

# Blowback for Facebook Is Building in Q2 But Likely to Dissipate

Companies: ACXM, ADS, AMZN, FB, GOOG/GOOGL, ORCL, SNAP, TWTR

April 23, 2018

Report Type:  Initial Coverage  Previously Covered  Full Report  Update

Rating: 3/5

## Research Question:

**Is Facebook's ad revenue growth threatened by the data privacy and fake news scandals engulfing the platform?**

## Summary of Findings

- [Facebook Inc.](#) (FB) could be in for an extremely rocky Q2 as some advertisers and agencies have paused their ad spending for the platform in the wake of the scandals swirling around the social media giant.
- Interviews with 12 advertisers, agencies and other industry specialists revealed no drop-off in ad performance or changes in spending behavior that suggests Q1 was a problem for Facebook, but several cited some major red flags since news of the [Cambridge Analytica data privacy breach](#) emerged in mid-March.
- One source whose agency represents top brand names said his clients have cut Facebook spending by 30% to 50% for April and May because of concerns about consumer backlash. Three other sources reported putting some Facebook spending on hold so far this quarter. One source noted a small decrease in user engagement since mid-March, and another said ad impression costs have dipped in the early weeks of Q2, possibly a sign of less demand from advertisers.
- However, most sources agreed that advertisers will not stay away for long because Facebook's targeting ability and ad effectiveness remain second to none. Most also expect any consumer backlash to be short-lived. In the meantime, [Instagram](#) ad revenue is continuing to climb as users are not connecting Facebook's troubles with the photo-sharing app that it also owns.
- The biggest risk to a rebound centers on Facebook's plans [to cut off access](#) to user data by third-party providers such as [Acxiom Corp.](#) (ACXM). Sources worry that such a change will hurt the precision of Facebook targeting, especially for advertisers that do not have their own transactional data. Four sources are watching the issue closely and are prepared to adjust ad budgets.
- Sources have seen no evidence of a meaningful decline in user engagement in recent months, though one cited research that suggested as much as a 5% reduction in the number of people identifying as Facebook users in the past month.
- Limiting third-party access and increasing the ability of consumers to opt out of sharing data actually could make Facebook ads even more valuable and justify higher prices, two sources said.

## Silo Summaries

### 1) Advertisers and Ad Agencies

**None of these nine sources reported any decline in the effectiveness of Facebook ads in recent months**, and four noted that the platform's performance is far better than any other digital options. **However, four sources said they or their clients have paused or redirected some Facebook spending, two as a direct result of concerns over the recent data privacy scandals.** One source said cost per conversion on Facebook has fallen in the early weeks of the second quarter, a possible sign of reduced demand from advertisers, while another said user engagement has dipped slightly since mid-March. Advertisers focused on brand awareness are more likely to be spooked by the scandals than those that rely on Facebook for direct-response advertising, but any pullback should be temporary. Four sources said **Facebook's plans to wind down the use of third-party data by Oct. 1 could severely hurt the effectiveness of the company's ads and cause advertisers to rethink their Facebook budgets.** Two sources said such developments are leading advertisers to invest in developing their own data. Instagram remains unaffected by the issues surrounding Facebook, five sources said.

### 2) Industry Specialists

**Facebook advertising remains as effective as ever with consistently good ROI, conversion rates and user engagement**, according to all three sources in this silo. However, one said he is privy to research suggesting the recent Cambridge Analytica scandal could be taking a toll as the number of people who say they are Facebook users fell as much as 5% in the past month. It would be a while before such a drop-off might affect the platform's ad revenue, he said, and many of those users probably will return. **Facebook's efforts to give consumers more control over what they share as well as its plans to cut off some third-party access to data could make its ad inventory even more valuable**, two sources said. Brands concerned about the recent scandals could pause their Facebook spending but likely not for very long, one source said. Two sources, however, said Facebook's plans to shut off third-party access could make the platform less attractive to advertisers, especially those that do not have their own direct sales data. Two sources expect momentum to continue to build for government regulation of data collectors like Facebook. **Facebook's issues are not hurting Instagram**, according to one.

	Q1 Ad Performance and Spending	Q2 Outlook	Long-Term Damage to FB
Advertisers and Ad Agencies	↑	→	No
Industry Specialists	↑	→	No

## Background

Facebook has been under fire since it was revealed in mid-March that it allowed a consulting firm working for Donald Trump's presidential campaign, Cambridge Analytica, to access data from as many as 87 million users. The privacy scandal forced Facebook CEO Mark Zuckerberg to answer questions from lawmakers and has led to calls for government regulation of how behemoths like Facebook and Alphabet Inc.'s (GOOG/GOOGL) Google safeguard consumer data. Missouri's attorney general [opened an investigation](#) into Facebook's use of personal data, demanding the company disclose every time it has shared user information with political campaigns. Shares of Facebook dropped as much as 18% in the immediate aftermath of the Cambridge Analytica news.

Facebook already was taking heat for its role in [the spread of fake news](#) during the 2016 election. In an effort to stave off criticism, the company [adjusted its news feed algorithms](#) to boost the visibility of content from friends and family while deemphasizing "viral videos" and other items that people view but do not tend to engage with. Zuckerberg acknowledged that the changes [reduced the time](#) that users spent on Facebook by about 5% in the fourth quarter.

Despite the swirling controversies, Facebook's fourth-quarter earnings and revenue again topped analyst expectations, with ad revenue climbing 48% year to year. A recent [report](#) suggests very few advertisers are changing how they use Facebook. However, in addition to the decline in usage stemming from news feed adjustments, the number of daily active users in the United States and Canada dipped during the fourth quarter, a sign that the platform is a mature product in its major markets.

[A poll](#) following the Cambridge Analytica scandal found consumer sentiment around Facebook deteriorating, with the platform's net favorability rating plunging 28% from last October. In a different survey released April 11, a whopping 9% of respondents [claimed](#) they had completely deleted their Facebook accounts. The social media giant [continues to make changes](#) to its privacy settings in an attempt to be more transparent and regain user confidence.

The scandals associated with Facebook do not appear to have hit Instagram, a wildly popular photo sharing app that Facebook acquired in 2012. About [60% of respondents](#) to an October 2017 survey said they were not aware that Facebook owns Instagram. Revenues for Instagram are forecast to top [\\$6.8 billion](#) in 2018.

Blueshift Research reports have been bullish on Facebook since 2012. [Our last report](#), in January 2016, noted some increasing challenges for the company's flagship platform but predicted continued strong revenue growth, led by advertisers investing in video.

## Current Research

Blueshift Research assessed whether the scandals surrounding Facebook would hurt its ad revenue. We employed our pattern mining approach to establish three independent silos, comprising 12 primary sources (including six repeat sources from various Blueshift reports) and three secondary sources focused on key issues confronting Facebook. Interviews were conducted April 6-18.

- 1) Advertisers and ad agencies (9)
- 2) Industry specialists (3)
- 3) Secondary sources (3)

## Next Steps

Blueshift Research will update this report around the end of the second quarter by following up with sources who reported a decline in their Facebook spending to determine whether clients are returning to the platform. We also will seek further input on the effects of Facebook's plans to eliminate third-party providers' access to user data.

## Silos

### 1) Advertisers and Ad Agencies

None of these nine sources reported any decline in the effectiveness of Facebook ads in recent months, and four noted that the platform's performance is far better than any other digital options. However, four sources said they or their clients have paused or redirected some Facebook spending, two as a direct result of concerns over the recent data privacy scandals. One source said cost per conversion on Facebook has fallen in the early weeks of the second quarter, a possible sign of reduced demand from advertisers, while another said user engagement has dipped slightly since mid-March. Advertisers focused on brand awareness are more likely to be spooked by the scandals than those that rely on Facebook for direct-response advertising, but any pullback should be temporary as long as the platform continues to deliver strong ROI. Four sources said Facebook's plans to wind down the use of third-party data by Oct. 1 could severely hurt the effectiveness of the company's ads and cause advertisers to rethink their Facebook budgets. Two sources said such developments are leading advertisers to invest in developing their own data. Instagram remains unaffected by the issues surrounding Facebook, five sources said.

### Key Silo Findings

#### Ad Performance

- 9 of 9 have seen no major changes in the performance of Facebook ads in terms of ROI, user engagement or CPMs.
  - o 1 noted slightly lower cost per conversions so far in Q2, possibly due to fewer advertisers on the platform.
  - o 1 cited a small dip in engagement since mid-March, leading to a decrease in cost per engagement.
- 4 said Facebook ads outperform other channels significantly.
- 2 said Facebook's news feed adjustments have not hurt ad ROI.
- 1 said the cost of advertising on Facebook is likely to rise as a result of more limited organic reach and a decline in user time spent on the platform.

#### Future Budgeting

- 5 of 9 said their Facebook spending plans have not changed.
- 4 said their Facebook ad spending is down.
  - o 1 said clients have cut Facebook spending by 30% to 50% in the last month because of fears of customer backlash, and such a decrease will continue through May. He expects the dollars to return in June and July.
  - o 1 said a major Australian grocer is taking an indefinite timeout from Facebook advertising because of customer concern around data privacy.
  - o 1 said her firm has paused some social media spending, only partly because of the controversies surrounding Facebook, but expects to resume such advertising in 2H18.
  - o 1 said clients are shifting as much as 30% of their digital ad budgets toward developing their own data, with much of that shift coming at the expense of Facebook.
- 4 are extremely concerned about the effects of Facebook's plans to limit the use of third-party data providers for targeting Facebook users. All 4 said such a move could result in them reducing their Facebook ad spending.
  - o 2 suggested Facebook will develop some alternative rather than just shutting off the third-party provider access, such as shifting responsibility for the use of such data to the brands or data partners.
  - o 1 noted that this same third-party data is still available on other platforms like [Twitter Inc.](#) (TWTR) and Snap Inc.'s (SNAP) [Snapchat](#).
- 2 cited no real alternative to Facebook as platforms like Twitter, Snapchat and Cold Brew Labs Inc.'s [Pinterest](#) are not as effective.
- 2 have moved or will consider moving some video ad dollars from Facebook to [Hulu LLC](#).

# Facebook Inc.

- 5 said Instagram ad performance and spending have been unaffected by the controversies plaguing Facebook.
- 1 said Facebook is becoming less appealing to ecommerce advertisers targeting a younger audience, and 1 other said the lack of interest among younger consumers is a big problem for Facebook.

