

KEN FIREMAN: I'm Ken Fireman, the managing editor for SAGE Business Researcher, and I'm speaking with David Milstead, who has written our report on Facebook's damage control problems. Thanks for joining us, David.

DAVID MILSTEAD: Thank you very much for having me.

KEN FIREMAN: There's an often quoted saying that if you're not paying for something you're not the customer, you're really the product. How exactly, does that apply to Facebook? And if it does, who is the real customer?

DAVID MILSTEAD: Well, the people who use Facebook-- a lot of them obviously get a lot of enjoyment out of it, because they're on all the time and posting all the time. And Mark Zuckerberg has been adamant that, oh, we're not going to charge for Facebook. And people may wonder why they can get so much out of it and not pay for it. And that's because they are providing information about themselves, about what they like and dislike and their interests, and Facebook is assembling all of that into a massive database of information about the users, and then taking that to the advertisers and selling ads that are being targeted in ways that were just unthinkable 20 years ago.

So someone who is using Facebook to share things with their friends may think they're the customer, but really, the information about them is the product. And more cynically, you could say they are the product for the advertisers who are trying to reach them.

KEN FIREMAN: And the advertisers are the real customers in this--

DAVID MILSTEAD: Absolutely.

KEN FIREMAN: --in this construction? Right.

DAVID MILSTEAD: Absolutely.

KEN FIREMAN: OK. One of the more interesting things I thought that you pointed out in your report is that the things that got Facebook in so much trouble in the 2016 presidential election are practices that lie really, at the heart of the company's business model, and that that makes Facebook different from some of the other companies that have faced PR firestorms recently like United Airlines and Wells Fargo, right?

DAVID MILSTEAD: Yeah. Absolutely. I mean, one of the scandals that Facebook's had to deal with regarding the use of political advertising during the 2016 election by Russians or other non-U.S. folks-- every account of what happened there suggests that the political advertising was very effective. The efforts to create events and target people who are interested in those events-- political rallies-- it seemed as if the Facebook process found people who were absolutely perfect for the messages that were being sent. So a lot of these scandals actually demonstrate that Facebook's business model works exceptionally well, and even in the case the scandals, was working well.

KEN FIREMAN: You cite several observers as being quite critical the way that top Facebook executives like Mark Zuckerberg and Sheryl Sandberg handled the situation that arose when things became controversial and heated, and one of the guys who you quoted quipped that "they seem to be hiding in caves in Kandahar," which is a pretty compelling image. What do these critics say they should have done differently?

DAVID MILSTEAD: Well, there's a lot of things that we certainly know in retrospect that could have been done differently. One is that we learned that they knew about some of these problems a long time ago and tried to deal with them quietly, and didn't tell the users that some of their information had ended up in the wrong hands, so to speak. And then when it did become public, and we began to learn a lot more about this in 2018, Mark Zuckerberg and his chief operating officer, Sheryl Sandberg, were not out in front of the public immediately. The company's response was seen as slow.

They got into an argument about the terminology as to whether this was a data breach or not. And people don't really care about that language. What they just heard and knew was that their data ended up somewhere that it wasn't supposed to be. They didn't want to hear an argument about whether it was technically a breach under some sort of technology standard.

And so a lot of people point to the classic PR crisis-communications model of Johnson & Johnson, who had a serious problem with Tylenol 35 years ago, where it had been poisoned and people died. And Johnson & Johnson got right out there, pulled the product completely off the shelves, and top people at the company were out in front from the very beginning. And the equivalent would be for Facebook to pull all political advertising, which some people have suggested, and Facebook hasn't done that. So whether they should or not-- that's a matter for debate, but they certainly haven't done what Johnson & Johnson did.

KEN FIREMAN: So untransparent and tone deaf-- would those be two words that could sum up what the problems are?

DAVID MILSTEAD: Those would be two good words that have been used frequently in the last several months.

KEN FIREMAN: OK. What's Facebook's ultimate potential exposure here? What ill effects could Facebook suffer both near term and longer term from the fallout here?

DAVID MILSTEAD: Well, and the big question is going to be, how much the users continue to engage with Facebook. And we will see, as 2018 continues, from the data about users, whether people disengage. Certainly, some have. The hashtags about leaving Facebook suggest that some number of people have, but will it really be enough to make a dent in the model?

The other that they face is potential regulation. And I think that the -- already Europe, which is much less receptive to social media and the lack of privacy on the internet-- Europe has already crafted standards that went into effect earlier this year that affect how American companies operate in the US to some degree. The United States will probably never regulate Facebook as much as Europe may try to. But it's quite possible that they will face some increasing level of rules and regulation that they just simply haven't had before.

KEN FIREMAN: Right. So it seems unlikely that Facebook will emerge unscathed from this even if most of their users stick?

DAVID MILSTEAD: Right. Right. I mean, Facebook will have to deal with the new environment where they will have to face more scrutiny, more regulation, look at their actions more carefully, and look at their relationships with their users more carefully.

KEN FIREMAN: What's the most surprising thing you learned in preparing this report?

DAVID MILSTEAD: I think that I was surprised a little bit at the inability to deal forthrightly with some of these things, and the decisions to not get out front about some of them, because they run a company where people are sharing information constantly. And for them to turn around and think that something of that nature could happen to them and no one would ever know about it-- it is really remarkable. Because that's one of the guiding ideas of public relations-- get out in front and describe your problem before other people describe it for you and control the narrative.

And there are other companies that may not understand that as much, but Facebook is in the

information sharing business. If anyone, they should have figured out that once this sort of thing got out it would be shared.

KEN FIREMAN: Yes. Well, fascinating stuff, and a really interesting report. Thank you for doing it. I've been speaking with David Milstead, who has written a report for Sage Business Researcher on Facebook, and its recent problems. Thank you very much, David.

DAVID MILSTEAD: All right. Thank you very much for having me.