Facebook and the creation of the metaverse: radical business model innovation or incremental transformation?

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Abstract

Purpose – In a move characterized by ambiguity, Facebook changed its name to Meta in October 2021, announcing a new era of social interaction, enabled by the metaverse technology that appears poised to become the future center of gravity for online social interactions. At first glance, the communicated change signals a radically new business model (BM) based on an unprecedented configuration of the three following components: value creation, value proposition and value capture. The purpose of this paper is to analyze Facebook's announced changes in its BM to clarify whether the change is as radical as communicated or rather represents an incremental transformation of the current BM.

Design/methodology/approach – This investigation adopted an in-depth case study research method. The process included using a structured approach to collect 153 data points, including academic studies and publicly available information, followed by qualitative content analysis.

Findings – The results of our analysis of Facebook's entrepreneurial journey indicate that the communicated strategic refocusing does not correspond to a radical BM innovation pattern. Even though Facebook's BM might evolve into the innovation phase, as the current changes appear very futuristic, the authors estimate that the core elements of the BM will change incrementally. The investigation indicates that the underlying logic of the straightforward communicative efforts primarily serves two purposes: to improve the external perception of the company and to disseminate an internal change signal within the organization.

Originality/value – This paper is the first study that takes an entrepreneurship and BM perspective in analyzing Facebook's approach in rebranding to Meta and refocusing its strategy on building the metaverse. The academic and practical relevance, as well as the potential future impact on business and society, makes the investigation of this case an intriguing prospect. Additionally, the study illuminates the difference between the communicated vision and the real impact on the business, suggesting critical questions about future large-scale rebranding efforts and their effects.

Keywords Business model innovation, Metaverse, Facebook, Meta, Case study

Paper type Research paper

Introduction

A new artificial name that arouses interest, a modern, innovation-signaling logo, and a CEO announcing that the entire business will radically change: such a combination of events may

be unusual but is not unprecedented in the world of business. This was the case in 2003, representing a last-ditch effort on the part of the tobacco giant Philipp Morris after years of negative publicity highlighting unhealthy practices and fraudulent claims in a rebranding to "Altria" applied without significantly altering its business practices (Cordasco, 2003). Almost two decades later, this innovative entrepreneurial act appears more modern than ever in light of recent events. On October 28, 2021, Mark Zuckerberg, the CEO of the "social network of the world" (Read, 2013, p. 193), Facebook announced a name change to "Meta" while elaborating on a new vision that entailed building up the "metaverse," a three-dimensional space representation based on virtual and augmented reality (Choi and Kim, 2017). At first glance, the new name and a far-reaching vision appear to be an innovation, suggesting a significant impact on the company's overall business model (BM).

BMs have developed as a critical tool for commercializing innovations by providing a framework that a company can use to create and capture value from technological developments or innovative ideas (Chesbrough, 2010; Osterwalder *et al.*, 2005; Teece, 2010). Following their recognition as critical drivers of innovation, BMs in themselves have become a differentiation factor in the competitive landscape. Nevertheless, even a well-established and currently profitable BM cannot be seen as a permanent fixture, considering the dynamic, constantly changing environment that companies face (Chesbrough, 2010). In practical terms, researchers are increasingly identifying a company's ability to change its BM before being forced to do so by external pressure, especially in volatile contexts, to be a critical source of competitive advantage (Hamel and Valikangas, 2004). The understanding of the need for a constantly changing BM has increased the scholars' focus on *business model innovation* (BMI) and has led to a burgeoning in the number of academic publications devoted to the subject (Foss and Saebi, 2017). Furthermore, some authors have referred to BMI as a viable way for organizations to adjust to changing sources of value generation in times of high environmental instability (Pohle and Chapman, 2006; Schneider and Spieth, 2013).

One example of a prominent corporation facing significant external pressure while at the same time experiencing high environmental instability is the social network giant Facebook. Over the last decade, social media use has skyrocketed: Facebook's platforms alone featured 2.9 billion monthly active members as of the third quarter of 2021, making this entity the largest social network in the world (Facebook, 2021a). Moreover, the company is not just the leading social network in the world, but after large-scale acquisitions followed by steep growth, it also currently offers the largest photo-sharing platform through Instagram, the most popular instant messaging service through WhatsApp (Statista, 2021), and the leading manufacturer of virtual reality glasses through Oculus (Mainelli *et al.*, 2020).

Despite this evident success, Facebook has recently faced several waves of criticism, undermining users' trust and generating significant negative publicity. Among the company's substantial problems was the Cambridge Analytica data harvesting incident, which became public in 2018, involving 87 million records that were used for advanced and decisive targeting purposes in the presidential campaign between Hillary Clinton and Donald Trump (Confessore, 2018; ur Rehman, 2019). The company also drew antitrust investigations (Srinivasan, 2019), aroused privacy and security concerns (Noman *et al.*, 2019), and became infamous for a toxic working culture and managerial shortcomings (Paul, 2021a).