## Assessing the Damage

- 4 do not think the controversies will have any lasting negative effect on the size of Facebook's user base.
- 6 expect advertisers to continue using or shortly return to Facebook.
- 2 said advertisers that use Facebook for brand awareness rather than direct ecommerce conversions are more likely to be scared away, at least temporarily.
- 1 said government regulation of Facebook is not necessary, and 1 other does not think lawmakers understand the industry well enough to add new guidelines.
- 2 said new concerns over data privacy are forcing advertisers to invest in developing their own data so they do not have to rely on Facebook or others to provide it or protect it.

## 1) Digital media team lead at a large ad agency; repeat source

Client spending on Facebook is down 30% to 50% in the early weeks of the second quarter compared with the first quarter, a drop representing millions of dollars. The quality of targeting and audience engagement has not declined, however, so Facebook spending should rebound in the third quarter. Ad spending also has dropped on Instagram relative to the previous quarter though clients are not concerned about Instagram's connection to Facebook. Competing social platforms are not benefiting from Facebook's woes. The money being removed from Facebook budgets by this agency's clients is being redirected into programmatic buying. The source has seen no signs that regulatory efforts might restrict the platform's superior ability to target audiences, in part because Congress members lack an understanding of the technology and the advertising industry as a whole. Facebook remains the preferred platform for digital advertising for the foreseeable future based on its stellar performance.

### Ad Performance

- "There's an absolute backlash from my clients of being on Facebook right now. I think it will die down, but they are worried that if they display an ad on Facebook, it will signal to their customers that they've somehow stolen their data."
- "I would say we're down 30[%], 40[%], 50% right now. That's in the last month. So I would say [30% to 50%] quarter over quarter of 'Let's just dial down Facebook, Instagram, and move the money elsewhere.'"
- "Everybody I know [buying media in the big agencies] is in the same boat. [Some agencies] are trying to convince clients [to stick with Facebook], but clients are just really running away right now."
- "We do both branding and ecommerce—maybe 60% ecommerce and direct response, and then maybe 30% to 40% branding."
- "I would say we're down probably 20% to 25% in social [media] spending [this quarter year to year]. We were putting more and more dollars into Facebook this time last year, and we're just not doing that right now. [The dollar drop for clients combined] is in the millions."
- "When I look at my spend, I'd say 40% of my digital spend [for all clients combined] was Facebook. So of that, 40% is now down to 20% [year to year]. It's a significant drop."
- "We channeled so much money of our digital budget into Facebook [in 2017]. Google was maybe 20% to 30%, and Facebook was another 20% to 30%."
- "To clients, it's more Facebook than Instagram [that they are worried about]. ... Personally, I've got a lot of friends that are off Facebook now and on Instagram. I point out it's the same company. It's a lot of misunderstanding about how this works."
- "[Our clients] are worried about a backlash from their consumers. As a marketer, I'm all for [getting as much targetable data from Facebook as possible]. I think what [clients] are saying is they're afraid of their users or their consumers—whether it's in-store or not—with the backlash."

There's an absolute backlash from my clients of being on Facebook right now. I think it will die down, but they are worried that if they display an ad on Facebook, it will signal to their customers that they've somehow stolen their data.

*Digital media team lead  
Large ad agency*

- “From a social standpoint, this doesn’t mean more movement [of dollars] into Snapchat or anything. It just means dial [Facebook] down.”
- “For our ecomm brands, it’s the same metrics [of user engagement]. It’s click per site and engagement and purchase. I don’t see any major changes.”
- “[Spending on Instagram for 2018] is higher [than in 2017]. It’s a small increase. It’s a known quantity; there aren’t a whole lot of new ad products from Instagram right now. So I’d say we’re up 10% to 20% on Instagram vs. any other property. It’s a lot of clients figuring things out [about how to best use it]; so let’s figure out photography. ... It’s more of a ‘test and learn’ is why [spending on Instagram] is up.”
- “Clients feel safer on Instagram right now. They feel that Facebook has been ‘named,’ and Instagram hasn’t. If they’re down 10% to 20% on Facebook, they could channel some of that to Instagram and reallocate the rest [to programmatic inventory].”
- “I don’t know why Google is not full charge on [Google Plus](#) right now, why they’re not [letting people know] that they’re safer and better. I wish Google could get their act together from a social standpoint.”

## Future Budgeting

- “For the months of April and May, we’re down—not turned off altogether but dialing it down right now. But then we’re looking to increase spending [again] in June and July.”
- “[The dollars being taken from Facebook in April and May are] going into just general programmatic. Social as a whole isn’t winning, and I think unfortunately for Pinterest [it is not benefitting from Facebook’s problems]. We’ve had a lot of discussions with Pinterest about what they’re doing with their data because I’ve got a bunch of clients that are really big on Pinterest. [But Pinterest] is not necessarily going to benefit right now because clients are really gun shy, and they’re just saying, ‘Let’s just do programmatic right now. There’s no data issue with that.’”
- “[With programmatic,] we still build audiences the same way; all it means that there are tons of kinds of data that are public, and I’m buying it. Programmatic is only a method of buying. It doesn’t mean the impressions are different; it’s just the way I buy it is different. [Programmatic is] not a channel; it’s still using data, but there’s not much of a backlash yet.”
- “[It makes sense that the pure ecommerce advertisers with no branding concerns are not cutting back on Facebook] because the targeting is so good. I know exactly who you are, what you like and don’t like, and so yeah, it totally makes sense.”
- “There is a backlash though. We’ve got ecomm-only clients that we’ve dialed back [Facebook spending] for at least March and April, probably going into May. And again, that’s probably 20% down. They’re going to be back in the summer time, I’m sure.”
- “From my standpoint, we’re not channeling any money [that’s coming out of Facebook] into the social space—whether it’s Snapchat, Twitter, Pinterest, Instagram. We’re not channeling money that way.”
- “We’ve moved a lot of other money—not Facebook money—into Pinterest this year. Because a lot of my clients are ready-made for Pinterest, whether it’s travel, or making things. ... So [shifting more dollars into Pinterest] is more because of my client makeup. It’s retail and travel and [the mobile account of a major wireless phone company].”
- “Pinterest is trying to figure it out right now. But no money is siphoning from Facebook into Pinterest right now. It’s Facebook into programmatic.”

When all of the drama blows over ... it’s going to go back to where it was. They’re a phenomenal platform, and you can’t mess with it. And it’s really accurate, and it’s the best way to target people.

*Digital media team lead  
Large ad agency*

## Assessing the Damage

- “When all of the drama blows over, I think again—whether it’s branding or ecommerce—it’s going to go back to where it was. They’re a phenomenal platform, and you can’t mess with it. And it’s really accurate, and it’s the best way to target people.”
- “I think [Facebook spending] will come back, but it’s just a little dark right now. My prediction is it will come back by third quarter. By July and the second half of the year, I think it’s going to come back.”
- “It all comes down to performance. If you see [Facebook’s] performance, you swallow your pride because Facebook works because of their ability to target. Because [users] are so transparent about what you do, what you love, who you love, where you go. That’s what works.”

- “You can’t really gripe with that. All you can really do is, from a consumer standpoint, make it more transparent about the data that you’re giving up. But as an advertising platform, there’s no one else around. And [no one is nipping at their heels] unfortunately.”
- “As a marketer, it’s why I love Facebook. People are so transparent. I know who you are, what you want, and I can target you. And as a consumer, I’m OK with that; that’s the price you pay. But from my brands’ standpoint, they just don’t want to be caught up in complaints. They’re just really gun-shy right now.”
- “My hope as a consumer was that there would be [real changes to Facebook’s privacy rules]. But it seems like the dinosaurs that are in Congress don’t even understand how the internet works or how advertising works. After watching a lot of [Zuckerberg’s testimony to Congress] I don’t think [lawmakers] have any idea of how to regulate.”
- “I think the scare was two weeks ago, before Zuckerberg got in front of Congress [that there would be legislation curbing targeting tools]. But I think [the politicians] just displayed how clueless they are about what this entire industry does.”
- “For me, both as a consumer and as a person that’s been in the [advertising] industry for 20 years, the only major change could be the language and the way that people opt into companies using their data.”
- “If I were Mark Zuckerberg, I would have new terms and conditions when you sign up for Facebook or Instagram. Do it visually—not this lawyer ... speak that nobody ever reads. Do it in a visual, cool way, which is a visual representation showing your private data ... a meter showing blue to red.”
- “People will always opt in to data. I think it’s the responsibility of these [social] companies to make it easier for consumers to understand what they’re getting themselves into.”

## 2) CEO for a creative agency in the Northeast

Facebook’s ad revenue growth is not yet threatened by data privacy concerns. Consumer eyeballs continue to be on the platform, and no alternative yields the same returns. The source noted no measurable change in the performance of Facebook ads over the last 18 months. However, if Facebook shuts off the use of third-party data, a substantial amount of advertising dollars could move away as Facebook does not have the data provided by third-party providers like Acxiom. Facebook may find a solution by allowing advertisers and third-party providers to sign off on using the data, thus shifting responsibility. Facebook has not made significant changes to protect privacy as it has not felt any pain because consumers are not leaving the site. Advertisers and brands would respond to such consumer pressure.

### Ad Performance

- “What we measure, which is relative to the objective of the campaign, can be views or engagement or driving views to a website. However, it’s all relatively flat. Nothing significant has changed compared to what it was even 18 months ago.”
- “There haven’t been changes to the audience that’s available, to the data and to the cost. Possibly cost is up a little bit, but that can vary depending on the category, the year or the audience set we’re targeting. It’s supply and demand. But we haven’t seen any major shift.”
- “Nothing has changed since the scandal broke. There’s a lot of talk of changes, and there is impact potentially for the future in terms of the data providers and how we can reach people. But they haven’t really implemented anything yet. We’re not seeing any brands or advertisers leaving Facebook.”
- “Facebook is like a piece of artwork you keep coming back to even if it’s not pretty.”
- “We haven’t seen any impact on ROI or user engagement either.”
- “Unrelated, we’ve been noticing that people are becoming more skeptical of Facebook video. The metric they’re using, three seconds of the ad, is not really a valuable metric. How valuable can it be if a person sees three seconds of an ad compared to forced view on streaming video or linear TV? The metric isn’t great, and Facebook is not a great platform for running video.”

Nothing has changed since the scandal broke. There’s a lot of talk of changes, and there is impact potentially for the future in terms of the data providers and how we can reach people. But they haven’t really implemented anything yet. We’re not seeing any brands or advertisers leaving Facebook.

