

THE **W** REPORT

# Meta

June 6<sup>th</sup>, 2022

# facebook



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# About The W Report™

The W Report™ provides a proven, innovative way to see what contributes to a company's revenue growth today, and predictive power of where to focus efforts that will drive future revenue.

Created by *Harvard Business Review* author Gary A. Williams, the patented wRatings system provides fresh, forward-looking data and analytics that cannot be found anywhere else.

Our competitive strength research requires a number of fixed investments to help executives make decisions about how to drive organic revenue growth.

Basic economic theory shows that in a highly competitive market, returns will be driven down to essentially no economic profit as rivals imitate any known advantage. To achieve a durable advantage, executives must find ways to defy this very powerful force of competition.

Since starting a fund on January 1st, 2015, the Top 25 Companies in our rankings have outperformed the S&P 500, the Russell 1000 and Russell 2500 by double-digits. Our research was featured as the May 2002 cover article in *Harvard Business Review*.

The wRatings Corporation provides CEOs, their executive teams and PE Firms & Hedge Funds with subscriptions to our independent competitive research analytics.

## FIXED INVESTMENTS



**SaaS Tool**  
(Software-as-a-Service)



**Patents, Copyrights & Trademarks**



**Competitive Benchmark Database**

## LEVERAGED BY



**Customer Online Panels**



**Articles, Books & Events**



**Analytics & Predictive Power**

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**CEOs & Executive Teams**



**PE Firms & Hedge Funds**

## Our Top 25 companies consistently out-perform the S&P 500, Russell 1000 and Russell 2500

Our Top 25 Companies	S&P 500 (Total Return)	Russell 1000 (Total Return)	Russell 2500 (Total Return)
<b>168.3%</b>	<b>130.7%</b>	<b>127.6%</b>	<b>87.4%</b>



Source: Centurus Wealth Advisors, May 1<sup>st</sup>, 2022

# Meta Pricing Power vs. Revenue Growth %

Facebook’s challenges are much larger than last year’s policy change by Apple towards greater consumer privacy. Facebook has a user value problem. And until FB executives recognize and confront the problem, the outlook appears dim.

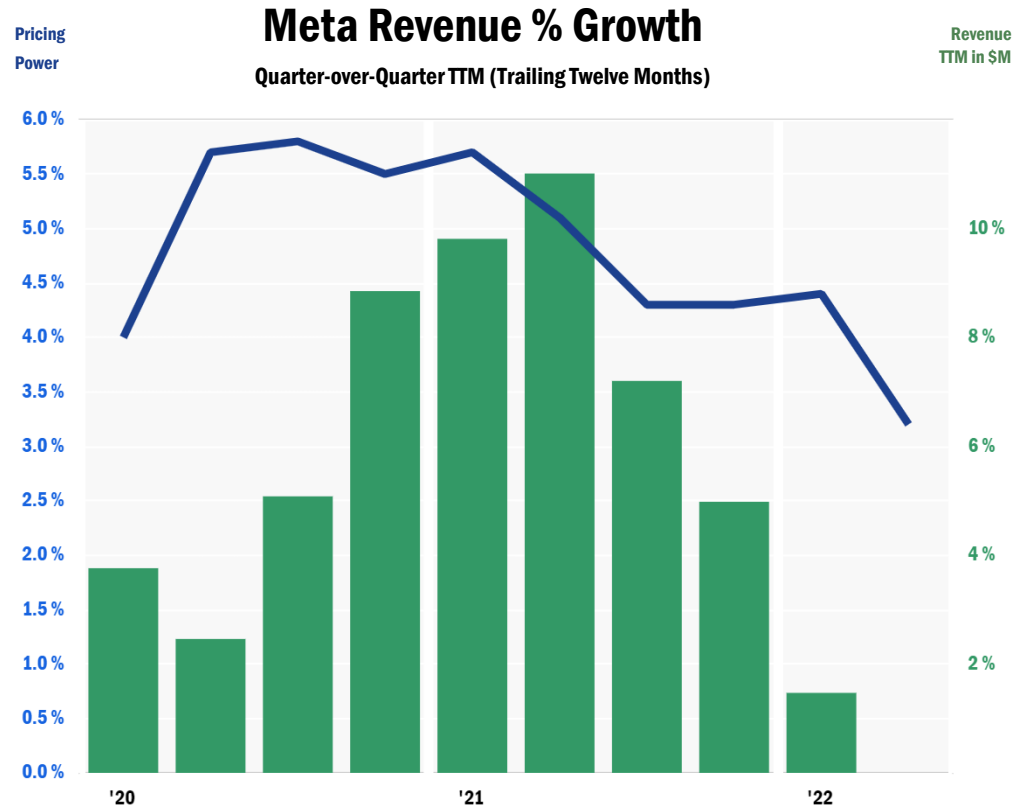
In April 2021, Apple started requiring apps to request user permission to track them. Only about 16% of users agree to be tracked (according to Flurry), making targeted ads much less precise.