Thus, the company's unforeseen announcement presented a new company focus, aiming "to bring the metaverse to life and help people connect, find communities and grow businesses" (Meta, 2021a). According to the company, now named Meta, the metaverse will resemble a mix of today's online social experiences in a three-dimensional space or projected into the real world (Meta, 2021a). As a technology, this new vehicle may significantly influence connections between the users and the platform by addressing the visual, auditory, somatosensory and gustatory senses while allowing for movement- and touch-based interactions (Studen and Tiberius, 2020). Accordingly, the company has defined its new

vision as going beyond a further development of the products or services, to the point of "ushering in a new chapter" (Meta, 2021a) for Meta.

From one perspective, Facebook's move to make use of technology as a driver for innovation might look promising; however, the "metaverse," including its underlying concept, does not fit the definition of an innovation in so many words. The term first appeared in Neal Stephenson's science fiction novel *Snow Crash* in 1992; moreover, academics have been writing about ideas such as "extended reality" and "virtual worlds" for decades (Dionisio *et al.*, 2013; Kelly, 2021; Lee *et al.*, 2021; Payne, 2021). The predecessor of the metaverse, *Second Life*, which was established in 2003, reached 57 million registered accounts in its own virtual world by its 15th anniversary (Voyager, 2018). On Second Life, users interact in various ways, such as sending instant messages, co-visiting destinations, attending multi-player games, or creating, selling and buying virtual artifacts. Despite its large userbase, the platform lacked to grow (Schultz, 2018; Voyager, 2018), and the factors that have led to diminished user growth in the case of Second Life remain unclear. One barrier might be the limited transferability of a user's existing network onto the platform, causing increased costs for users who wish to make the transition. Building on the hypotheses of virtual 3D interaction, validated by Second Life, this, in turn, could be a promising opportunity and advantage for Meta to transfer its existing userbase into metaverse, ultimately paving the way to new and transaction-based revenue streams.

In contrast, tech giants' ability to innovate and diversify their portfolio of BMs has been evident in their past actions. For example, in 2015, Google announced the re-formation of its parent holding company under the new name "Alphabet Inc." (Page, 2015). With this name change, the company indicated its diversification from a search engine toward a multi-business tech giant, offering navigation services, entertainment, and office and communication solutions, along with its engagement in mobility services and drone delivery, all of which take the form of 13 individual subsidiaries (Hartmans and Meisenzahl, 2019). While rebranding is a commonality between these two cases, Facebook is not as diverse in its fields of activities in that it focuses on one domain: connecting people across the globe. Thus, it might be questionable whether the recent move, involving risk and uncertainty, is a concise step toward innovation in terms of the existing BM.

The present article extends the current research about BMI in several dimensions. Because of the high empirical relevance and topicality, the Meta case is an excellent object for tapping further into currently underrepresented research regarding the trajectory of a BM and related innovation activities, including rebranding. The current literature tends to focus on defining BMI (Breier *et al.*, 2021; Filser *et al.*, 2021; Schneider and Spieth, 2013), identifying impacts on the BM (Baden-Fuller and Haefliger, 2013; Clauss *et al.*, 2020), or describing the necessity and benefits of BMI (Aagaard and Nielsen, 2021). Our study aims to contribute to the specific cross-section of BMI (Breier *et al.*, 2021; Christensen *et al.*, 2016; Clauss, 2017), the use of metaverse technology (Dionisio *et al.*, 2013; Goossens *et al.*, 2021; Javornik *et al.*, 2021; Jaynes *et al.*, 2003; Lee *et al.*, 2021; Massa *et al.*, 2017) and corporate branding (e.g. Balmer, 1995; Bergstrom *et al.*, 2002; Hatch and Schultz, 2003; Fisher-Buttinger and Vallaster, 2008). The overall objective of this paper is to enrich the understanding of the trajectories of BMs and their innovation and, specifically, the types of change that a BM may undergo. To achieve this goal, we will analyze the ambiguity of the current phenomenon via an in-depth case study to delineate whether the rebranding of Facebook to Meta can be characterized as a radical BM innovation or, alternatively, as an incremental transformation.

Theoretical framework
The innovation of business models
Scholars have discussed the topic of business development and innovation since the 1970s (Clauss *et al.*, 2020; Foss and Saebi, 2017; Greiner, 1972; Nielsen *et al.*, 2019). BMI has been

defined as a firm's attempt to develop, implement and sustain ways to create, deliver and capture value (Casadesus-Masanell and Ricart, 2010; Kraus *et al.*, 2020; Schneider, 2019). Thus, firms change their way of doing business by changing the architecture or configuration of the set of activities and relationships of components in a BM with an eye to serving (new) customers (Clauss *et al.*, 2020; Foss and Saebi, 2017; Muhic and Bengtsson, 2021). While some researchers have argued for commonalities between the product/process and BMI (Bucherer *et al.*, 2012) or the use of scenario techniques (Gnatzy and Moser, 2012), others have regarded BMI as an individual type of innovation aimed to secure the future existence of a firm (Baden-Fuller and Mangematin, 2013; Filser *et al.*, 2021; Massa and Tucci, 2014).