CEO, creative agency  
Northeast

- “They’ve moved more into running in-stream videos, which are forced views, like commercials, and they are a little better. But most of the time they’re still watched without sound. Even though they bill it as premium, and they charge more even than other over-the-top streaming opportunities, it’s not that great.”
- “When Facebook first rolled out video, it was a shiny object. Facebook was very successful, and people chased that shiny object. Then people started understanding the value of that video. Facebook in response started pushing in-stream video ads. That’s still not as valuable as a platform like Hulu, where you have a forced view but predominantly with sound on, whereas on Facebook it isn’t.”
- “Facebook’s real value is that it has a community that can share and talk about something, but unless the content is really picked for that, it’s not as good as placing ads somewhere else. We’re moving dollars for video away from Facebook more and more. We’re putting more video investment dollars into OTT streaming like Hulu and [Alphabet’s] [YouTube](#).”
- “There’s value in Facebook’s targeting and what you can achieve with it, which you can’t achieve with Hulu and other providers like Hulu. But on a dollar-for-dollar basis, having people in my desired segment seeing my ad at a certain cost is not such a great rate with Facebook anymore, especially when you consider partial views and no sound.”
- “Depending on the initiative, a significant portion of our spend on Facebook was on video, maybe around 20% to 25%, and that’s shrunk gradually.”

## Future Budgeting

- “Other than video, we’re still spending on Facebook as before. It’s a great platform compared to other platforms.”
- “There’s no real competition. If there were another platform out there that had similar results to Facebook, it would be a different story. The most comparable thing is moving to open web display, which are essentially banner ads using similar data sets. However, it’s not the same, and the results we get from Facebook in efficiency and engagement are leaps and bounds above what we can get from open web display. I don’t think people are moving there.”
- “There’s really no major competitor in terms of a social network. Snapchat and Twitter are just not in the same league. Because of that, I don’t think pricing will be affected.”
- “There’s a lot of uncertainty about our spending plans for later this year. We’re talking a lot about it. The biggest factor we’re looking at is [Facebook’s] announcement around ending third-party data availability.”
- “Instagram is very much the same data set with just different creative ad units. Instagram use hasn’t changed either.”

## Assessing the Damage

- “Third-party data is huge. If it really gets shut off, we’re going to see a lot of dollars move away from Facebook unless there’s a legitimate alternative. It’s very challenging to just use Facebook data to achieve what you plan to achieve.”
- “Working with third parties like Acxiom and Datalogix [[now part of Oracle Corp.’s/ORCL Data Cloud](#)] allows you to target people whose data Facebook doesn’t have on its own for now.”
- “Without an alternative, we’ll see more and more dollars move away from Facebook. We’re waiting to see what will happen with that.”
- “The talk track is that it’s happening because of [EU data protection laws](#), but these data providers are still being used elsewhere where it’s not changing.”
- “Acxiom and others are going to need to be compliant [with EU rules], but shutting them off won’t change whether they’re compliant or not. They folded that into their response on Cambridge Analytica, but it had really nothing to do with it. It seems like an unnecessary maneuver, and it has upset advertisers.”
- “The rumor mills are saying that Facebook is going to bring back and allow the third parties as long as the brands or data partners sign off on the data, essentially shifting the responsibility and blame for misuse to the advertiser, brand or data provider. People think that will happen in the third or fourth quarter. It makes more sense than shutting third-party data off completely.”
- “Regarding recent information about privacy, it continues to be a big problem. I think Facebook has been negligent with people’s privacy and their data. It’s bad for business for them even if we haven’t yet seen a major reaction yet from consumers or brands.”
- “Consumers, however, don’t understand the implications about sharing their data and data privacy. Because of that, we’re not going to see drastic changes from Facebook unless consumers revolt by fleeing the platform. Until that

Third-party data is huge. If it really gets shut off, we’re going to see a lot of dollars move away from Facebook unless there’s a legitimate alternative. It’s very challenging to just use Facebook data to achieve what you plan to achieve.

CEO, creative agency  
Northeast

happens, Facebook is not going to make serious changes other than optical or half steps and half measures. They don't have to."

- "They're going to want to have a good public image, and they'll change based on that."
- "The number of people leaving Facebook is such a minority it's not significant. I don't think Facebook feels the pain, and unless they feel the pain, they're not going to care."
- "Advertisers are going to continue to follow where the eyeballs are. If the eyeballs flee Facebook, advertisers will also flee Facebook. Brands do care about social responsibility, and they often put their dollars there. But if an advertiser has a good return, they're not going to shut that off unless there's serious pressure. Advertisers leave TV shows when there's controversy because it's bad PR. Until something like that happens, no one is really going to move their dollars in a significant way."
- "What they've done in the past three or four weeks is not very meaningful so far. I don't know if they're going to roll out something meaningful. Everything is possible but for now it's hard to believe."

### 3) Philip Davis, director of social marketing for [Ciceron](#), a digital ad agency

The performance of Facebook ads has improved in all key indicators so far in 2018 year to year, and no noticeable drop in performance has taken place since Facebook's most recent controversies made headlines. This agency has not pulled back spending in response to the data privacy or other scandals, nor does it plan to as long as ROI and other performance metrics remain robust. The agency will take a much harder look at budget allocation in October, however, when Facebook plans to cut off access to third-party data segments. The recent controversies and announced changes to data segments have cemented the trend for advertisers to try to control more of their own data rather than rely on Facebook and others to provide it.

#### Ad Performance

- "It's difficult for us to make an apples to apples comparison [with regard to Facebook ad performance]. I know our media spend [on Facebook] has increased dramatically since last year, when we were spent \$1 million to \$2 million on social from Q2 to Q4. Now we're double or nearly three times that."
- "Facebook kept rolling out more advanced features in terms of what you could do within the platform itself. Like every week there are just new things, new ways to look at information, new ways to optimize ads, different features."
- "Overall performance [this year] has increased in terms of conversion based, from a CPM level, while from an impression level it has fallen. The asterisk to that is that good media buyers are getting more specific as to being more diversified with their budgets."
- "Some things are going away, and we're not able to look at some performance data. But from my perspective, I feel like performance [for Facebook] has increased across all the major KPIs that we look at."
- "We've seen nothing drastic [so far this quarter], nothing which is cause for concern."
- "Typically, when I say 'Facebook,' I mean Facebook and Instagram together. It's also another reason why I'm not worried too much about brands leaving the platform. We know that while Facebook tends to skew to an older demographic than it did in the past, in order to reach people on Instagram, you're still going to have to buy within that [Facebook] platform until [Facebook management] decides to maybe separate Instagram ads away from the larger platform, which I really don't see them doing."
- "The fact that they have a completely separate channel, where they have a separate user behavior, user makeup ... I think it's an argument for keeping spend high within that channel, meaning the money still has to go to that platform."
- "Overall we haven't seen a large drop-off in budget allotted to the Facebook/Instagram platform, mostly because our clients really take our direction."
- "Our agency is very specifically focused on the direct response and conversion-based performance, and because we're looking at it on a daily basis, the minute we would see something drop off significantly or campaigns being heavily impacted [adversely], then we would shift a fair amount of dollars off of Facebook/Instagram into other channels—programmatically or search."

The concern is there from the client side, but overall we haven't seen much of an impact in terms of overall performance, and I haven't seen any reports about usage or behavior dropping off from a platform perspective.

*Philip Davis, director of social marketing for Ciceron*

- “At this time, I think [the recent controversies are] still a bit too fresh. I think it’s going to be more accurate to address whether or not budgets would shift monumentally probably at the end of Q2—just knowing that this is only a couple of weeks old.”
- “The concern is there from the client side, but overall we haven’t seen much of an impact in terms of overall performance, and I haven’t seen any reports about usage or behavior dropping off from a platform perspective.”
- “We could get a report out next month where daily users have dropped 50%—and that might completely shift things around. But from what we’ve seen thus far, there hasn’t been too much of a change.”
- “From a paid side, we haven’t seen too much of an impact [from changes to Facebook’s news feed]. I feel that that is more of an impact on the organic side for brands, just because of the viral nature of things that spread like that is so much more dependent on the organic kind of engagement.”
- “The overall impact of those [news feed] changes speaks more to these content aggregator pages and sites that just tend to spew out things—like numerous posts within an hour, without really any true direction. They’re just pushing things out to get more views and engagements. It’s almost like these content aggregator pages had a monopoly on eyeballs. From what I understand, the platform itself is taking a harder line and harder look at the content of these videos and making sure there’s nothing too repetitive and things of that nature, so as to try to prevent [users] being inundated and overserved specific types of content.”

## Future Budgeting

- “We haven’t seen a huge shift—at least in the directive from the client side—in terms of [clients saying] they’re concerned about Facebook and [asking us to] shift money into other channels until the dust settles.”
- “At our agency, we’re not trying to plan for pulling back proactively on spend. I think we’re going to try to maintain the same [spending] trends as we’ve seen, until we see things falling off. And at that point, we’d take a look at moving money to different channels.”
- “But at this time we don’t intend to make any dramatic changes to our media spend at all.”
- “At least for the U.S., [Facebook] has drawn a hard line of Oct. 1 as when they’re going to be eliminating the targeting segments that are using [third-party] data providers. I think more immediately, they’re removing that capability for I believe Europe, and perhaps other continent targeting as well.”
- “I would think we will definitely have a harder look at our Facebook spend in terms of what it’s actually doing for our campaigns, that’s for sure, because these [changes that are coming in October] are so significant.”
- “These data segments that are going away, which are really the hot topic, are really where the privacy conversation is taking place. It’s a big deal because these are audience segments provided by data partners outside of Facebook that were very honed in on the persona or demographic or profile that they’re providing.”
- “The data segments were things that were more accurate or more niche than Facebook’s internal targeting and data could provide, because over the past three or four years Facebook has made it so much easier for people to protect their own information, and to select and choose what information they want available to advertisers within the platform.”
- “These data segments helped circumvent the gaps in Facebook’s own internal targeting criteria that was available, and be able to get at certain segments like household income levels ... or purchase behaviors—things that Facebook couldn’t really pull within its own internal platform. These are segments that are provided by other data partners—like Oracle, Acxiom, [Alliance Data Systems Corp.’s/ADS] [Epsilon](#)—that are highly accurate and would match up against Facebook users.”
- “What’s really interesting is that these data segments that will be eliminated in October—at least for the U.S., that are relying on Acxiom, Oracle and Epsilon—these data segments are still readily available within Twitter, Snapchat and other social channels. And with programmatic media buying, those [data sets] are what programmatic buying is based upon.”
- “It’s interesting that Facebook is being put up there like it’s the only one using this [third-party] data, but in reality, pretty much the entire digital landscape is using the same data. Facebook is the only one that’s come out so far saying it’s trying to tighten the data sharing that they get from partners.”