Ironically, the reduction in precision is exactly what Facebook users desired. Users want the flexibility to control their information, and Facebook is becoming less strict in how much control they exercise.

Even with those improvements, Facebook faces an uphill battle. **Pricing power, which measures customer willingness to increase pay/usage if their ideals are met, has been cut almost in half since mid-2020 and continues to decline.**

While users are seeing improvement and becoming more satisfied, Facebook remains far behind other media companies such as Google.

Meta is the new name for Facebook, but users still struggle to see the ability of Facebook to meet their needs.



# Facebook: 2020-Q2 vs. 2022-Q2

If Facebook management only tracks user satisfaction levels, they would be thrilled with their improvement in the last two years.

Match Profiles compare any two customer profiles over time, with the lighter colored markers “fading into the background” since they are from an earlier time period.

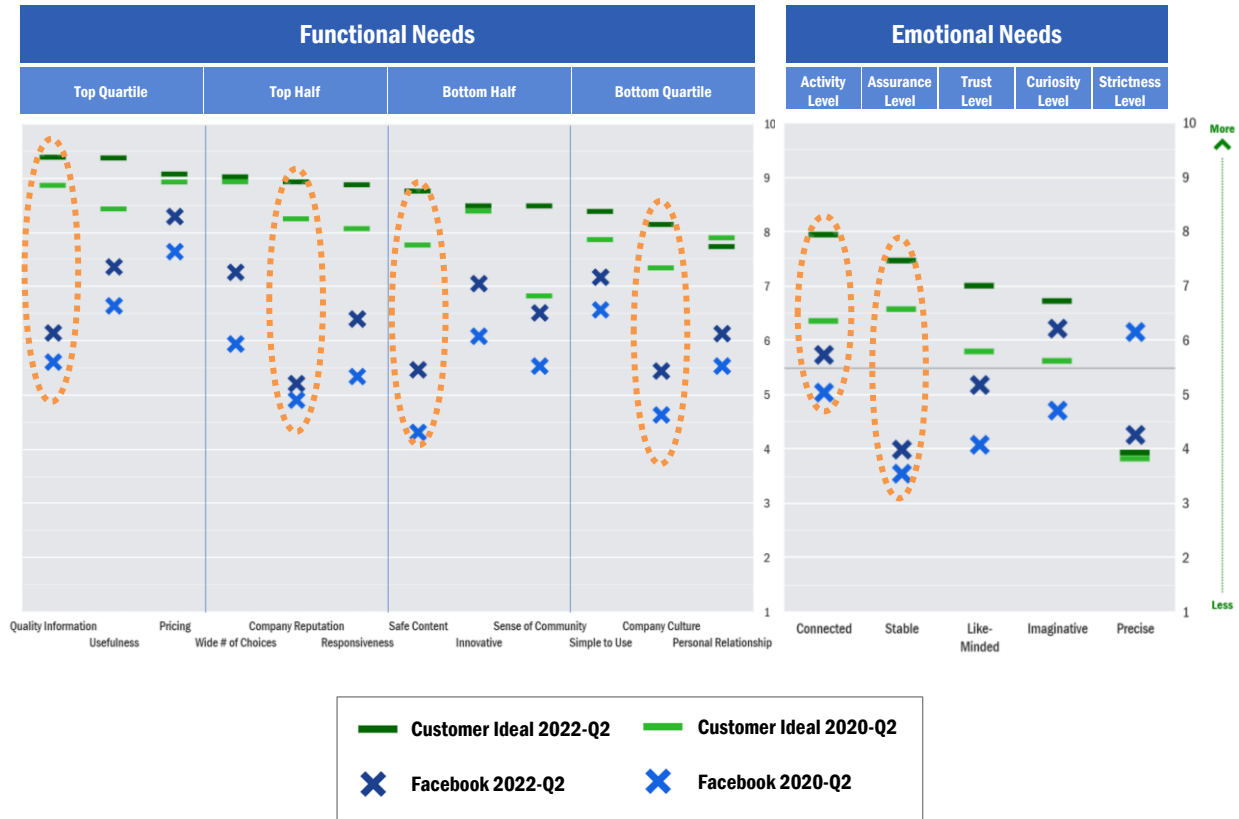
In the Facebook profile here, the lighter green bars and blue X’s represent Facebook customers in 2020-Q2. The darker markers represent customers two years later in 2022-Q2.

