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How Facebook Can Become Bigger In Five Years Than Google Is Today

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Remember three years ago, when Microsoft paid a quarter-billion dollars for 1.6% of Facebook and the exclusive right to run banner ads across Facebook.com? Tell the truth, how many of you thought that was a killer business decision? I can't say I did at the time. But as that deal is about to expire in 2011, Facebook's status as a revenue juggernaut is rarely questioned any more.

In fact, I have been mulling over data from both companies, and I'm ready to declare in public my belief that **Facebook will be bigger in five years than Google is right now**, barring some drastic action or accident. Futhermore, Facebook will grow without needing to cut into Google's core business of text ads, which are still 99% of Google's profits. Even if every single Facebook user performs just as many searches with Google as ever—including Google Instant, mobile search, and YouTube—Facebook will inexorably grow as big as Google is today and maybe bigger, because Madison Avenue's brands are less interested in targeting than they are in broadcasting to vast mother-loving buckets of demographically correct eyeballs, and Facebook has become the perfect platform for that.

What do I mean by bigger? Facebook already has more page views than Google. People already spend more time spent on Facebook than Google. I'm referring to the life blood of any business: revenues.

Google's 2010 revenues will be $28 billion, give or take a billion. The goal of this writeup is to illustrate the ways that Facebook's annual revenues could grow from $2 billion to more than $30 billion in five years a diverse set of revenue streams that have one thing in common: *people*. Facebook's future revenue streams, like their applications, are naturally social, and engage consumers with social intent, not just a widget or "social layer." We repeat: social is not a layer you add; it is core to monetization.

Facebook has figured out its business model, and wants to keep it out of the public eye as long as possible. Facebook's alleged revenue has grown from $275 million in 2008 to $635 million in 2009 to a rumored $2 billion this year, which is much higher than the also-impressive $1.2 billion number circulating earlier this year. Let's pause and reflect for a moment. Facebook is allegedly already earning double the revenues Google reported when it filed to go public.

When we do the archaeological dig of Google's actual revenues during its private years, we discover similar pattern to Facebook's: $86 million in 2001, $440 million in 2002, and $1.4 billion in 2003 . . . and so on. Note, however, this divergence: Google Web Sites earned more than twice the revenue in 2009 as the gross evenue brought in through Google Network Web Sites, even though in 2004 they were roughly the same. The value of properties Google owns has been much greater and faster growing than all of the external Web sites with whom Google shares revenue. This will almost certainly be even more true of Facebook, given the private nature of much of its content. For many consumers, Facebook *is* the Web.

Facebook's second-mover advantage affords the company the luxury of offering *both* types of Internet money-making product: Advertising *and* Commerce. As a result, instead of an open Web-like ecosystem, Facebook could choose to partner with a few friends—Microsoft, Amazon, Zynga, perhaps even Apple—and also lock out Google and anyone else, big or small, who Facebook deems not a friend, to best serve its revenue goals.

So, how does Facebook ride Advertising and Commerce into a future of more revenues than Google? By creating a virtuous cycle of cross-promotion: targeted lead-generations and subsequent transactions feed into the next series of even-better-targeted lead-generations and subsequent transactions, naturally.

Facebook Advertising does not directly compete with the text advertisements of Google's AdWords and AdSense. Instead Facebook is siphoning from Madison Avenue TV ad spend dollars. Television advertising represented $60 billion in 2009, or roughly one out of every two dollars spent on advertising in the U.S.; the main challenge marketers have with the Internet till recently has been that there aren't too many places where they can reach almost everybody with one single ad spend. Facebook fixes that problem. Specifically, Sheryl Sandberg went on record in August saying that some brands have increased their spending twentyfold in the past year:

Two years ago the big brands were experimenting with us. They started buying with us a year ago. Now, they're going big.

She took this observation even further in a recent BusinessWeek article, "Facebook Sells Your Friends":

Davide Grasso, Nike's chief marketing officer, says Facebook "is the equivalent for us to what TV was for marketers back in the 1960s. It's an integral part of what we do now."