These data segments that will be eliminated in October ... are still readily available within Twitter, Snapchat and other social channels. ... It’s interesting that Facebook is being put up there like it’s the only one using this [third-party] data, but in reality, pretty much the entire digital landscape is using the same data.

*Philip Davis, director of social marketing for Ciceron*

- “My [Facebook] rep, who used to work more closely with the big six agencies, he was saying that these larger brands which spend significant money on these channels might pull back or take more drastic measures.”
- “A lot of these brands spend a lot of money for brand awareness, and Facebook is definitely something you can scale back on and reduce your buying because it’s a loose metric to tie to a return on investment, vs. more direct response ads or conversion-based ads, which are so heavily reliant on whether or not something is actually converting.”
- “It’s not surprising to me that bigger brands and bigger agencies would scale back on spend that would take place for awareness buying ad objectives. Those ads typically look a lot better to the executive boards; impressions and things like that—you can say you got in front of 100 million people for a cheap dollar amount, vs. someone whose looking more at the ROI, you can wade through those metrics and say that doesn’t equate to dollars.”
- “Facebook might make some changes in the next month or two, which might help combat the severity of how people are looking at the changes [for October] right now. You never know.”

#### Assessing the Damage

- “I had our Facebook rep do an audit for all of our campaigns for the past year, to see how many of our campaigns or what percentage of our media budget would be affected by the data segments that are going to be eliminated in October. What we found was only about 20% or 25% of our media spend was used on those data sources that will no longer be available in October.”
- “The money that we spent using that data was very valuable, converted very highly ... but overall it wasn’t a huge portion of the spend. And [the announced change] has put the onus on our clients to get their heads wrapped around owning their first-party data, which has been a conversation over the past two years that we’re trying to impart to our clients. Trying to get clients having their own DMPs [data management platforms], so they can own that so they wouldn’t be so reliant on these data sources that are going away.”
- “They’re more interested in what the impact is of these changes as to what we’ve done for them and how these changes affect what we’ve been doing for them in the past.”
- “I think we’ve known there was probably going to be [something like the Cambridge Analytica scandal] for a while. I think anybody who has worked closely in the [Facebook] platform knew that there was going to be something likely to happen in terms of the data and how things were being utilized.”
- “With Facebook having its own walled garden and how so many other tech partners, be it social or programmatic, the data shifting between all these different placements, where it was pretty open, and Facebook was the last beacon on the hill of keeping everything to itself—we all had an inkling that there was going to be some kind of wave or tsunami effect in place.”

#### 4) Founder of a fast-growing online apparel retailer

Spending on Facebook will not slow for this ecommerce retailer. ROI and user engagement for the platform have not changed since the controversies surrounding Facebook began in earnest, and this retailer is committed to its investment in Facebook and Instagram for the foreseeable future. Any changes in Facebook policy that limit advertisers’ ability to target audiences would be concerning, but this has not yet surfaced. Based on its relevance in fashion, Instagram has started to outstrip Facebook as a source for quality traffic.

#### Ad Performance

- “Beyond what is normal for the time of year, ROI [on Facebook ad spending] has not been affected [by recent controversies].”
- “The fourth quarter is an awesome time to be advertising if you’re up and running and doing well, but once you cross into January and February [and] the period we’re in right now, buying just naturally slows down. But at the same time, because the traffic is sold on a marketplace and in auction, it actually corrects for itself.”
- “ROI seems to not have really changed [from the fourth quarter to now]. I’d say volume has changed, but I wouldn’t attribute it to what’s going on [with the data and other scandals].”
- “As an ecommerce advertiser, the discussion begins and ends with ROI. Regardless of what’s going on in the news, can I put a dollar in Facebook and get \$5 of revenue out? Or even \$1.01 out? If I can spend profitably on Facebook, then I will continue to spend until the end of time.”
- “As an advertiser, there is absolutely no impact on what I’m going to do with Facebook [spending] based on all of this [surrounding controversy].”

- “The two questions I see going forward are will the user base stay? Will there still be scale? And all signs point to that being the case. Facebook is an incredibly sticky product, and I’m not seeing anything that indicates that we’re going to run into a shortage of profitable inventory any time soon.”
- “No big trends [in user engagement] going in a different direction.”
- “The second thing is about the exposure of people’s personal and private data to people like myself. So now the question is, will I still be able to target people in the same way that I can today? Because that’s where all the profitability comes from: being able to properly identify people who will actually spend money with me, and not waste money on targeting people who won’t.”
- “All of that is powered by the fact that I can leverage, in a distant and aggregated way, a targeting of specific groups of people. And if [Facebook] decides to roll that back or make certain types of targeting options no longer available, if that’s impacting my revenue and ROI, then we definitely have something to talk about with respect to whether or not I will continue to spend with [Facebook].”
- “Instagram has been fantastic for us. As a source of traffic ... I think it has outstripped Facebook, but that’s our niche. Very high-quality traffic. When it comes to fashion, you find a younger demographic, and the visual nature of Instagram seems to lend itself better to what we’re doing.”
- “But as far as engagement is concerned, Facebook appears to still be doing its thing.”

#### Future Budgeting

- “We’re all in on the Facebook ads platform. Between Facebook and Instagram, we’re all in and will continue to be so until the foreseeable future, until the traffic either gets too expensive or the quality drops or the targeting changes.”

#### Assessing the Damage

- “Thus far, I haven’t seen anything major [change with regard to the data Facebook provides]. It’s all about targeting and our ability to weed out the chaff. If [Facebook] starts to limit our ability to do that, then ROI is going to invariably go down, and that will affect their numbers.”
- “I’ve watched [Zuckerberg’s congressional] testimony with interest. And with respect to the data side of things, there are two defined ways that I see the data being used. One is a very direct way, where developers of apps that live on the Facebook platform get direct information about specific people. ... That’s very separate from what I as an advertiser get, which is basically an aggregated, very removed view of people.”
- “I have no visibility into individual people—who they are or what groups they belong to, what their personal information is. So I personally see most of the changes happening in the former data space, data integration. I can see them rolling that back, between Facebook and app developers.”
- “Between Facebook and advertisers, I think people’s data is pretty well isolated from guys like me. So if [Facebook] made any changes, it would purely be because of political pressure and not because of any logical reason.”
- “If [Facebook] did make that decision, it would be obviously disappointing, and it could meaningfully affect their numbers.”
- “There are a few really defined types of [ad] buyers on Facebook. There are people like myself, who are purely driven by ROI, and then there are brand guys like Coca-Cola ... which probably uses Facebook more as a branding platform.”
- “For the branding guys, I’d see a very real possibility that they might be afraid of being attached to Facebook—although I don’t know how long they’d be able to stay away, because there’s so much volume there. And the quality of traffic is still good. But for guys like me, Amazon[.com Inc./AMZN], Netflix [Inc./NFLX]—anybody who really is hardcore direct marketing, I can’t see this affecting a thing.”
- “Prior to this [startup apparel business] I’ve [been in roles where I’ve] spent tens of thousands of dollars a day on Facebook—profitably. I’m also very familiar [with peers and former colleagues] who are spending as much as a

As an ecommerce advertiser, the discussion begins and ends with ROI. Regardless of what’s going on in the news, can I put a dollar in Facebook and get \$5 of revenue out? Or even \$1.01 out? If I can spend profitably on Facebook, then I will continue to spend until the end of time.

*Founder, fast-growing online apparel retailer*

For the branding guys, I’d see a very real possibility that they might be afraid of being attached to Facebook. ... But for guys like me, Amazon, Netflix—anybody who really is hardcore direct marketing, I can’t see this affecting a thing.

*Founder, fast-growing online apparel retailer*

million bucks a month on Facebook, and these are also guys that are super-hardcore into just ‘money in, money out’—no branding. Those guys do not care at all about what’s going on [with the controversy].”

## 5) Senior director at an East Coast agency

The source reported a slight dip in ad engagement volume and spending since mid-March when the Cambridge Analytica story broke, but the timing could be a coincidence. A longer-term trend at Facebook is that CPM costs increased about 60% in the first quarter year to year as Facebook is pushing advertisers to provide a more creative experience on its platform. The recent scandals have not affected advertisers’ spending plans, and this agency has not recommended pulling back from Facebook, even as costs continue to rise. CPMs are efficient, and ROI still significantly outperforms other options. As long as Facebook continues to drive the key metrics for advertisers, it is not likely to suffer, and the same goes for Instagram. Facebook’s announcement that it will not use third-party data is something that could be worked around by advertisers. Many of this agency’s clients have their own data and use Facebook’s native advertising tools without needing third-party aggregators. Consumers are likely to get over the privacy issues in the same way they now show little concern over Google serving ads based on scanning emails or over Equifax Inc.’s (EFX) data breach.

### Ad Performance

- “It has only been a couple of weeks since the Cambridge Analytica scandal broke. There are some changes to the numbers in those weeks but we wouldn’t want to call them a trend. There are always changes.”
- “Engagement was very strong through mid-March. We saw a little dip in ad engagement volume and spending since then, but it’s only been a few weeks so it’s not indicative of a trend. It could be a coincidence that it was those weeks. However, our efficiency increased. Our overall volume of engagement decreased slightly, but our engagements became more efficient, so our cost per engagement decreased.”
- “Facebook has made the actual ad units more of a priority. It’s been 12 months since they rolled out collection ad units with a video or a lifestyle image as the main focus of the ad unit and shoppable products at the bottom. Organic posts on Instagram are also now a more shoppable experience. The more standard type of ads, the link ads, are now going away.”
- “Facebook is pushing advertisers to create more of a creative experience. That changes how we talk to clients about the assets they need in order to be successful on Facebook. It also relates to the rising cost. It’s becoming a more competitive place with more and more advertisers.”
- “We’re prepping our clients to expect even more of an increase in competition because Facebook has announced we should expect time spent on Facebook to decrease and organic reach for brands and publishers to decrease. There are going to be new and existing advertisers upping their focus on paid ads. It’s going to create a more competitive marketplace paired with less time spent.”
- “We’ve noticed CPM costs going up. The industry as a whole has seen costs increase upwards of 120%. For us, the increase has been about 60% year to year for Q1. This was happening already before the Cambridge Analytica info.”
- “This is the first year in Facebook’s 14-year history that they’ve experienced a decline in usage. Facebook announced changes in January to their news feed so people will use the platform more to connect with each other rather than spend hours watching cat videos.”
- “That move was in reaction to user decline as well as studies that said that using social media was bad for us. The changes haven’t been rolled out fully yet. Facebook said it wanted to move away from passive content and rebuild their products and algorithm to prioritize content posted from friends and family that would drive real conversations and engagement.”
- “We expect the cost of doing business on Facebook to continue to increase, and it’s going to be important for advertisers to find ways to make sure their ads and posts pan out through good targeting strategies and creativity.”