Across every single functional and emotional needs, users are more satisfied with Facebook today than at the start of the 2020 pandemic. The dark X’s have moved to show improvement in user perception.

But the green lines representing the customer’s ideal have also moved, and expectations are rising across all needs except for a few like Pricing, Innovation and Personal Relationship.

**This illustrates quite the conundrum for the FB executive team: User expectations are shifting higher more rapidly than user satisfaction is improving.** This means the gap in what users desire and what Facebook delivers continues to remain large (~2+ points).

Gaps are especially large for Quality Info, Safe Content, Culture, Reputation, Connection and Stability.



# Competitive Profile: Facebook vs. Google & Twitter

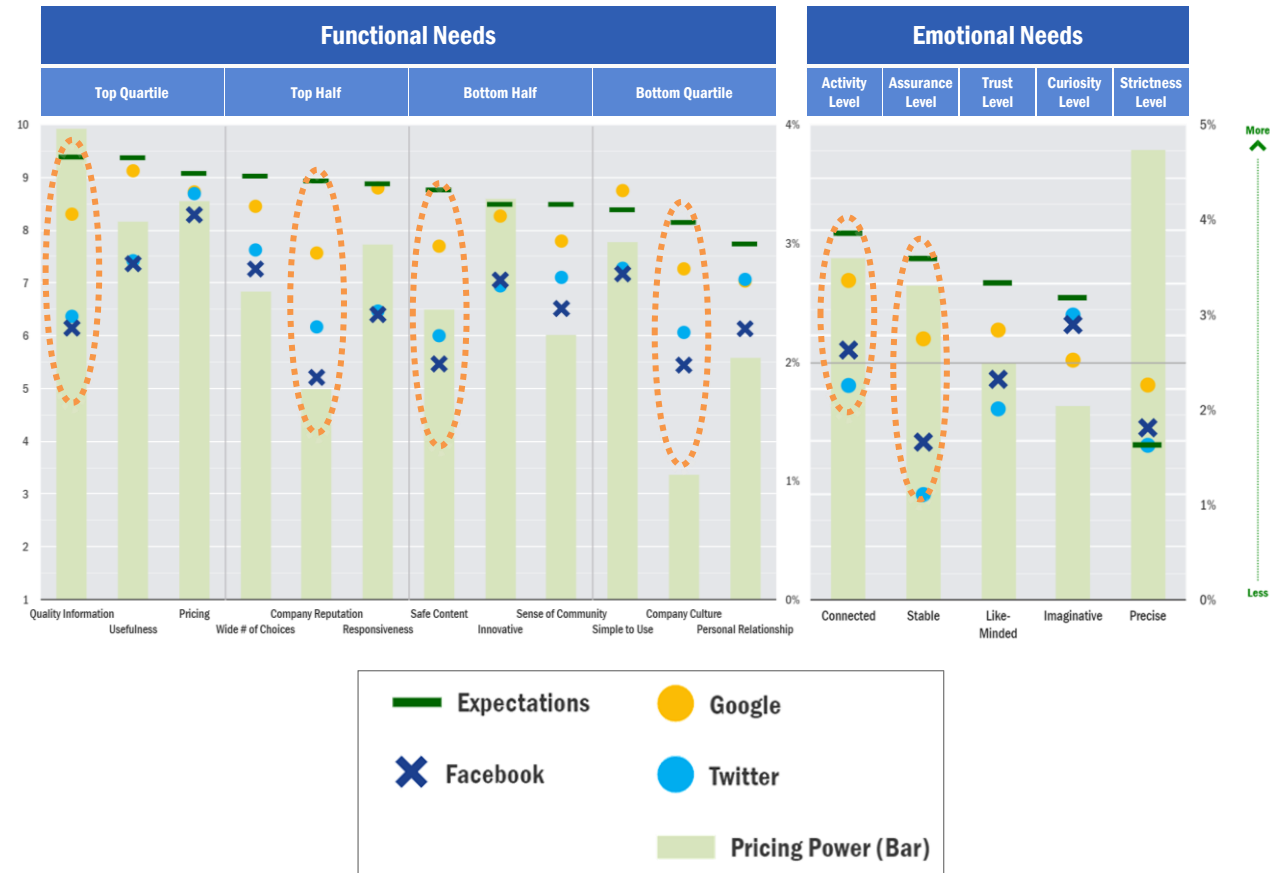
Over time, customer value can drift or shift to change the competitive landscape within an industry. Even prior to the pandemic, media companies were having to chase the value curve in order to meet the needs of consumer demand. Some companies have done better than others.

