

Measuring Facebook's economic impact in Europe

Executive Summary

January 2012

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Facebook embodies a new generation of social media organisations who have significant global impact and create economic value through enabling ecosystems. This enabling basis means that traditional narrow measures of economic impact are limited and it is critical to consider the broader impact of Facebook in allowing other parties to create value across the economy. To consider the nature and scale of these impacts Facebook commissioned Deloitte to estimate its economic impact across the 27 Member States of the European Union and Switzerland (EU27*) in 2011.

The central estimate of gross revenue enabled by the activities of Facebook is €32 billion. This revenue converts into an economic impact of €15.3 billion and supports 232,000 jobs.

Defining and measuring the economic impact of Facebook

Facebook creates economic impact¹ through both *narrow* effects, caused by its day-to-day activities within Europe, and *broad* effects, accruing to third parties as a result of the Facebook ecosystem.

Facebook's *narrow* economic impacts are the sum of three economic effects:

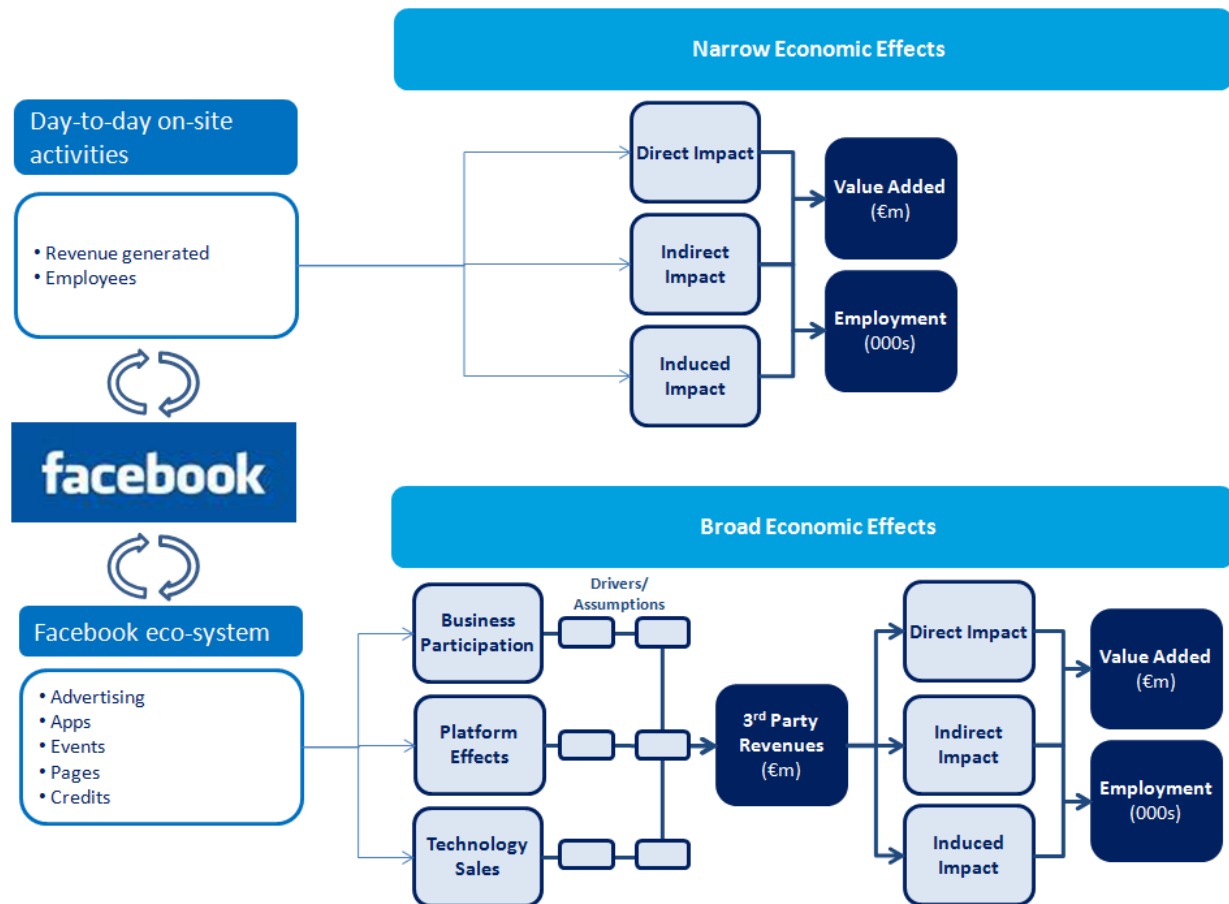
- **Direct effect:** spending by Facebook on its employee wages, on paying taxes, and the profit generated from its activities in 2011.
- **Indirect effect:** value created in associated supply-chain industries resulting from the supply of inputs to Facebook.
- **Induced effect:** value created from spending in the overall economy as a result of direct and indirect effects from the generated economic activity of Facebook and associated industries.

