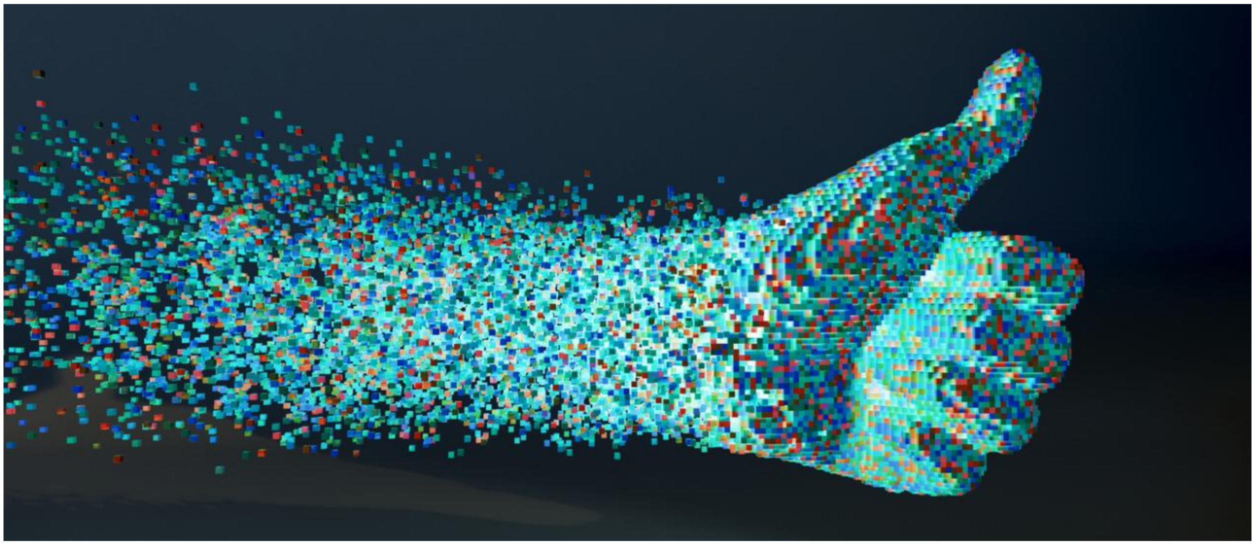
Why Facebook Is Rebranding Itself as Meta



By Klaus Wertenbroch , INSEAD

Is the tech company dodging bad publicity or creating a gatekeeper economy?

Companies sometimes rename themselves following mergers or corporate restructurings. For example, in 1996 Ciba-Geigy and Sandoz merged to form Novartis.

At other times, a renaming serves to insulate a business that's subject to increasing regulatory constraints or whose brand image is suffering. For instance, Philip Morris USA, Philip Morris International and Kraft rebranded themselves as Altria.

As companies change names for different reasons, what was behind Facebook rebranding to Meta?

According to Interbrand's **annual brand value ranking**, the Facebook brand dropped to 15th place in October 2021, with an estimated brand value of US$36 billion. It had last ranked 15th in 2016, before peaking in 8th place in 2017. Meanwhile, the brand values of Google, Microsoft, Amazon and

Apple reached between US$200 billion and US$400 billion.

The leak of Facebook data to Cambridge Analytica and recent revelations by whistle blower Frances Haugen have damaged the Facebook brand. Perhaps more importantly, these scandals have increased regulatory pressure and the risk of future restrictions on the platform's business model.

This model relies on the company's ability to offer precision-targeted advertising based on user data. Adding to the problems, other gatekeeping technology companies, such as Apple (**beginning with iOS 14.5**), have started to make tracking consumers across apps more difficult, by asking users for explicit permission to track them.

Facebook's weakened ability to track users lowers returns on its customers' advertising spending and therefore impacts its revenues. Facebook is not the only firm concerned by the disruption of this business model — Snapchat's third-quarter 2021 earnings **missed investor expectations** for this reason.

Making the name Meta stick

Whether Meta will stick as a brand depends on how the company will use the new name. For example, think of Alphabet, which is a holding company, not a consumer brand. As such, it hasn't become a household name. Meta will be less likely to stick if it is not attached to a product or service. It needs to become a brand that is relevant to consumers.

