imagination—Diversify into a social platform and “digitized concierge” service focused on friends, family...and fees

Apart from the social platform, Facebook could provide personalized services for which users were willing to pay fees (either with money or in exchange for personal data). Facebook is also taking steps in this direction by investing in promising pilots such as Marketplace (similar to Ebay), Workplace (similar to Slack) and a new music licensing deal (similar to YouTube). Such services may have a fighting chance against the current incumbents as Facebook has the competitive advantage of micro-targeting deep in its algorithmic arsenal. One can well imagine that many more personalized services and products can be built atop such a large repository of data. Moreover, combining these onto one platform would be of value to users eliminating the need to switch between different apps.

Successful innovation management can be achieved and a competitive business model built when users perceive that surrendering data and insight into their personal interests and preferences result in more personalized and useful (albeit systematic and targeted) products and services.

Delivering sustainable, shared value

We believe that Facebook will maintain its status as one of the most valuable companies in the world. However, we are also convinced that it must focus more attention on the quality of life of its users.

The company must focus not just on the economic value it creates for entrepreneurs and businesses, but on shared value ⁹.

⁸ Shakya and Christakis (2017), A new, more rigorous study confirms: the more you use Facebook, the worse you feel, Harvard Business Review

⁹ Definition shared value: Companies could bring business and society back together if they redefined their purpose as creating “shared value”—generating economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress. Porter and Kramer (2011), Creating shared value, Harvard Business Review 89, nos. 1-2 (Jan–Feb 2011): 62–77

Given its size and reach, the company has an immense top-down responsibility to do what is best for society and for its users from the bottom-up. The company must focus not just on the economic value it creates for entrepreneurs and businesses, but on shared value¹⁰. Here is where the sustainability factor, innovation management, comes into play. Only when a company is able to both observe changing consumer behavior and creatively innovate value-added solutions, does it manage to deliver sustainable corporate performance.

Facebook already enjoys significant economic, technologic, and psychologic competitive advantages over incumbents making it a formidable opponent. It has the vision and the know-how to design meaningful content and deliver relevant personalized services to its user base.

However, giants can fall and empires are not immune from conquer. If managed unsuccessfully, Facebook risks becoming irrelevant as users switch to more appealing alternatives. Advertisers will follow suit by shifting their budgets to more popular platforms.

We consider Facebook's current operational set up as unsustainable unless it elevates the end user experience in line with business-ad revenue optimization. More succinctly, it should sharpen its focus adding value for users through meaningful service offerings. If not, rather than thrive in the long term, Facebook risks losing its competitive edge and becoming just another "face" in the crowd.



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¹⁰ Definition shared value: Companies could bring business and society back together if they redefined their purpose as creating "shared value"—generating economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress. Porter and Kramer (2011), Creating shared value, Harvard Business Review 89, nos. 1-2 (Jan–Feb 2011): 62–77

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