Engagement was very strong through mid-March. We saw a little dip in ad engagement volume and spending since then. ... Our overall volume of engagement decreased slightly, but our engagements became more efficient, so our cost per engagement decreased.

Senior director  
East Coast agency

### Future Budgeting

- “There’s been no impact [on spending plans]. Some clients have asked us if they should stop spending or pull back on spending. We’re not recommending it at this time.”

- “You can’t even pick any single cost on Facebook because that varies completely by the audience, its size and how competitive that audience is. Our CPMs are still efficient based on the objectives of our advertisers. ROI, costs per clicks and click-through rates on Facebook still outperform other options by a long shot.”
- “That’s why we wouldn’t recommend to our advertisers to pull away from the platform unless it stops working.”
- “Even if it does get more expensive and even if there is some erosion of performance, it is still outperforming many of the other platforms.”
- “Facebook is also Instagram, and that’s part of our strategy as well.”

## Assessing the Damage

- “We’re going to wait and see what [the [elimination](#) of Partner Categories] looks like exactly. Facebook is no longer going to facilitate or broker the relationship between advertisers and third-party data providers. However, advertisers who maintain a relationship with third parties and can get data on their own will still be able to use it on Facebook. The question will be around the legal language and if there will be requirements for using it.”
- “The majority of our dollars spent on Facebook uses either the brand’s first-party data or Facebook’s native advertising tools. It’s only for a minority of our advertisers that we need to use third-party data as part of our strategy.”
- “I don’t think Facebook is going anywhere. As long as it continues to work for advertisers and drives the key metrics that advertisers are looking for, I don’t expect advertisers to pull back.”
- “People aren’t leaving Facebook in droves, but I wouldn’t be surprised if Facebook—not Instagram—usage continues to decline moderately, continuing the trend.”
- “Facebook is unprecedented in the ecosystem in its scale in terms of reach and time spent. It’s even unprecedented in advertising, except maybe for TV. I think Facebook is going to remain a focus.”
- “Google spent years serving ads based on scanning people’s emails, and [yet] Gmail usage is at an all-time high. In the 1980s, people smiled and accepted that their conversations were listened in on. This [data privacy concern] is not a new topic.”
- “I’d hope people are more concerned with Equifax than with Facebook because there it’s about our social security numbers and our full credit history, while with Facebook we’re talking about the kinds of products that people shop.”
- “I don’t know if trust is going to come back because I don’t know if anyone ever really trusted Facebook. I do think people will get over it though and continue to use social media, be it Facebook, Instagram or something else.”

## 6) Adam Blejski, digital marketing consultant; repeat source

Conversion rates for Facebook ads have been steady, with a 5% swing at most. User engagement trends have not been negative. Conversion costs are slightly down since news of the data scandal broke although this may be completely unrelated. Spending plans for the second half of the year was unchanged. Facebook continues to be an effective medium for advertising, and the major demographics used by marketers and advertisers are not obtained illicitly. Large corporate advertisers are unlikely to leave the platform. Most Facebook users are aware that they will see advertisements based on their interests. A larger threat to Facebook is whether consumers 12 to 16 years old now will use the platform.

### Ad Performance

- “Conversion rates are fairly flat year over year. On campaigns where there have been no changes in other factors like a website overhaul or major discount offers, there’s only been an average 5% swing up or down. For example, if we take 10 clients, seven had an average 0% to 5% increase in conversion, and maybe three had a 0% to 5% reduction in conversions.”
- “I believe this means that the Facebook advertising system has found a place of homeostasis after years of trying to find its way. I think they reached that in 2017. It’s the system being optimized in the same way as Google’s algorithm helps to convert better and get better results.”
- “Costs per conversion remain flat also. 2017 was flat compared to 2016. I’ve seen a slight decrease in cost per conversion this second quarter since news of the scandal.”
- “Compared to March, cost per click on one particular campaign went down 20% [in April]. That could mean nothing, or it could mean something. It

Compared to March, cost per click on one particular campaign went down 20% [in April]. ... It could mean that some companies started to pull out when the scandal broke, and with fewer people paying for those clicks, the costs went down. Or it could just be because it’s April.

Adam Blejski  
Digital marketing consultant

could mean that some companies started to pull out when the scandal broke, and with fewer people paying for those clicks, the costs went down. Or it could just be because it's April."

- "For our clients globally, there hasn't been any change in user engagement since the scandal became public."
- "On one of the pages we manage, engagement has gone up over 90% in the last 30 days. This is a typical increase."
- "We're increasing spending on niche inventory on very precise websites where the users reside. We're also going back to creative campaigns through static and animated display ads. We buy inventory on websites that don't have too much display advertising. We show an animated or creative static display on a website that's not too overburdened with ads, and then we have an associated creative campaign on the landing page. That can be very valuable."
- "We've decreased Twitter campaigns in the last two years. In B2C and B2B, it's not what works best for the businesses we help. We tried it out, and it's not what worked best."
- "Over time, the way we use Facebook went from broad to more precise. It's become more focused on the offering and the creative as well as the website and landing page."
- "Rather than the Facebook platform getting more precise or mature, it's maybe that we're getting better at how we convert people from Facebook and get them to leave an email, sign up for a newsletter or make a purchase. Compared to five years ago, I'm seeing Facebook get better in terms of results. It's probably a combination of the platform and how we use it."

## Future Budgeting

- "Nothing has changed regarding our spending plans. In fact, if the costs go down, we'll spend more. I don't expect any big changes."
- "The main reason anyone uses Facebook ads is because they're looking for a demographic of male or female by geography and by age and their interests. Those are basic demographics available without being sneaky."
- "Any data they were getting illicitly is likely to have been from people who didn't want to be advertised to. If they pull back on the data they were collecting, I wouldn't be surprised if conversion ends up being better. They'll be pulling those who don't want to be advertised to."
- "Active Facebook users, not occasional users, are probably OK with being advertised to. For example, if they like Nike shoes, they wouldn't mind having sports shoes advertised to them."
- "Some companies that use Facebook ads are having reservations about using it because of all the news. They might pull out because they don't want to be affiliated with what's going on. This would mean, just like with Google ads, if there's less competition to the target market, the costs are going to go down. The fewer people who compete with the dollar to show their product to a specific demographic, the less they're going to pay per impression, per click and per conversion."
- "I don't see any big changes in Facebook being less effective. If anything, if fewer companies use Facebook advertising, then it just might get a little more affordable. It remains to be seen what's going to happen ultimately, but Facebook will not fail overnight."
- "We continue to run ads on Facebook, and aside from a slightly lower cost, it all may not mean anything."
- "The same goes for Instagram. If it's a product or service where the demographic uses Instagram, spending could remain steady or increase."

If they pull back on the data they were collecting, I wouldn't be surprised if conversion ends up being better. They'll be pulling those who don't want to be advertised to.

*Adam Blejski*  
Digital marketing consultant

## Assessing the Damage

- "The data they were collecting that people didn't want them to collect, and which was sold to companies that wanted that kind of data for other purposes, doesn't concern general advertisers. Advertisers go after people by geography, age and sex and what kind of pages they like. The illegally gotten data doesn't play into the advertising part."
- "While we wait to hear more details about what exactly was done and how, Facebook remains the most effective advertising platform. There's nothing definitive to say Facebook is a bad platform. It will remain part of the mix."
- "I hope [the changes Facebook makes to its privacy policies] are meaningful. Users, just like car drivers, are the ones who're ultimately responsible. In a car, the manufacturer builds in functionalities, and the user has to read the user manual. They have to read and learn about the fine print. On Facebook, Twitter and Google, users are also signing an agreement. If they're not comfortable with that agreement, they shouldn't do it. If they agree, they're OK with it."
- "Most people, however, don't read all the fine print. They have excuses about it being too long. Maybe Facebook needs to put other things in place such as videos to explain everything."

- “This doesn’t need more government regulation. They could self-regulate this. Before a person signs up on Facebook or Twitter, there could be a recap with 10 questions to make sure people have fully read the agreement and understand they’re sharing their data.”
- “Of course, once you start interjecting more work, people are going to bounce off. They’ll lose a percentage of users who don’t want to go through the process.”
- “In the end, Facebook could go the way of Myspace. We would then adjust budgets. But I don’t think it will. It’s still a place where people are connected to friends and family who they don’t see every day. People share pictures and videos, and they stay in touch. I haven’t seen a better platform for that.”
- “There might be an impact because of the scandal and some people will be upset about their data being collected and possibly used to harm them but from a corporate advertising perspective, I don’t think anything is going to happen.”
- “The larger concern is about whether young people who’re now 12 or 16 years old will even use Facebook and if they like it at all. Facebook has more to worry about generational usership than what’s going on now with the scandal.”

## 7) Dean McBeth, principal and founder of ad agency [Shepherd](#); repeat source

Facebook ad performance has not declined following the recent data privacy scandal. Facebook’s performance for ecommerce advertisers in particular has improved year to year, in large part due to Instagram’s popularity with younger consumers. However, marketing dollars are being redirected to bring brands’ own data in-house, an important trend that will gather momentum. Brands will be redirecting 20% to 30% of their digital marketing dollars toward “owned data,” and much of this spending will be at the expense of Facebook. Instagram promises to remain strong as a channel, which should offset much of Facebook’s slide. The privacy blowback prompted Facebook to hunker down and shut off valuable app interfaces, especially to Instagram, during the last few weeks.

### Ad Performance

- “Second quarter 2018 vs. second quarter 2017 [ad performance is unaffected by the controversy] for ecommerce clients. It continues to grow for them. It’s also a behavioral shift in the people that they’re marketing to. To a millennial or Gen We, who just basically lives their life through Instagram, they don’t care [about Facebook privacy issues]. They were born with it, so it doesn’t even matter.”
- “We’ve had questions from all of our clients in the last week. And really what the recommendation, and what they’ve already come to the conclusion is, we need to focus on first-party data and growing email lists just as much as using social platforms.”
- “Social platforms are great to help bring the brand voice to life, but not so great at retargeting if you want to continue not having to pay to retarget your own customers. So that’s where our focus is: How do we go about getting our own subscriber list? How do we start to create platforms for our own fans and our own interested parties?”
- “We have a data partner that deals with much larger-scale media implementations, using social data for media targeting and what not. They’ve fielded a question [about Facebook] from every single one of their clients over the last week or two.”

