

## COMMENTARY

HOWARD YU AND ZURIATI BALIAN

# *How to avoid melting down like Facebook*

What you learn from one industry can be relevant to a seemingly unrelated one. At US\$600 billion, Facebook's operating company, Meta, found itself single-handedly pushed out by Apple. At the last company earnings announcement, Meta foresaw a loss of US\$10 billion in revenue in 2022 due to Apple's privacy change in iOS. Its share price promptly collapsed by more than 20 per cent and has yet to recover. But this is a lesson not only for chief executive Mark Zuckerberg. It also relates to other industries such as fashion.

At the heart of Meta's woes is its total dependence on Apple iOS. When Apple started asking users to let their apps track their visits and clicks elsewhere, only 27 per cent of users agreed. That means Facebook doesn't get as much behavioural data as it did in the past. Ad targeting has become less effective. As a result, the merchants advertise on Google, TikTok, Snapchat, Pinterest or directly on Amazon instead.

The vulnerability of Meta exposes the importance of direct access to end users. Google's search engine, for one, doesn't rely exclusively on iOS. It runs Android as an operating system and Chrome as a browser. It doesn't merely sit on top of iOS or Windows Explorer. Google's strategy is to control its own destiny. As for Amazon,

it runs sponsored ads on its own website and relies mostly on direct shopper data or data from its Kindle and Alexa devices.

What we see here is two types of growth: shallow and deep. Zuckerberg is best known for his relentless pursuit of scale. He set up a growth team and drove it to come up with every feature possible to attract new users. Over time, executives at Facebook became used to acquiring new users indiscriminately. They failed to develop a deeper relationship with their users.

Meanwhile, Amazon has branched out to the AWS and Prime membership. Netflix has built up its own studio content. Google has evolved beyond a search engine. Microsoft Corp has turned software into subscription, going into cloud technology and games.

You see the same thing in the fashion industry. From Under Armour to H&M, everyone wants growth. You open more stores, give more discounts, buy more online ads and strike up another celebrity endorsement. Achieving shallow growth means spinning the existing wheels faster.

Alternatively, you can go deep with your customers. You can use 3D printing to work directly with professional footballers on boot design. You can install rotating art exhibits in your own retail stores, run workshops and give lectures and digitally led trial sessions.

Nike does all of these, going even further than an Apple Store. The top floor of the Nike House is only for members of NikePlus. The mobile app opens exclusive items, arranges for personalised products and even allows people to book private sessions with athletes. It's an immersive ecosystem that merges mobile and the physical. It's the pursuit of deep meaningful growth.

Nike has long resisted selling through Amazon. Amazon may offer the advantages of delivery speed and scale in reaching a wide audience, but partnering with it means losing control over how Nike is represented online. More fundamentally, working with Amazon would take away Nike's focus on getting products to consumers faster while still selling to them directly.

Strategy is destiny. The path towards direct-to-consumers and eliminating dependency on middlemen is long and tiresome. It takes a long view in the pursuit of deep growth. Apple didn't catch Facebook by surprise. Facebook simply chose the easy path for growth for too long.

Howard Yu is the LEGO chair professor of management and innovation at the IMD business school in Switzerland. Zuriati Balian is the data scientist intern at IMD's Centre for Future Readiness