

## Facebook Tries to Woo Marketers.

Despite its surging Internet audience, Facebook Inc. has yet to prove it can wring steady revenue out of advertisers. Now it's trying a new tactic to woo Madison Avenue.

The Palo Alto, Calif., company is rolling out a new ad format called "engagement ads" that further blurs the line between marketing and social networking.

The new ads appear on the main screen when a person first logs in to Facebook. They prompt a user to do something within the ad, such as comment on a movie trailer or RSVP for the season finale of a TV show.



If the user completes the action, such as adding Bravo TV's "Project Runway" show to a personal list of events, Facebook tries to get Bravo's ad in front of more eyeballs by sharing a notice about what the user has done with their friends.

Facebook has a lot to prove with the new ad format, which it began quietly testing in August and started making available to all advertisers this month. The company says 70 of the U.S.'s 100 largest advertisers have advertised on its site since 2007. But its share of total number of U.S. online display ad views was just 1.1%, according to market research firm comScore Inc., in its most recent report in June.

News Corp.'s Fox Interactive Media Unit, which includes rival MySpace.com, is the market leader with 15.9% of display-ad spending, according to comScore. News Corp. also owns Dow Jones & Co., publisher of The Wall Street Journal.

"I haven't heard of anyone purchasing something off an ad on Facebook," says Angie Tulgetske, vice president of RE/MAX Preferred Choice Properties, which resells timeshares and spends thousands of dollars a month on search ads but avoids social-networking sites. "I wouldn't think any of my marketing dollars would be spent advantageously there."

Facebook's new push also comes as economic turbulence hits the online ad market. U.S. online advertising growth is expected to decelerate from 17% in 2008 to 14.5% next year, according to the Interactive Advertising Bureau, an internet-advertiser trade group.

Advertising on social-networking sites appears particularly vulnerable, analysts say, because advertisers are still searching for the right ways to measure the effectiveness of ads on those sites.

Advertisers say that buying ads on Facebook and MySpace generally costs far less than buying premium ads on media properties such as Yahoo Inc. or Time Warner Inc.'s AOL, although prices vary widely based on the type of ads and the target audience. Facebook charges more for the engagement ads than other display ads on its site.

The new ads won't appeal to all Facebook users. Heather Watson, 32, who lives in Nashville, Tenn., recently saw the engagement ad for "Project Runway." Ms. Watson says such ads "detract from the [Facebook] experience," and she clicked the "not attending" option to wipe the Bravo ad from her view.

In public appearances, Facebook's 24-year-old Chief Executive Mark Zuckerberg insists that his company remains more focused on expanding its user base than its revenues. The right business model for the site will emerge over time, he has said.

This year, Facebook's revenue is expected to more than double to between \$300 million and \$350 million, say people familiar with

the matter. But the company has mounting costs. At an industry conference last week, Mr. Zuckerberg said the company didn't need to raise more money and wasn't planning on going public for a few years.

Still, Facebook has intensified its campaign to curry favor with Madison Avenue. It has hired top ad sales executives from companies including Yahoo and periodically hosts teams of senior ad executives at its graffiti-clad offices. It has also sent squads into online-ad agencies, such as Starcom MediaVest Group, to pitch products and generate awareness about its free research tools.

Ads systems are built over time through continual tweaking, says Facebook's Chief Operating Officer Sheryl Sandberg. She says Facebook's existing ad offerings are working well but "undersell Facebook's broader opportunity."

Facebook has tried many ad efforts in the past, starting with basic "fliers," the low-budget graphical ads users could buy to promote things like events. The company began building its own internal sales force in 2005, and in 2006 struck a deal to display banner ads sold by Microsoft Corp. It also added products like "social ads" in which Facebook shared a user's action with others on the site.

But many marketers stayed away, concerned advertising alongside user-generated content might tarnish their brands and that the site appealed only to college students. As Facebook has widened its audience, it has run into another problem: users weren't clicking on ads when they browsed each other's profiles. Jeremiah Owyang, an analyst with Forrester Research, estimates the rate at which users click on Facebook's display ads is less than 1%. Mr. Owyang also describes Facebook's array of ad offerings as "confusing."

More recently, Facebook has seen some traction with an ad service for smaller advertisers that generally spend the bulk of their budgets on search-engine ads. The service allows users to buy targeted banner ads through a Web site. Facebook says tens of thousands of advertisers are using the system every month.

Online advertising agency G5 Search Marketing Inc. has used the system to buy ads for clients such as a California-based local storage company. The storage company in May found it ended up getting more visitors per dollar spent on Facebook than Google, says Dan Hobin, CEO of G5.

But he adds that only a handful of clients have tried Facebook, in part because Facebook offers to reach specific groups that are far smaller than the size of the audience his clients want to reach.

U.S. online advertising growth is expected to decelerate from 17% in 2008 to 14.5% next year, according to eMarketer. This article incorrectly cited the data as coming from the Interactive Advertising Bureau, whose historical data eMarketer used as a benchmark for its projections. Also, Fox Interactive Media in June had a 15.9% share of display ad views, according to comScore. The figure is incorrectly described as Fox's share of display ad spending.

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