**We need to focus on first-party data and growing email lists just as much as using social platforms. ... that’s where our focus is: How do we go about getting our own subscriber list? How do we start to create platforms for our own fans and our own interested parties?**

*Dean McBeth, principal/founder  
Shepherd, an ad agency*

### Future Budgeting

- “Our clients are making a shift, maybe 20% or 30% [of digital budgets], back to owned data like CRM-related activities ... newsletter growth, platform subscriptions. And where’s that budget coming from? I think it’s going to be taken from Facebook because search works great still. You’ve got to do SEM. Display, people don’t invest that much in any more anyway. And then spot and local TV and over-the-top stuff, I think more local clients are reevaluating that and finding TV is still effective. So Facebook is left out in the cold there.”
- “[That budget reallocation] is also a resource allocation. You need people to write emails, to gather dynamic content, whereas Facebook you need a batch of ads and throw them out there. The complexity and the resource drain are a bit higher, too, to take back your own data, as distinct from throwing a bunch of stuff on Facebook and let programmatic do its thing.”

- “Facebook itself has seen such a decline in younger audiences, whereas Instagram is still really strong. I don’t think there’s going to be that much decline in Instagram. In fact, I think there might be some additional spend in Instagram. But Facebook itself is starting to be less appealing, at least to the direct ecommerce advertisers focused on the younger millennial audiences. Facebook as the primary platform is less appealing.”
- “There’s going to be some reshuffling of budgets in terms of how people are spending. And from a privacy standpoint, not being able to utilize Facebook and Instagram data in the same kind of way.”
- “The reality is that no one wants to die valiantly on their sword, so I don’t think you’re going to see a big pull back unless some of the big marketers pull back—the P&Gs and Unilevers.”
- “We’re looking at a lot of small and medium-scale clients who rely on Facebook as a large part of their media spend. And I don’t think any of those marketers are willing to reduce spend to level that could be risky to drive ROI.”
- “If you’re smaller and you’re direct, you basically rely on ecommerce to drive your whole business. There’s no way you’re giving up Facebook.”
- “But if the majority of your spend is in search and TV and digital display and all the heavy-hitting things, Facebook was just basically an overlay to make sure you had more saturation in some of your digital targets.”
- “[In my previous agency] we were already pulling way back on Facebook [prior to the controversy], and clients like Hotels.com, which are massive, massive digital media spenders, barely spent anything on Facebook. They’re putting all of their money on Google because from direct ROI attribution, Facebook didn’t give them anything, and Google can tell them exactly how their spend was performing.”
- “There is definitely some effort in Pinterest. I don’t know from a paid perspective if I’ve seen anything grow, but there have been a lot of content and brands getting involved with influencers and doing the more subversive media stuff. So influencer spend is going up; branded content; curated content. And all of that continues to climb. I’ve seen a lot of activity there, even more so the last year.”
- “Twitter is an interesting one just because of its resurgence in the political spectrum. People are asking about it, but we aren’t recommending it other than more organic activity. They’ve created all these new ad units, but do we really go to Twitter to watch video? It’s just not a trained behavior that we’ve established, so it’s hard for people to grasp.”

**If you’re smaller and you’re direct, you basically rely on ecommerce to drive your whole business. There’s no way you’re giving up Facebook.**

*Dean McBeth, principal/founder  
Shepherd, an ad agency*

#### Assessing the Damage

- “The privacy blowback is causing Facebook to go insular again, shutting off highly leveraged and valuable APIs, especially to Instagram, over the last couple of weeks.”
- “I don’t think it’s been widely published, but it’s really been messing with a lot of the social listening and social insight powerhouses [like] [Sprinklr](#). [Companies like this] were the best out there because they had so many [tools to] analyze Instagram. And now they can’t. They’re beholden to whether the API is open, and right now it’s not.”
- “We haven’t heard anything [similar happening on the Facebook channel], but Facebook makes you rely on their own [Insights](#) targeting anyway, so there wasn’t really any direct port from Facebook into anything. They’ve always been kind of a closed wall.”

#### 8) Founder and CEO of a mobile marketing company based in Australia; repeat source

One of Australia’s top 20 advertisers has frozen Facebook spending after customers expressed concern about their data privacy. The move could represent more than \$2 million in spending over a six-month period, but other advertisers are likely to follow. The source noted considerable discussion in advertising circles about how increasingly difficult Facebook is to work with as a publisher. Google, conversely, is being considered by digital publishers as a better partner.

#### Ad Performance

- “The key anecdote I have is that [one of Australia’s major retail grocers] has frozen all Facebook activity. [A company executive] told me that [Facebook] is ‘just too hot for us.’”
- “[The retailer] had a two strikes approach. They wore the storm for a little but started getting customer inquiries—individual customers coming [to the stores] and saying they were very concerned about what’s going on Facebook.”
- “At the very sharp end of things, that’s where it matters. You have a situation where the marketing team is now needing to field inquiries directly from customers. And you can imagine an organization [the size of this one] or any

other top-20 advertiser in the market ... if at any point you're having to justify why you're fielding calls from concerned customers around data usage and data privacy, the decision then becomes 'Let's just stop it.' It's far too difficult to continue it. It's better just to take a time out."

- "So [this grocer] is taking an indefinite timeout. And they won't be alone. I suspect that is just the tip of the iceberg."
- "It probably represents a couple of million bucks over six months."

#### Future Budgeting

- Did not discuss.

#### Assessing the Damage

- "Whether or not this [freeze on Facebook spending] is sustainable long term or whether it all goes back to normal, I don't know. It may be the case [that spending by top advertisers does come back]."
- "But I think that the other thing going on that compounds [Facebook's problems], for the people I'm speaking to, there's a trend going on that Google's now your friend and Facebook's your enemy."
- "If you're a publisher, all of the strategies that Facebook's putting in place are making it harder and harder to work with. Whereas Google is going the other way."
- "The trend is that Google is making tools, technology, platforms more readily available to do business across the different platforms."

## 9) Digital director at a midsize West Coast agency

Some Facebook spending plans have been paused, in small part because of the current climate, but should resume in the second half of the year. Most of the paused dollars are on hold rather than invested elsewhere, but some have gone to other digital platforms like Hulu. If investment in Facebook decreases, some of that spending could go to YouTube as well even though that platform is not as useful. Changes to Facebook's news feed have not hurt ROI of ads. Shutting down third-party data on Facebook would hurt clients who want to target niche audiences. Facebook has become a central force in people's lives and remains a relevant place for advertisers to target consumers and groups.

#### Ad Performance

- "[Changes to Facebook's news feed] haven't impacted our ROI. Many of our clients have modest budgets so we don't invest significant sums in Facebook. The audience is still there, and they're still engaging. We haven't seen any impact in ROI."
- "If we're just looking to gain eyeballs and generate awareness of a product or launch, video [on Facebook] works well. To engage people, it's carousel ads that tend to work well. They draw people in and get them to connect."

#### Future Budgeting

- "Spending plans have not changed because of recent developments. We've paused some budgets for social in relation to the clients' assets and also to a very minor extent because of what's happening with Facebook. We fully intend to come back and reinvest in the second half of the year. What's happening with Facebook is not the leading cause, but it's helped with making those decisions."
- "The decision to pause some campaigns has more to do with the availability of assets from the client, but it's also coupled with the climate right now."
- "Some clients raise the question about whether Facebook is a safe environment for them. Our position is that the audience is there and we think it's the right place for them, until we see that there's a mass exit of audiences from Facebook, but I don't know if that will happen."
- "If not investing in Facebook, we're either holding on to those dollars with a plan to reinvest in the second half of the year or we've gone to other non-social platforms within digital. For example, if we're running video campaigns, it could be Hulu."
- "YouTube could possibly get increased investment, at least partially, if we were not investing in Facebook. We see social as a valuable place for video. YouTube could fulfill that role, even if it's not to the same degree."
- "Our Facebook budget over the last year has remained steady or, depending on the client's objective, is up."

Some clients raise the question about whether Facebook is a safe environment for them. Our position is that the audience is there and we think it's the right place for them, until we see that there's a mass exit of audiences from Facebook.

*Digital director  
Midsize West Coast agency*

## Assessing the Damage

- “With Facebook shutting down Partner Categories, that might impact how advertisers view it and how we use it. One of the great things about Facebook is the targetability of different audiences. We can reach niche audiences right now. If that goes away, we may have a harder time narrowing in on who we want to reach. That would create a lot of waste.”
- “The benefit of social is that you can more narrowly target these audiences based on self-reported information. If that advantage goes away, it’s going to be a harder sell for us to provide our clients with a rationale for using Facebook. We would look to other avenues that can narrowly target the audience.”
- “I don’t think Facebook’s relevance is going to change. It’s because of the people who use the platform. Most people right now know how their information is being used, not just on Facebook but across the Internet. There are cookies, and people’s data is being used for retargeting. I don’t think audiences are going to flee. It’s still going to be a relevant space to reach the groups we want to target.”
- “We’ve read about advertisers and personalities leaving Facebook but for us, that hasn’t impacted how we run our business. Unless there’s new information to make us change our mind, there’s no impact.”
- “The changes Facebook is making to their privacy policies are promising. For everyday users, it’s not as concerning as it can seem to us. If users see Facebook implementing more privacy settings, it might be enough to reassure them that their information is not going to be used in an illegal way.”
- “People have been using the platform for so long it’s become a central force in their lives. It’s a way they communicate with friends and family, whether they’re nearby or far away. It’s hard to break that habit. It’s part of people’s lives. People are probably willing to give up some privacy to be able to have that luxury.”

## 2) Industry Specialists

Facebook advertising remains as effective as ever with consistently good ROI, conversion rates and user engagement, according to all three sources in this silo. However, one said he is privy to research suggesting the recent Cambridge Analytica scandal could be taking a toll as the number of people who say they are Facebook users fell as much as 5% in the past month. It would be a while before such a drop-off might affect the platform’s ad revenue, he said, and many of those users probably will return. Facebook’s efforts to give consumers more control over what they share as well as its plans to cut off some third-party access to data could end up making its ad inventory even more valuable, two sources said. Brands concerned about the recent scandals could pause their Facebook spending but likely not for very long, one source said. Two sources, however, said Facebook’s plans to shut off third-party access could make the platform less attractive to advertisers, especially those like consumer packaged goods manufacturers that do not have their own direct sales data. Two sources expect momentum to continue to build for further government regulation of data collectors like Facebook. Facebook’s issues are not hurting Instagram, according to one.