Mark Zuckerberg, founder of Facebook/Meta, has linked the new brand name to his strategic plan to create a metaverse — a virtual world in which consumers spend increasing parts of their lives, based on AI and virtual reality (VR) technology. This is an important new phase in the digital world.

An early example of such a virtual world is Second Life, which started in 2003. Users create avatars (i.e. online characters) to interact with others and earn and spend a virtual currency. VR is used in online games and in a variety of other domains. For instance, INSEAD experimented with building the world's first **virtual campus on Second Life** as early as 2007. Today, INSEAD Professor Ithai Stern uses VR as a teaching platform.

What is Meta's interest in VR? The commercial potential will depend on how much time consumers want to spend in the metaverse. It may be more alluring than it sounds right now because the technology will improve to make VR and its interaction with the real world ever more authentic.

Compared to Second Life, Meta has a much better chance to attract consumers. First, VR technology is much more advanced. In addition, the firm can leverage the global user base of Facebook, Instagram and WhatsApp. The size of Meta's ambition is fuelled by its advertising and commercialisation-based business model.

Meta's potential in the gatekeeper economy

Some of the key benefits of a VR-based metaverse are convenience and … realism. For example, using VR in teaching helps INSEAD students immerse themselves in different countries without getting on a plane. If consumers enjoy living their lives vicariously from their living rooms, then VR will catch on. The more realistically a metaverse allows us to work, learn, socialise, play, consume and be entertained, the more time we will spend in it.

Meta's metaverse is envisaged to be a virtual world easily accessible from multiple smart devices to increase and intensify "engagement", a crucial objective for tech companies whose revenues derive from digital commerce and advertising.

It competes with other big tech companies for consumers' attention and engagement. Meta/Facebook engages us through social networking. Google engages us through search and entertainment on YouTube. Amazon engages us through shopping and entertainment. The key is to gather vast amounts of user data – tech's most valuable resource – to better personalise offers, using complex machine learning tools and AI.

A completely virtual world may engage consumers so effectively that they will spend much more time in it than on any of the main platforms today. Because the metaverse will function as an alternate reality, consumers may never have to leave, nor want to. As such, they may generate more user data than any of the large online platforms can currently gather.

Meta can exploit this massive database to target consumers with precision and send them to virtual stores. Brands will have to rent these stores – soon an essential distribution channel – from Meta, much like brands have had to rent store space in shopping malls because that was where consumers spent their time.

The metaverse might thus become indispensable real estate, in which companies must interact with their customers, be they consumers or business clients. And Meta might be able to control – and charge for – other companies' access to customers much more comprehensively than any other big tech company has to date.

As such, there is a good chance that Meta will become a dominant player in this extension of the digital space, creating an alternate reality that one might call the "gatekeeper economy".

In the end, Meta's dominance as a gatekeeper will depend on two things. First, if its metaverse successfully shifts consumer attention away from competing platforms such as YouTube or Amazon, then other tech companies may have to create their own virtual worlds as well to engage us more fully. These companies will then have to compete for user attention with ever more realistic and enticing metaverses of their own.

Second, which regulatory constraints will Meta face? At this time, I expect regulators will have a tough time anticipating the regulatory needs of virtual worlds where large tech companies vie to become the gatekeepers of economic activity.

Two sides of the same coin

Whether you believe that the metaverse is fantastic marketing or utter dystopia, these two perspectives are two sides of the same coin. Attracting consumers to a world that they never want to leave will allow Meta to collect and monetise ever more data without having another company control its access to this data. The dystopian aspect is that consumers' inner lives — their preferences and beliefs — will be ever more transparent to, and influenced by, Meta. The metaverse may thus come to resemble the world of Walden Two, B. F. Skinner's 1948 novel, in which people happily get what they want, blissfully unaware that they've been behaviourally engineered to want those things.

If these ideas seem to reflect an alternate reality, consider another company that is already hard at work at economic gatekeeping: Apple. As noted above, its iOS is now designed to protect consumers' privacy by making it difficult for other companies to track them. Yet Apple can continue to collect and exploit these same data. Is that real privacy or simply a move to block Apple's competitors? Other technology companies appear to be moving in the same direction.

Facebook's rebranding as Meta may just be a key step in getting ahead of the competition in the next economy.

Find article at

https://knowledge.insead.edu/marketing/why-facebook-rebranding-itself-meta

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