



# facebook: the making of a great company

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## Chapter One

Despite recent attacks on its business model and market capitalization, Facebook is a great company, here for the long term.

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From Facebook investors' viewpoint, July 26, 2018 was a bad day. After CEO Mark Zuckerberg and his leadership team announced recent quarterly results, a giant sinkhole opened under company valuation. \$120 billion of market capitalization disappeared as some investment analysts, and stock traders, recommended abandoning Facebook due to slowing new user growth in the USA and Europe.

To some extent the decline was expected. When it became known that a data analytics firm named Cambridge Analytica had purchased user data from Facebook, then used that data to target political ads, politicians and regulators started taking aim at Facebook. Although no laws were broken, it seemed as if suddenly these government leaders thought it was inappropriate for Facebook to sell user information. And somehow Facebook was creating massive social unrest.

But, we live in an era when people care a lot more about convenience than privacy. Customers love how the internet simplifies many daily tasks, like shopping, gathering reviews and opinions, and connecting with colleagues and friends. Because information-era internet-based companies have been able to learn about users, it has made life far easier for those users. Most people do not think twice about privacy in the process of teaching on-line analytical engines how to provide them what they want, and need, more quickly, easily and cheaply.

# social

There is a lack of trust in companies thriving on their data-rich business models. From Amazon to Apple, Google, Netflix and Facebook there is an underlying fear that somehow these companies are not stable. That while they have created massive valuations from their equally massive cash flows, they are not “real.” Thus, investors have demonstrated they can, and will, react quickly to the slightest piece of bad news.

This belies the fact that these information dominant titans, like Facebook, are great companies. They have moved beyond old business models based on industrial-era limitations of physical assets. Leaders of these new-world companies realize that the data about something is often worth more than the something itself.

Because many people don’t understand these new business models there is a fear that somehow the underlying economic foundation of all American business is crumbling. But that simply isn’t true. Despite recent attacks on its business model and its valuation, Facebook is a great company that will continue providing value long-term for users and customers. Precisely because it understands customer trends and uses the tools at hand to provide value to its customers.

# Trust

## Chapter Two

Americans have been losing confidence in business leaders.

Many people in America in 2018 seem to think we are in the “worst of times.” There is considerable negativity about where America is now, compared to where it was in the 1980s – and especially where it was in the 1950s. Most Americans think that America’s once mighty companies are disappearing – or on the edge of failure.

There is no doubt business has changed. In the 1950s companies had an average lifespan on the S&P 500 of 60 years. By 2018 that longevity had fallen to under 20 years. Simply put, companies were failing far faster than ever in history.

Many once great companies have seen their fortunes drastically diminished. GE was the stalwart of American business, on the Dow Jones Industrial Average since formed over 115 years ago. But no longer, as its value fell over the last decade, under the leadership of CEO Jeff Immelt, GE was booted from that vaunted list. And GE continues selling off its businesses as it tries raising cash to avoid failure.

# failure

Sears was the most majestic of retailers. Sears invented home shopping with their famous catalogs. Then they rose to prominence opening stores in almost every town of any size. And Sears practically invented the modern shopping mall by “anchoring” the lease on huge stores to assure real estate developers people would flock to these mega shopping destinations.

But Sears has been closing stores for a decade. Founded in Chicago over a century ago, in 2018 Sears announced it was closing its last store in Chicago. Sears has sold off famous brands like Kenmore, DieHard and Craftsman. As losses mounted manufacturers have become less willing to front Sears inventory, and the place where everyone once shopped is now on the edge of bankruptcy.



Companies seem to come and go with ease. Toys R Us, Circuit City, Filene’s Basement, Bethlehem Steel, Hostess Baking, Mrs. Fields, Ritz Camera, Wolf Camera, Tower Records, Lehman Brothers, Blockbuster, Sun Microsystems, – the list of failed enterprises goes on and on. And even huge companies stayed alive only by the grace of government handouts – think GM and Chrysler.

So, looking around it is easy to become pessimistic. But that misses equally powerful, and even better run companies that have been created in today’s economy. Companies nothing like those old brands, but built on the realities of today’s intensive global competition.