## Key Silo Findings

### Ad Performance

- 3 of 3 see no signs that the effectiveness of Facebook advertising is declining.
  - o 1 said conversions, user engagement and ROI have been consistent.
- 1 cited data suggesting a 2% to 5% drop in the number of people identifying as Facebook users in the past month.
  - o He forecast a long lag before such trends hurt Facebook’s ad revenue, and many users are likely to return.
- 2 said recent developments could allow Facebook to justify higher ad prices based on less inventory or because key data is more scarce.
- 2 said Facebook ads are inexpensive compared with other channels.
- 1 said changes that Facebook has made to its news feed have led to a decline in time spent on the platform.

### Future Budgeting

- 1 does not expect advertisers to adjust their Facebook spending plans based on the recent controversies, as it remains an effective channel.
- 1 said a brief pause could occur in Facebook ad spending by brands concerned about the scandals, but the effect will not be long-term.

# Facebook Inc.

- 1 said it would take at least 6 weeks and possibly up to 6 months before changes in audience levels or ad performance translate into adjustments in spending plans.
- 1 said Facebook's troubles are not hurting Instagram as most people do not connect the companies.

## Assessing the Damage

- 2 said Facebook's plans to shut off or limit use of data by third parties could make it less attractive to advertisers.
  - o 1 said CPG makers and others that do not have direct transaction data rely heavily on third-party aggregators to make Facebook useful.
- 1 said the Facebook scandals will not harm brands that advertise there, and 1 has heard no concerns from advertisers that the platform is toxic.
- 1 does not expect any real decrease in the way consumers use Facebook absent a major development like another popular platform emerging.
- 2 expect continued movement toward some type of government regulation of social media.

## 1) Evan Weber, CEO of [Experience Advertising](#), digital advertising expert and public speaker; repeat source

Facebook's ad revenue growth is not being threatened. Conversion and user engagement are consistent year to year. Advertisers are looking for online media platforms that are effective in targeting and have good ROI, and Facebook provides both. Consumers will continue to use the platform for their social network, interesting articles and breaking news until a better platform comes along. The scandals surrounding Facebook will not hurt advertisers' brands. Facebook's decision to cut off third-party access to data may have an effect down the road, but even without such data, the platform always finds new ways to target audiences. Government regulations on Facebook could increase.

### Ad Performance

- "[Conversions year to year] are consistent. No real changes."
- "There have been no changes [in user engagement] since March. It's been less than 30 days since we learned about the [Cambridge Analytica] scandal, but as far as I can tell, it hasn't had any effect on advertising."
- "I don't think people will change their behavior as to clicking on ads and what they do when they get to where the ads lead them. That's not going to be impacted."
- "Comparing Facebook to other channels like paid search depends on the niche. It depends on how competitive the industry and the region are. Facebook is less costly, but it's usually not as targeted [as search]. Some forms of Facebook advertising can be as targeted as paid search but they're never as pricey, although that too depends on the industry and region. None of it has changed in the last year or since the scandal."
- "The ROI is there with Facebook. With other channels, because they're pricier, it's sometimes not there."
- "I haven't seen any perceptible changes."

**The ROI is there with Facebook. With other channels, because they're pricier, it's sometimes not there.**

*Evan Weber, CEO  
Experience Advertising*

### Future Budgeting

- "Advertisers aren't going to pull what's effective. Facebook remains one of the most effective channels if you use it in the right way. I don't expect advertisers to move their budgets from Facebook or Instagram."
- "Advertisers are always looking for online media that works. If it works, they're definitely not going to drop it."

### Assessing the Damage

- "[Changes in the data that Facebook was providing to advertisers] may have an impact. Facebook has reduced the number of targetable parameters recently. For example, in B2B targeting, you can't target to certain job titles anymore. This started happening already before the [Cambridge Analytica] scandal. I don't know if the scandal will have any more impact."
- "I make Facebook work without the Partner Categories, but third-party data can certainly be useful for targeting. At the same time, Facebook is always coming up with useful ways to target the audience. That's going to keep improving regardless of whether third-party data brokers are involved."
- "It's not going to change how advertisers view Facebook. People still shop at the businesses where they had data breaches previously. Credit card information wasn't even hacked [in Facebook's case]. It was only data that was

shared illegally. That's bad enough, but I think when people join social networks, they realize there is no privacy. They acquiesce to the fact that their behavior and their preferences are going to be targetable through advertising."

- "People may not consciously be aware of that, but that's what they signed up for."
- "The scandal around Facebook won't tarnish any advertisers' brands because Facebook is such a ubiquitous platform. It's like Google, where everyone has been going to search for the last 20 years. Everyone goes to Facebook to find out what's going on with their social network, interesting articles and breaking news. It's not going to change."
- "Facebook will have the same longevity as Google, LinkedIn and Twitter. These platforms aren't going anywhere and people aren't going to stop using them unless there's something very drastic, like a new platform emerging. That would be the only thing that could hurt it."
- "The scandals shouldn't have happened, but they did happen. Facebook should have known what was happening but they didn't, so there's responsibility there. But I don't think it will hurt them."
- "I don't see these scandals affecting how Facebook is used."
- "There will be increased government regulation of Facebook. It's still to be determined what it will look like. There could be legislation to require social networks to protect the data they're collecting so no one can hack it. I don't think that will at all impact Facebook's value to advertisers. People will see targeted ads and will still click on them."
- "Facebook would have rather had people remain clueless about what the terms of service actually say. It's not an option anymore, and people will become more consciously aware of their privacy settings. They could have configured these in the past too, but most people just counted on the social media site to look after them. That's what these platforms should be doing. They do have a responsibility to not be like runaway trains barreling down the track. They need to have more controls and safeguards because bad actors will abuse them."
- "I feel there is no privacy anymore. Things are too far gone to even recover it. Facebook's new privacy policy changes will make people feel better, but the data is still out there and potentially usable."
- "The bad guys exploited this for all it was worth. It's like spamming Google to get search engine rankings. If people can figure out how to game the system, they'll do it, even though eventually it'll get weeded out. It was inevitable and hopefully it can't happen again."

## 2) Executive with a digital consultancy in New York

It is too early to say if Facebook's ad revenue will be slowed by the recent scandals, but the source cited evidence that the number of people who identify as users of Facebook has decreased by 2% to 5% in the last month. If those users do not return to the platform, it eventually will affect ad inventory and pricing. The effects on Facebook's revenue will take time because spending is contracted before impressions are delivered. Changes to Facebook's news feed have led to a softening in usage metrics year to year. Facebook's troubles are not spilling over to Instagram because many people do not associate the two brands. Facebook moving away from partner data is a big issue for advertisers and will create a problem for companies that do not have their own data. Although Facebook has started to address privacy issues, confusion lingers about the data Facebook collects.

### Ad Performance

- "We're seeing evidence [based on data we subscribe to] that people who identify as users of Facebook have decreased by 2% to 5% in the last month or so."
- "These are people who've specifically identified as having ceased using Facebook in that time frame. It's not saying people are actually stopping to use Facebook in the long term, and it's not saying if some people are using it less."
- "With the overall population usage of Facebook around 70% to 75%, even if that small usage decline represents a short-term loss, that would be significant. The question, though, remains if it's a long-term loss. A percentage of those people will actually return because it's more of a short-term lapse. At some point they'll want to share a major life event, or they could find there's a social cost to decoupling from Facebook."
- "As a result of this decrease in users, advertisers will have less inventory. If the audience shrinks, Facebook will be at risk of under-delivering."
- "That could impact prices. Facebook could arguably try to increase CPMs by saying there's less total advertising. It could also, if they're not selling through their inventory, depress prices in the long term when they want to be able to sell remnant inventory. My guess is it's probably going to be more of the former for now. They're going to try to increase the value and curation of the advertising and play up more brand-safe investment options."

- “There will be a significant lag between the decline in users and revenue for Facebook because that trend only happened in the last four weeks. I would not expect a disproportionate shift in ad delivery as we go into the second quarter. The way the spend is contracted and the way the recognition of the revenue and impressions are delivered are not at the same time the initial buy is made.”
- “Agencies and advertisers are committing those dollars, and even if they pull the dollars back, it’s not an instant process. They are trying to reach their own investment targets, and they need to know where to move the money. They’re substantial sums, and there are specific audiences they need to target and reach at certain frequencies so they don’t lose revenue from driving people to their products.”
- “Unrelated to the current scandals, the change in news feed shifting to more personal content has led to a softening in usage metrics year over year.”
- “Other digital options are more expensive than Facebook. Facebook is very inexpensive inventory, and it’s plentiful. If people are interested in greater brand safety and greater control, it means they have to pay higher CPMs.”
- “What Facebook provides is that it gives advertisers who don’t have an audience targeting infrastructure very easy and quick on-ramping to target large audiences very precisely. Facebook provides the use of their native data and the partner data they’ve announced they’re moving away from.”

**We’re seeing evidence [based on data we subscribe to] that people who identify as users of Facebook have decreased by 2% to 5% in the last month or so.**

*Executive, digital consultancy  
New York*

## Future Budgeting

- “Planning tools that advertisers use which show where people’s attention is being focused have a lot of lag time built in—at least six weeks, with some being three months or even half a year. That’s how long it would be before they would see [changes in] where audiences are available.”
- “[Facebook’s issues are] not spilling over into Instagram. Consumers do not associate the two despite the fact that they’re owned by the same company. I haven’t seen any weakening or impact to brand equity in Instagram. I think the advertisers would follow the same pattern though. If the audiences are still there and aren’t showing signs of eroding, they won’t interrupt their spend.”

