

# Is Facebook the new Wal-Mart?

MySpace and other social-networking sites, beware: Facebook could squeeze you like Wal-Mart has squeezed mom-and-pop shops across America. Even Internet giants such as Google could lose ground.

By [Michael Brush](#)

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Given the way social networking has exploded on the Web, it was inevitable that one player would soon emerge as the Wal-Mart of the space.

By many measures, that's now [Facebook](#).

It's a giant, like Wal-Mart Stores ([WMT](#), [news](#), [msgs](#)). And as a one-stop shop that lets users easily build networks of friends to share news and photos, join groups and search for school and work buddies, it has the potential to bury [MySpace](#), [Classmates.com](#) and other competitors the way Wal-Mart has busted local retailers.

In fact, even giants Google ([GOOG](#), [news](#), [msgs](#)), Yahoo ([YHOO](#), [news](#), [msgs](#)) and Microsoft's ([MSFT](#), [news](#), [msgs](#)) MSN might be getting nervous, because tools such as instant messaging and e-mail are built right in. (Microsoft publishes MSN Money and owns a small piece of Facebook.)

## Cool goes mainstream

Yes, I can hear the howls of protest from Facebook's early adopters. How can the once-hip enclave of elite Harvard students now be anything like Wal-Mart?

Well, first of all, being like Wal-Mart isn't necessarily uncool. A lot of shoppers like the discount chain despite its detractors. Plus, money is cool, and being the "big box" of social networking means Facebook is best positioned to profit from the Web's hottest trend.

True, Wal-Mart has a "Main Street vibe" and Facebook represents "urbanism," in the words of Kevin Driscoll, a Massachusetts Institute of Technology expert in comparative media studies who tracks social-networking sites.

But let's face it: Facebook has sacrificed cool to go decidedly mainstream. Consider:

- Its traffic. In December, 108 million people, or 30% of the world's Internet population, visited Facebook, compared with 81 million who visited MySpace, according to Nielsen Media Research.

- Its users. Facebook now reports more than 175 million active users, compared with 130 million for MySpace, its closest direct competitor. "Facebook is eating MySpace's lunch," says Bill Douglass, a social-media consultant with Brainerd Communicators.
- Its value. Two years ago, based on the sale of 1.6% of its business to Microsoft, Facebook might have been worth \$15 billion. That's up there with household names like Nissan Motor (• [NSANY](#), • [news](#), • [msgs](#)), Halliburton (• [HAL](#), • [news](#), • [msgs](#)) and Kellogg (• [K](#), • [news](#), • [msgs](#)) today.

Facebook's valuation was hotly debated and would likely be lower in today's bear market. But we won't know how much Facebook is worth unless it goes public or is sold to a media giant. Some now predict an initial public offering in 2010, but earlier rumors had predicted an IPO in 2009, 2008 and 2007, so don't hold your breath.

For now, only founder Mark Zuckerberg knows what he plans to do with all of Facebook's power.

## Web's hottest trend

The idea of linking people with common interests into online communities is as old as the Internet. But lately, social networking has exploded. Ratings company Nielsen recently reported that time spent on social networks and blogging sites had grown by 63% last December compared with a year before. Three of four adults in the U.S. now participate.

Sites range from small, special-interest sites such as [CafeMom](#) to giants like MySpace and Facebook. Facebook began its path to the top when it decided to lift "college only" restrictions in 2006.

The cool fell away as more "old people" showed up, says Andrew Foote of Cohn & Wolfe, a marketing firm. But "Facebook had to lose its exclusivity to become a 'big box retailer.'"

In fact, older people are the ones flocking to Facebook right now. The fastest-growing age group is the over-55 crowd; membership in this group grew 27% during February alone. They now represent 9% of users overall, according to Hitwise, a Web site tracking firm. The next-fastest-growing age group is 45 to 54; its numbers rose 21% in February. The 45-to-54 age group now totals 17% of all users. (In contrast, the number of younger users is declining.)