However, internet-based businesses, such as Facebook, are able to enable broader economic activity across a series of economic agents even though they have a small physical footprint. Such *broad* economic impacts can be expected to be far more significant for these types of businesses when compared to the *narrow* economic impact created by traditional businesses. In particular, Facebook is found to have significant impacts upon:

- **Business Participation:** enabling businesses to raise awareness of their products and therefore generating new sales through Facebook business pages, which lead to referrals to websites and brand value supported by *likes*, as well as through paid advertising.
- **Platform effects:** developing a focused specific App community and enabling more frequent and larger *social activities* among users.
- **Technology sales:** boosting the demand for technology through increased sales of devices and broadband connections.

The relationship between the *narrow* and *broad* economic impacts of Facebook is summarised below.

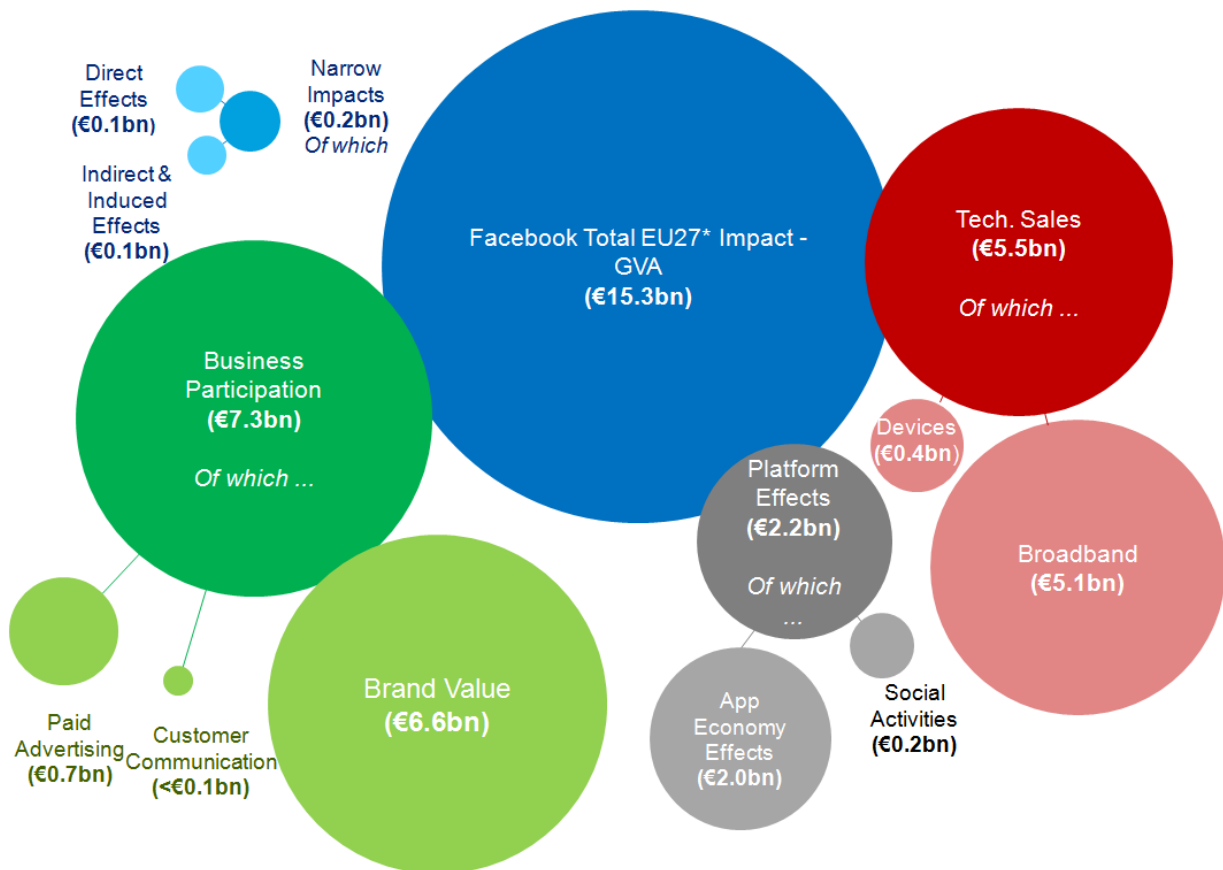
¹ Economic impact (including narrow and broad effects) refers to the total contribution Facebook makes to the economic output of Europe measured in terms of Gross Value-Added (value added) and jobs created. Value added itself represents the value added by an activity at each stage of production and is analogous to GDP contribution.