…

In 2008 [Sheryl Sandberg] left Google for the experience of running a startup—and because she believed Facebook was the better bet to win in brand advertising, which accounts for 90 percent of the $600 billion ad market. "We are in a much bigger market than Google, and we have much, much more runway," says Sandberg.

She's not the only one who believes how huge this market opportunity is. Just in the last week, TechCrunc quoted Paul Buchheit in his belief that people are significantly undervaluing Facebook compared with Google, and interviewed Peter Thiel about his conviction that Facebook is undervalued at

$30 billion. Of course, these are all self-interested insiders. I scratched my head at this week's declarations of undervaluation, until I took the perspective of Mad Men.

Facebook Ads employ demographic characteristics (Age/ Sex / Location and Interests), which corporate brand managers and television ad buyers have been accustomed to purchasing for half a century. By contrast, Google AdWords target on the intent revealed by search queries, a practice that has seemed odd and new to Madison Avenue for the past decade and frankly has many of them worried for their jobs.

But it's not just Madison Avenue. I keep thinking about putting BusinessWeek's $600 billion ad market in context; Google seems to be having as hard a time getting into brand advertising as Microsoft had getting into search. By contrast, Facebook is making this look easy. Yahoo just paid $1 *per like*, and buying fans is only going to get more expensive as the lifetime value of a "fan" is better understood.

Five years from now, could enough brand managers and television ad buyers be so impressed with their returns from Facebook campaigns that they collectively increase their spending on Facebook fivefold to $10 billion annually? Heck yes, even if that entire budget comes out of the current $60+ billion annual TV ad budget (and remember, that is just in the U.S.). *Especially* if the entire budget comes out of that, because Facebook is more targeted, has better analytics, and engages its audience directly and interactively through conversations—aka chat and photos.

Plus, Facebook is getting stronger at developing products for advertisers, and once they set their mind on adding algorithmic search and/or an AdWords or AdSense competitor, I'm sure some of the over 100 ex-Google engineers who are now at Facebook will volunteer for the job. Could that also represent a multi-billion dollar advertising stream by siphoning some market share from Google for searches placed within Facebook? Perhaps, though I note again that they don't even have to go there to reach $30 billion in annual revenues.

Five years from now, billions of dollars of advertising will be spent to direct consumers from one part of Facebook . . . to another part of Facebook, where we'll be offered real items to buy for ourselves or others (birthday alarm, anyone?), premium services to subscribe to, virtual goods to procure and play with, and deals-of-the-moment available for immediate purchase (or we'll miss out forever!).

This is where the manyfold revenue streams of Facebook Credits become apparent, and they all have in common this observation: if you give Facebook users a few free Credits with the block of Credits they buy (at Target, online, and soon *anywhere*), they will spend all of those Credits and then want to purchase more. Rather than a straightforward discount, the new math of Facebook Credits means that consumers will never quite be sure if they're getting a discount or cash back or more for less. Kind of like frequent flier miles where we're never quite sure what the conversion rate is. Or eBay auctions where we "win" the ability to spend money.

Facebook Credits are poised to be this generation's American Express: an "affordable luxury" lifestyle brand and credit card with reward programs, frequent flier miles, and other incentives built right in so that the more you use it, the more you earn. "Facebook Platinum", anyone? I would have thought they'd need a better brand name than "Facebook Credits" but then again, I would have thought they'd need a better brand name than "Facebook".

Off the top of my head I can think of five potential billion-dollar revenue streams that dovetail into Facebook Credits—Games, Groupon/Pages & Places, Amazon/Commerce, Inbox, and Photos—and if you really pushed me I could probably think of more, like Banking. (Remember when Peter Thiel thought part of PayPal's business model was to capture the float? Well, guess who's bringing sexyback...)

Games. Facebook is running the *real* mafia wars, taking 30% while letting the game developers do the heavy lifting. (Hello, Disney, EA, and Zynga!). Can worldwide virtual goods and other in-game payments represent $10 billion annually floating through Facebook in 5 years? You betcha; more so if "social gambling" Zynga-style becomes more en vogue (that is: legal authorities say it's okay). Facebook's 30% cut of that? A cool **$3 billion**.