## Assessing the Damage

- “Moving away from partner data is a very big issue for advertisers who don’t own their own sales channels and have their own first-party data. They really depend on using the data from credit cards and loyalty programs to be able to proxy and identify who the buyer audiences are.”
- “For CPGs and FMCGs [fast-moving consumer goods] who don’t have transaction data or user registration data, it would really be complicated to try and reach the right audience on Facebook.”
- “There are three possible outcomes. One, they could use the same kind of targeting, not on Facebook but rather on the open programmatic inventory. The second is that Facebook could replicate those audience segments. They could negotiate with retailers or directly with loyalty programs so they intermediate the role that Acxiom and others are playing in the marketplace as aggregators of that data. The third option is they could use other attributes within Facebook for demographic or behavior targeting of audiences.”
- “I have not heard brands saying they don’t want to be associated with Facebook because it’s a toxic name. That’s what happens when there’s a publisher or on-air personality who is in a controversial situation, and that leads to a boycott from advertisers.”
- “There is more of a structural breach of trust on Facebook now. There’s a realization that brands really need to be aggregating their own data and owning their own customer relationships. It’s a reminder of what Facebook’s motivations are in owning those relationships directly.”
- “Facebook is trying to do some things around privacy. They’re also signaling that they’re open to some government regulation. We’re still early in this process, but the challenge is that it’s very difficult for the average user to manage their privacy online.”
- “An example is that people now know they can download their data from Facebook and get a sense of what Facebook knows about them. However, Facebook knows a lot more than they choose to expose in that download. An average user can download hundreds of attributes but doesn’t know how, or have the time, to go through them to

**Moving away from partner data is a very big issue for advertisers who don’t own their own sales channels and have their own first-party data. They really depend on using the data from credit cards and loyalty programs to be able to proxy and identify who the buyer audiences are.**

*Executive, digital consultancy  
New York*

understand the risk to their privacy. There are a lot of attributes that Facebook is not exposing. There's still a lot of confusion around what Facebook is collecting and why."

### 3) Principal in a data analytics consulting firm and a former director of a top ad agency; repeat source

Demand for Facebook ads could decline in the short term as brands assess the fallout from the data privacy scandal, but advertisers ultimately want the access that Facebook sells. Giving users more control over whether they share data actually may help Facebook's business model as it will make the remaining users more valuable to marketers and justify higher ad pricing.

#### Ad Performance

- "Facebook has the biggest audience and the motherlode of data. They control access and set and negotiate prices."
- "They have hundreds of presorted audience segments and channels in use. Marketers will pay for that access, and Facebook controls pricing."
- "Only Google and Amazon are competitive in terms of volume, data and willingness to deal."
- "While [Facebook] may deny third-party access to satisfy immediate criticism, data is the fuel that runs their business. So it's possible they'll cut off allies and hike the price given a greater sense of scarcity."
- "Frankly, any effort to give consumers the right to share data or not increases the value of the data."
- "We all market to blind populations where many are opted out without us knowing. A smaller, affirmatively interested audience will be worth more to marketers and justify premium pricing."

#### Future Budgeting

- "The demand may pause—to avoid being tainted—but won't go away. In fact, the demand for psycho-demographic data in a social context is growing exponentially."
- "I can imagine a dip in revenue as brands look to get out from under a scandal. But long term, I doubt they'll take a serious revenue hit, especially since you have summer, back-to-school and holidays coming up."

#### Assessing the Damage

- "I suspect the action will be on the regulatory and rhetorical front. Facebook has to take responsibility for those who have gamed them and misused the platform."
- "There will be a big political push to classify Facebook as media subject to media laws, which will frame a bigger battle with all the big social and data collecting sites."

The demand may pause—to avoid being tainted—but won't go away. In fact, the demand for psycho-demographic data in a social context is growing exponentially.

*Principal, data analytics firm  
Former director, top ad agency*

## Secondary Sources

These three secondary sources focused on Facebook's use of artificial intelligence, the potential regulatory fixes for social media platforms, and a possible Facebook competitor wooing small publishers.

### April 13 The Intercept [article](#)

Confidential documents suggest Facebook is not just offering advertisers a way to target certain groups of consumers but using AI to predict behavior such as when someone might leave one brand for another.

- "Since the Cambridge Analytica scandal erupted in March, Facebook has been attempting to make a moral stand for your privacy, distancing itself from the unscrupulous practices of the U.K. political consultancy. 'Protecting people's information is at the heart of everything we do,' wrote Paul Grewal, Facebook's deputy general counsel, just a few weeks before founder and CEO Mark Zuckerberg hit Capitol Hill to make similar reassurances, telling lawmakers, 'Across the board, we have a responsibility to not just build tools, but to make sure those tools are used for good.'

But in reality, a confidential Facebook document reviewed by The Intercept shows that the two companies are far more similar than the social network would like you to believe.”

- “The recent document, described as ‘confidential,’ outlines a new advertising service that expands how the social network sells corporations’ access to its users and their lives: Instead of merely offering advertisers the ability to target people based on demographics and consumer preferences, Facebook instead offers the ability to target them based on how they *will* behave, what they *will* buy, and what they *will* think. These capabilities are the fruits of a self-improving, artificial intelligence-powered prediction engine, first unveiled by Facebook in 2016 and dubbed ‘FBLearner Flow.’”
- “One slide in the document touts Facebook’s ability to ‘predict future behavior,’ allowing companies to target people on the basis of decisions they haven’t even made yet. This would, potentially, give third parties the opportunity to alter a consumer’s anticipated course. Here, Facebook explains how it can comb through its entire user base of over 2 billion individuals and produce millions of people who are ‘at risk’ of jumping ship from one brand to a competitor. These individuals could then be targeted aggressively with advertising that could preempt and change their decision entirely—something Facebook calls ‘improved marketing efficiency.’ This isn’t Facebook showing you Chevy ads because you’ve been reading about Ford all week—old hat in the online marketing world—rather Facebook using facts of your life to predict that in the near future, you’re going to get sick of your car. Facebook’s name for this service: ‘loyalty prediction.’”
- “Spiritually, Facebook’s artificial intelligence advertising has a lot in common with political consultancy Cambridge Analytica’s controversial ‘psychographic’ profiling of voters, which uses mundane consumer demographics (what you’re interested in, where you live) to predict political action. But unlike Cambridge Analytica and its peers, who must content themselves with whatever data they can extract from Facebook’s public interfaces, Facebook is sitting on the motherlode, with unfettered access to staggering databases of behavior and preferences. [A 2016 ProPublica report found some 29,000 different criteria](#) for each individual Facebook user.”

#### April 5 [article](#) from *The Atlantic*

In the wake of the data privacy scandals surrounding Facebook, experts have suggested some regulatory steps that lawmakers could take, including imposing fines for data breaches, policing political advertising and making tech companies liable for objectionable content.

- “Gathered in a Washington, D.C., ballroom last Thursday for their annual [‘tech prom,’](#) hundreds of tech-industry lobbyists and policy makers applauded politely as announcers read out the names of the event’s sponsors. But the room fell silent when ‘Facebook’ was proclaimed—and the silence was punctuated by scattered boos and groans.”
- “These days, it seems the only bipartisan agreement in Washington is to hate Facebook. Democrats blame the social network for costing them the presidential election. Republicans loathe Silicon Valley billionaires like Facebook’s founder and CEO, Mark Zuckerberg, for their liberal leanings. Even many tech executives, boosters, and acolytes can’t hide their disappointment and recriminations.”
- “The tipping point appears to have been the recent revelation that a voter-profiling outfit working with the Trump campaign, Cambridge Analytica, had obtained data on up to [87 million](#) Facebook users without their knowledge or consent. News of the breach came after a difficult year in which, among other things, Facebook admitted that it allowed Russians to buy political ads, advertisers to discriminate by race and age, hate groups to spread vile epithets, and hucksters to promote fake news on its platform.”
- “Over the years, Congress and federal regulators have largely left Facebook to police itself. Now, lawmakers around the world are calling for it to be regulated. Congress is gearing up to [grill](#) Zuckerberg. The Federal Trade Commission is investigating whether Facebook violated its [2011 settlement agreement](#) with the agency. Zuckerberg himself suggested, in a [CNN interview](#), that perhaps Facebook should be regulated by the government.”
- “The regulatory fever is so strong that even Peter Swire, a privacy-law professor at the Georgia Institute of Technology who testified last year in an Irish court on behalf of Facebook, recently laid out the [legal case](#) for why Google and Facebook might be regulated as public utilities. Both companies, he argued, satisfy the traditional criteria for utility regulation: They have large market share, are natural monopolies, and are difficult for customers to do without.”
- “While the political momentum may not be strong enough right now for something as drastic as that, many in Washington are trying to envision what regulating Facebook would look like. After all, the solutions are not obvious. The world has never tried to rein in a global network with 2 billion users that is built on fast-moving technology and evolving data practices.”

- “I talked to numerous experts about the ideas bubbling up in Washington. They identified four concrete, practical reforms that could address some of Facebook’s main problems. None are specific to Facebook alone; potentially, they could be applied to all social media and the tech industry.”

## March 29 Business Insider [article](#)

Two ex-Yahoo executives are trying to build a technology platform for independent publishers that will help them rely less on Facebook and better compete for ad budgets.

- “Jim Heckman and Josh Jacobs continue to roll up partners as they attempt to build a digital platform for publishers burned by Facebook and, hopefully, advertisers looking for somewhere new to spend some ad dollars.”
- “The pair of ex-Yahoo executives and digital ad veterans have recently launched [Maven](#), which aspires to create a standard technology platform for small and mid-sized websites. In January Maven announced it was [acquiring HubPages](#), a company that caters to niche publishers.”
- “Now, the team is adding Say Media, a similar web publishing firm behind websites like GuitarWorld.com, CleanEating.com, and YogaJournal.com. Terms of the deal were not disclosed.”
- “Heckman—Maven’s CEO—and company president Jacobs say that Maven is coming along at a time when many independent digital content producers feel ill-equipped to deal with a constantly changing landscape.”
- “‘You can’t just set up a little website and go be a writer anymore,’ Jacobs said. ‘Now half your life is about debugging ad tech ... or making sure your site works on Google AMP. To be a world class publisher you now need a world-class engineer team, and you can’t make that investment as a small publisher.’”
- “Thus, the idea is that the Maven’s technology will serve that role, so indy publishers can both deliver their content consistently and deliver ads in a standardized fashion.”
- “It doesn’t hurt that many small publishers are feeling whiplash from Facebook’s recent algorithm changes, and are likely open to solutions that promise more empowerment.”

---

Additional research by Eva Cahen and Emily Carr.

The Author(s) of this research report certify that the information gathered and presented in this report was obtained in accordance with Blueshift Research’s compliance protocols as outlined in the company handbook. All Blueshift reporters identified themselves as reporters/researchers from Blueshift Research and articulated the purpose of the research. To the best of our knowledge and efforts, Blueshift confirmed that the underlying source(s) lawfully obtained the information shared with Blueshift and were entitled to provide such information to Blueshift without breaching a duty to another party. The data in this report has undergone review from Blueshift Research’s Compliance Officer and has been approved for distribution to Blueshift Research’s clients.

© 2018 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift’s written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.