"Adults are driven to the site in part to build their 'social capital,'" says Matthew Fraser, a social-networking expert. As they socialize, they're looking to develop ties to influential people and swap useful information, he says. It's just like joining

groups in real life, but they can connect with people around the world.

In a sense, Facebook users benefit from the same sort of globalization that lets Wal-Mart shoppers can find cheaper goods made overseas.

"You can go beyond normal constraints of time and space and connect with people who are far away," says Fraser, a co-author of the book "[Throwing Sheep in the Boardroom: How Online Social Networking Will Transform Your Life, Work and World.](#)"

Facebook looks a lot like Wal-Mart in at least two other ways.

## The 1-stop shop

Wal-Mart sells just about everything, from shaving cream to flat-screen TVs. Facebook is doing something similar.

The site offers a range of groups where people can discuss special interests such as sports, pets or cooking. Users can keep up with bands, companies, products and celebrities by becoming their "fans" on Facebook. Barack Obama famously used the site to keep in touch with voters during the presidential campaign.

Facebook steals share from other social-networking sites by mimicking features. One allows you to type in your school name and graduation date and see fellow classmates, a direct challenge to Classmates.com and similar sites. "Facebook is going to kill all the classmate sites in a year or two," predicts David Rogers, the executive director of the Center on Global Brand Leadership at Columbia Business School.

Similarly, why use Evite.com to announce a party when you can contact your friends via Facebook?

Facebook is grabbing Internet share in other ways, too. A lot of people now set it as their Internet home page and use Facebook more than e-mail. Gaetan Giannini, an assistant professor at Cedar Crest College in Allentown, Pa., has spotted this trend. "Today I can't reach students by e-mail because they don't read their e-mail," he says. "But if I contact them on Facebook they respond immediately."

At the extreme, a New Zealand court recently approved the use of Facebook to serve papers in a legal proceeding. Talk about one-stop shopping.

## The low-cost provider

Just as Wal-Mart offers low prices, Facebook offers some of the best advertising rates around -- as little as nothing.

Facebook's ad rates run at least 20% less than those at comparable sites, says

Jared Roy, an online-marketing expert at Risdall Marketing Group in New Brighton, Minn.

"It's phenomenally affordable," agrees Aliza Sherman, the president of Conversify, a Denver marketing firm. Part of the appeal is that Facebook knows so much about its users. Because of detailed user profiles, it's easy to target ads based on ZIP code, interests and age.

Marketers can also "advertise" for free by setting up fan pages. Roy set up a page for a gourmet peanut butter called P.B. Loco. Risdall Marketing then reached out to people at Facebook who like peanut butter.

Of course, one reason many users prefer Facebook to competitors may be its minimal level of advertising. So a big question hangs in the air: How well can Facebook leverage its Wal-Mart status to make money?

Since the company is private, only insiders really know the bottom line.

Some fans fear it will lose users by barraging them with ads. "I think that's exactly what's going to happen," says Allen Weiss, a marketing professor at the University of Southern California's Marshall School of Business. "Once it gets cluttered with ads, people will look for other places to go."

In the end, however, Facebook knows so much about its users and has gotten so big -- so much like Wal-Mart -- that it's likely to find some way to make a decent profit. "When you gather a large enough audience, the means will come in terms of generating significant revenue from that," says Darren Chervitz of the Jacob Internet Fund ([JAMFX](#)).

## Need the giants worry?

Facebook is even growing so fast that it might even be a threat to the Internet giants someday, one analyst says.

By 2012, Facebook could surpass Google for total worldwide unique visitors, predicts RBC Capital Markets analyst Ross Sandler.

One reason is that so many people now use Facebook as their starting point on the Internet -- instead of a search engine or a portal. Whether Facebook will actually hurt Google's profit margins, or produce Google-size profits, remains to be seen.

Sandler, for one, isn't declaring victory for Facebook just yet. "The space is still too fragmented, the 'cool kids' are fickle, and (they are) quick to move to the next social net," he wrote in a recent research note.

And where the cool kids go on the Internet, the masses do seem to follow.