Executive teams at both Facebook and Twitter face almost identical challenges: They lack any compelling value beyond “free” (i.e. Pricing).

Both executive teams need only to look at a key media competitor that is also “free” for answers: Google. **Across virtually every functional and emotional need of users, Google performs far superior to Facebook and Twitter** (although Twitter slightly outperforms FB on a few needs).

Google’s dominance in online search is well-recognized, although the company is not without scrutiny in how it displays results (anti-competitor bias) and consumer demand for privacy. Yet, Google has weathered the storm better than its media counterparts.

Where do users see value from Google? To start with, Google has highly useful products that are simple to use and responsive. In turn, this drives a deeper connection with its users, which is something both Facebook and Twitter currently lack.



Data as of 2022-Q2

Customer Expectations and Pricing Power data are unique for Facebook, and cannot be applied to the overall industry.

# Predictive Power: Facebook

Using predictive analytics, we look for patterns in customer perception by comparing them to key metrics that drive company growth. Typically, we define growth as revenue and profits but it can also be internal operating metrics.

Once we discover a pattern, we can then calculate its predictive power, which is what most executive teams want to know. Analytics with predictive power give us confidence that decisions we make today to drive improvement will actually drive future revenue/profit growth.

**[Strictness Level chart]** Since early 2020, users believed Facebook (blue line) was far too strict in how they operated. Pricing/Usage Power (light green bars) was abundant if they could better meet expectations (dark green line).

**[Predictive Analytics table]** Facebook's move towards more flexibility will contribute to revenue over the next three quarters, assuming they maintain their performance levels. **But to turn user perception around, FB executives must improve their simplicity and the quality of information within their user communities.**

**[Activity Level chart]** This is not an easy task though as user needs and desires for connection continue to rise, while Facebook's activity levels remain relatively stagnant and are not matching expectations.

Satisfaction Averages	Impact					Average Impact	Pricing Power Q2
	Revenue TTM	1-Per in Future	2-Per in Future	3-Per in Future	4-Per in Future		
Precise	0.20	0.59	0.92	0.81	0.21	0.55	4.74%
Simple to Use	-0.54	0.36	0.85	0.82	0.38	0.37	3.02%
Quality Information	-0.64	0.15	0.71	0.93	0.93	0.42	3.97%

Relationship Strength	
Very Strong Correlation (0.8 to 1.0)	Dark Green
Strong Correlation (0.5 to 0.79)	Light Green
Mild Correlation (0.3 to 0.49)	Lightest Green
No Correlation (Below 0.3 or negative)	White