All economic impact and employment results in this study are *additional*. They represent value created in respect of Facebook users and associated value in the supply chain. Additionality measures the extent to which economic activity can be attributed to Facebook (measured as jobs and additional income) rather than representing displacement/cannibalisation of existing economic activity (for example, through simply transferring where income is spent or redistributing employment between sectors). Additionality is a way of attributing reasonable value to Facebook, but it does not necessarily mean causality.

Facebook's European economic impact

The central estimate of the gross revenue enabled by Facebook in its ecosystem in the EU27* across both *broad* and *narrow* effects is €32 billion in 2011. This revenue is then converted into an economic impact of €15.3 billion as well supporting 232,000 jobs. The sources of this impact are summarised below.



Source: Deloitte estimates

Facebook's *narrow* effects create an estimated €214 million of economic impact and support circa 3,200 jobs. This impact is, however, dwarfed by the contribution of the *broad* economic impacts the platform allows others to make to the economy of Europe. These *broad* effects equate to €15.1 billion of economic impact and allow Facebook to support around 229,000 jobs.

Of these *broad* effects, the impact on business participation where Facebook enables other businesses to advertise, promote their brand, raise awareness and therefore generate new sales is by far the largest and is responsible for nearly half of the company's overall economic impact. Much of this effect is associated with the brand value created for organisations through the social links prevalent on Facebook and the new ways of engendering interest and loyalty that Facebook provides. In particular, small businesses benefit from such a developed Customer Relationship Management platform that is free at the point of use.

Platform effects, notably the *app economy* servicing the Facebook platform and *social activities*, represent 19 per cent of the economic impact of Facebook. The majority of these platform effects (€2 billion) come through activity in the *app economy*, with European firms such as Wooga and King having a major presence. *Social activities* include the positive economic effects of additional and larger events organised through Facebook.

