



Figure 4: An Oculus virtual reality headset

In 2004, entrepreneur Mark Zuckerberg started *Facebook*. Then, in 2012, the company floated on the stock exchange and became a public limited company (plc). By 2020, *Facebook* plc had become the largest social networking website in the world with 2.5 billion users and advertising revenues of \$70.1 billion.

The company has used internal and external growth to expand. Between 2012 and 2020, *Facebook* purchased over 60 different companies, including WhatsApp, Instagram and the virtual reality company, Oculus. However, *Facebook* wants to reduce its reliance on revenue from advertising on its websites and sees its future growth coming from new markets such as selling virtual reality headsets. *Facebook* believes that social media is now reaching the maturity phase in its product life cycle in most of its main markets.

In 2020 *Facebook* decided to give employees in its European headquarters in Dublin the option to work from home. *Facebook* believes that remote working will not result in lower productivity. It also believes it will allow *Facebook* to attract talented people such as coders, graphic designers and software engineers who cannot afford to live in expensive locations such as Dublin. *Facebook* believes that having less office space will reduce costs and give the company a competitive advantage against its rivals such as Snapchat and Twitter.

Facebook (2023 P2) - 9 marker exemplars

In order to increase its profit, *Facebook* is considering two options:

Option 1: grow internally

Option 2: grow externally.

(d) Justify which **one** of these two options *Facebook* should choose to increase its profit.

(9)

Facebook should grow internally by innovating its products. This is because Facebook recognises that growth in its revenues from social media is limited due to social media being in the maturity phase of the product life cycle. This leads to pressure on Facebook to innovate and develop new products within the 60 companies they have bought, such as virtual reality headsets, where the market is growing faster, therefore allowing Facebook to continue to potentially increase profits despite slowing sales of advertising on its apps.

However, internal growth would be slower for Facebook to achieve. This is because it takes considerable time and resources to develop new products outside of their existing range, leading to Facebook potentially losing out to rivals who could be quicker to develop the VR technology they are looking to achieve. Therefore Facebook runs the risk of spending time and money creating a product that does not have a competitive advantage and generates losses as customers buy products from rival firms.

Overall Facebook should pursue internal growth through innovation of products in newer markets. However this depends on whether Facebook has enough retained profit to fund the research and development of the new products, as the process of research and development can be very costly with no guarantee that the final product will be a commercial success.

Growing externally will allow Facebook to quickly enter a market where there is sales growth. This is because their current reliance on advertising means that they can't easily grow in that market, leading to them being able to gain more revenue from markets different to their original one, such as the virtual reality headset market. Therefore they will be able to increase sales, and hopefully profits, by entering markets that offer faster growth in the future.

However, growing externally is costly. This is because it involves taking over other businesses by buying more than 50% of the share capital, leading to more spending of retained profits to do this when they already have purchased more than 60 other companies so far. Therefore this option could reduce their retained profit that could be

used to develop existing products which would have had a greater impact on profitability.

Overall, Facebook should grow externally to increase profits as this will enable them to buy companies that may operate in markets with high growth potential. However, this depends on them being able to best identify the companies that are developing products deemed to have high potential, such as VR headsets.