Groupon / Pages and Places. This one's simple: Facebook should just copy 2010's Flavor of the Year, Groupon, and make it self-service for every Facebook Page and Facebook Place. Early bird got the worm; Facebook will get the gold. (All that glitters is not Gilt.) Imagine if any Facebook Page or Facebook Place could make Groupon-like deals with its fans any time it wants. Now there would be an actual reason to pay Facebook money for ads that can augment the fan base of a Page or Place!

Holy carp, Batman, they've been teaching us to fish all along: Suddenly consumers have a reason to LIKE Facebook Pages and Facebook Places!! LIKE something, get a deal: it's that simple. Groupon's Gap promotion grossed $11 million in a single summer day in 2010; imagine, five years from now, millions of Facebook Pages and Facebook Places offering regular but expiring deals to their fans every single day. Wild guess: in aggregate an average of $100 million in deals sold every day worldwide, or $36.5 billion of deals sold every year. At a 30% cut that's a solid **$10 billion** straight into Facebook's pocket *per year*. In the words of Keanu Reeves, Whoa.

Amazon / Commerce. Amazon was so smart to partner with Facebook: my informal survey of 5000 Facebook friends found many of them willing to make their purchases (and share them!) from within Facebook in exchange for extra Credits. The details remain to be determined for consumer rewards: will it be like Discover (1% cashback on purchases) or like Visa (earn points! get entered in drawings!) or something else entirely? We'll see.

If Amazon helps Facebook figure out how to make malls-with-walls and consequently make real shopping money, I have no doubt other e-tailers will follow. If PayPal's 2009 revenue was $2.8 billion with 87 million active accounts, it's not a stretch to predict that five years from now Facebook too will have 100 million to

150 million active Credits accounts (at least!) bringing in $5 billion in revenue from this business unit alone. Commerce is the grease that accelerates everything, so it seems like it's just a matter of time before Facebook can acquire PayPal (for its volume, its risk management, and its fraud detection expertise) and fold it in together representing let's say **$12 billion** in annual revenue five years from now, creating a true new currency for the world economy.

Inbox. Hotmail Plus, Yahoo! Mail Plus, and Gmail Storage all charge $20/year for premium features. So could Facebook Inbox if it became more mail-like, which is within grasp since Facebooker Paul Buchheit is the creator of Gmail, and he's highly influential even if he's not building the new system himself. Bonus points for throwing in an Address Book and Skype-slaying social phone features like Social Voice for free to anyone who purchases Facebook Inbox Pro. 50 million pro accounts at $20/year is a cool **$1 billion** Inbox product. Nice.

Photos. Fred Wilson may have mocked photos, but they represent big money now that Facebook is by far the world's largest photo site. And the Facebook Photos product suite is about to be vastly be improved—now with high resolution!—thanks to the addition of the smart, energetic Divvyshot team during Lockdown. Partners could be literally everyone in this space—Snapfish and Shutterfly and Kodak and Walmart, and a plethora of smaller companies like Zazzle and Picaboo! Five years from now could Facebook help sell 100 million picture books and photo schwag a year, extracting $10 per item from partners? Easily. **$1 billion** annually without even thinking hard.

And Photos are just a harbinger of more social applications to come. Bret Taylor has already hinted at ten other revenue streams. Because he thinks like a startup.

One of the biggest differences between a startup like Facebook and a big company like Google is that at a startup, everyone gets asked all the time how the product plans to make money. This imposes a discipline on the product and the people who develop it. At a big company, every boat does not necessarily have to sit on its own bottom—and this can lead to a "monoculture mindset" that stunts new lines of business and ultimately leaves the corporate ecosystem vulnerable to external forces.

The most famous example of this in our industry is Microsoft's inability to come to terms with the Web. When Windows and Office were making money hand over fist, text ads were as small as mouse balls. In some ways, Google is even more extreme, because for the most part no one at Google has appeared to lose sleep over where revenue growth will come from, for a decade. Those entrepreneurial muscles have atrophied, and future revenue potential does not appear to be the driver of any new Google product except Android and Google Instant, and even they follow the simple rule that mo' searches mean mo' money, because every search makes Google a dime.