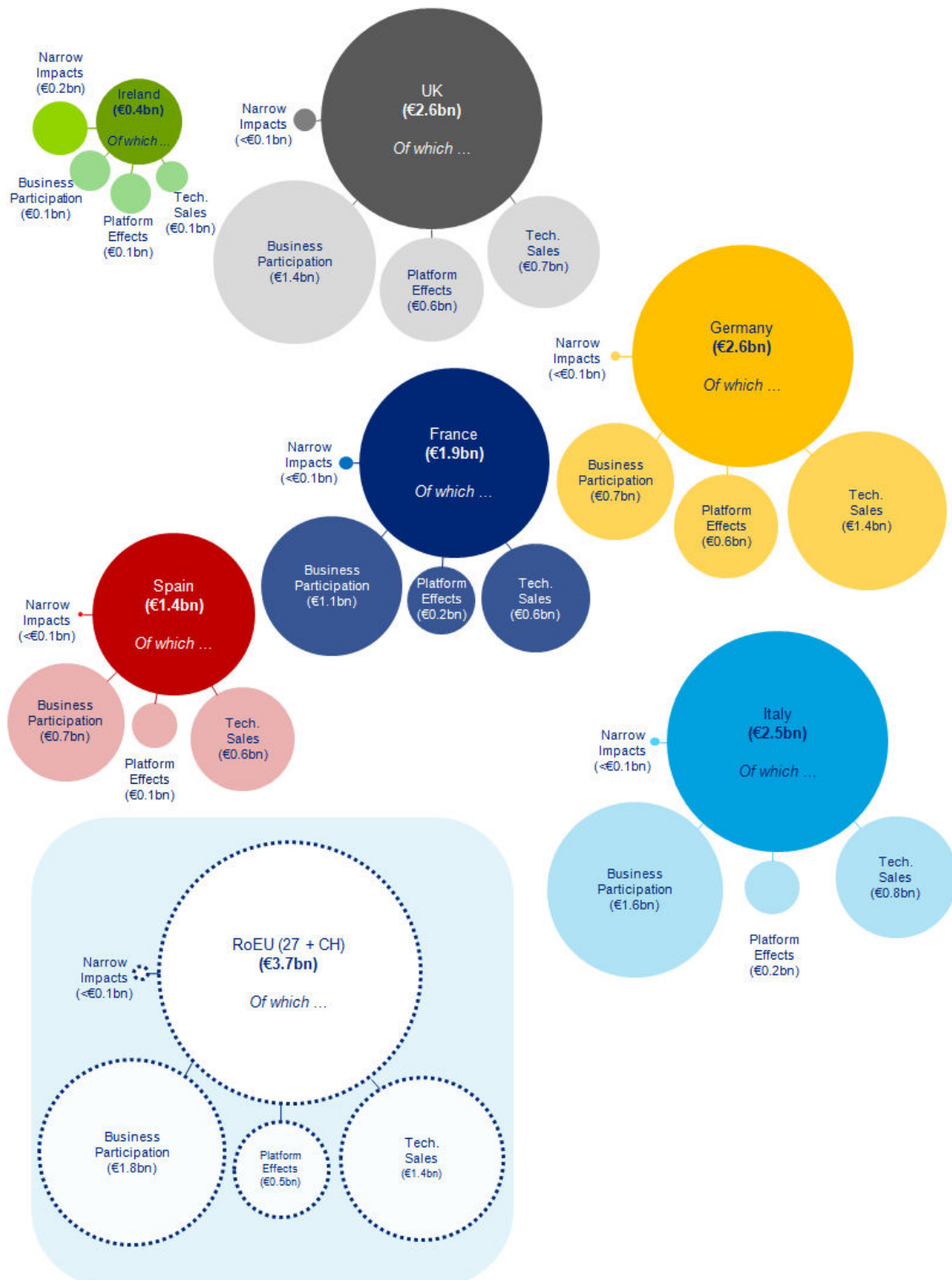
Finally, additional sales of devices and network capacity to facilitate the use of Facebook amongst European users are estimated to represent 36 per cent of total Facebook economic impact. The majority of this is from induced usage of connectivity.

Employment effects are largely reflective of the relative scale of economic impacts. Estimates suggest that over 111,000 jobs are associated with increased business participation; 32,900 jobs associated with platform effects; and 85,300 associated with induced technology sales.

Economic impact at the country level

Over three-quarters of the *narrow* economic contribution of Facebook comes from Ireland as the company has a significant operations centre located there, with the UK accounting for a further 15 per cent of the *narrow* impact due to the location of circa 100 employees there.

However, when both *narrow* and *broad* effects are considered, the economic impacts of Facebook are concentrated in the larger European economies / population centres, with the UK, Spain, France, Italy and Germany accounting for 73 per cent of the total economic impact of Facebook across the EU27*.



Source: Deloitte analysis

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