So yes, Google will continue to grow its base of text ads, and other revenue streams like mobile, display, and YouTube should help with starting the growth engine that the recession slowed.

Getting back to Facebook, if I add my rough numbers for Facebook's TV ad siphoning ($10 billion) + Games ($3 billion) + Places & Pages deals ($10 billion) + Credits & PayPal ($12 billion) + Photos ($1 billion) + Inbox ($1 billion) + Some of Bret Taylor's other ten applications (???) = **over $30 billion (actually, closer to $40 billion) in annual revenues five years from now**. Which is more than Google has in annual revenues today.

Is this analysis sloppy, hasty, laden with assumptions, and likely incorrect? Sure. But does it illustrate the *possibilities* of a very powerful Facebook five years from now? Yes. Yes it does. The main message that I want to send with this note is: This is not a game, because this is a very big market. The stakes are very real.

This is not about the revenue streams Facebook has; it's about the revenue streams they're *about* to have. Take to heart the hockey lesson from Wayne Gretszky's father: "skate where the puck's going, not where it's been."

Remember a better time back in 2004 when Jason Kottke boldly predicted that Google would become "the biggest and most important company in the world in 5-8 years" by selling access to the world's biggest, best, and most cleverly utilized map of the web? Kottke was right except for one detail: the most improtant company in the world is Apple, not Google. In any case, I am going to make a similar prediction:

Facebook is going to become the biggest and most important company in the world in 5-8 years by selling access to the world's biggest, best, and most cleverly utilized map of the closed Web that's been shared among friends.

If Google agrees and wants to avoid that future, what should Google do with its $35 billion in cash and its Google Me team? Unfortunately, Google can't friend Facebook. Maybe they should friend the Quora community? I've found that illuminating.

Talking on Quora with a woman who interned for Google and then Facebook (and now works for Quora), I was struck by her words:

I'm afraid another failed social effort might mean the beginning of a serious decline [for Google]. This is both a function of external perception and internal sentiment. Users will only have so much patience for Google's experimentation, and things like pulling the plug on Wave can't be good for the company brand. Plus, Google needs to be able to sustain employee morale, especially given the highly publicized talent wars of late... I also think Facebook needs some competition.

I concur.

Mark Zuckerberg told Michael Arrington that to make insanely great social products, "you have to design [social into products] from the ground up." I wholeheartedly agree! My question is, why does everyone think that Facebook has won the social networking game and that no one else should even try to make a better social network? They only have a 600 million person head start; that's less than a tenth of the planet, people.

Doesn't anyone with resources even *want* to build a better social network anymore? It sure doesn't seem like it. Google is developing an abstract social layer; Twitter calls itself an information and content network; LinkedIn is a professional network with sprinkles of social pixie dust; MySpace is a discovery channel; Yahoo is a mumble mumble; and the last great hope, Apple Ping, is a faux-ial network, unwittingly proving Zuckerberg's main point to Arrington with how much it blows:

As 2010 draws to a close, only a movie and an open source project (Diaspora) have the chutzpah to call themselves a social network. The future of social networking may very well depend on those of us *without* resources to invent an alternative to Facebook, to create more choice for consumers. Does anyone have the brains, the heart, and the courage to travel down this yellow brick road? Maybe this article ill offer a smart but scrappy entrepreneurial engineer in a garage somewhere the inspiration she or he needs to build a better social network. I just gave you thirty billion reasons why I believe *this market* is the market to go after if you want to make a fortune, have fun, and change the world. And I will do anything in my power to help you. I know a venture capitalist ready and eager to put $25 million to work to get this party started. And heck, I might even consider coming out of retirement for this opportunity. Call me. Or better yet, Google Me.

Editor's note: *Guest author Adam Rifkin is a Silicon Valley veteran who organizes a networking group for entrepreneurial engineers called 106 Miles. His last guest post was about his frustrations with Gmail.*

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