The BMI literature focuses on innovation and change while primarily examining *what* changes and to what extent (*how much*) in terms of value creation innovation, new proposition innovation and value capture innovation (Clauss, 2017). However, the success of BMI activities might not only depend upon *what* and *how much* is changed in the BM but may also reflect the aspect of *when* change happens (Johnson and Christensen, 2000; McGahan, 2004; Cliffe, 2011). In this case, the chronological order of innovation activities guides BMI. Based on this view, a variety of perspectives on change in BMs can be distinguished (Filser *et al.*, 2021; Schneider and Spieth, 2013). Among them, some contributions follow a process perspective (Demil and Lecocq, 2010; Wirtz and Daiser, 2018), characterized by an iterative trial-and-error process (McGrath, 2010; Sosna *et al.*, 2010) as well as a constant learning process (Chanal and Caron-Fasan, 2010; McGrath, 2010). While various companies' approaches to conducting BMI might differ, it can be concluded that a firm is required to engage in simultaneous BMI activities and thus explore and exploit new opportunities (Holmqvist, 2009; March, 1991; Markides, 2013).

From a holistic perspective on BM (*what* and *how much*) and BMI (*when* and *how*), painting a blurry picture of the trajectory of a BM. Represented by units sold, revenues made and profits realized, the trajectory describes the development of the business over time, which can be categorized in phases.

Among researchers' views of the development of a business and the respective phases, two perspectives have dominated to guide the examination of this topic: (1) the product or firm and (2) the industry. According to the first perspective, the product (Vernon, 1966) or the firm itself (Chandler, 1969; Greiner, 1972; Levitt, 1965) is the subject of observation. The underlying logic is that a business is created (phase 1), then grows with increasing production volumes and revenues (phase 2), reaches maturity when operations become efficient (phase 3), and ultimately declines (phase 4), with decreasing product volumes and revenues at the end of life. Other scholars have argued for the adjustment of a business in relation to the development of the industry it operates in McGahan (2004), Peltoniemi (2011), Tavassoli (2015). This industry perspective involves observing the number of (new) businesses, product volumes and revenues. In the first phase, where an industry might be characterized as being in its cradle, new companies enter the industry as they create and supply increasing demands. In the second phase, as the industry grows, more companies join. Eventually, growth rates begin to decline, revenues plateau and mergers happen as the industry attains maturity in its third phase. As an industry approaches the end of life, the number of companies decreases steadily, causing the industry to diminish.

Both perspectives, product-based and industry-based, serve to specify the development phases of a BM. The product life cycle can be adopted for the BM, including offerings, markets, and customer channels, customer relationships and revenue models. The industry's contextual factors, such as partnerships, technologies and cost structures, can influence the BM as well. However, independent of which parts of a BM change over time and taking all insights together into consideration, we argue for strong commonalities between the beforementioned life-cycle concepts and the development of a BM over time. Consequently, we propose the following four phases for the evolution of a BM and its performance expressed in profitability: (1) creation and

experimentation, where the business is created and experiments on the model configuration occur; (2) growth and expansion, where the business grows in revenue and the dominant model is established; (3) profitability and efficiency, where the business runs profitably and the model achieves the highest efficiency; and (4) innovation or discontinuation, where the model is innovated or it ultimately discontinues operation (see Figure 1).

The components of business models

BMs provide an abstract construct that conceptualizes how a company conducts business, reducing complexity and presenting the idea in a simplified way. According to Drucker (1994), every company has "a theory of the business" that explains why it gets paid. The literature strand on BMs has exploded, becoming an individual field of research in the last two decades (Foss and Saebi, 2017) and leading to the evolution of many definitions (Kraus *et al.*, 2020; Nielsen *et al.*, 2019). Following Osterwalder *et al.* (2005), "[. . .] a business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore, we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences" (p. 3). While researchers did not have yet to reach an agreement for mandatory components in a BM, they find unity concerning the question the models need to answer: *How does the business generate value for the customer and profit for the firm?* In simple terms, the concept explains what business does for whom and why and clarifies how profits are made (Boudreau, 2017; Chesbrough, 2007; Teece, 2010). One dominant BM concept integrates three dimensions to answer this question, defining the dominant logic for BMs as governing how value is (1) created, (2) delivered and (3) captured (Gassmann *et al.*, 2015; Kaplan, 2012; Spieth and Schneider, 2016). Considering BMI as a central activity for an entrepreneur seeking to secure the profitability of the firm, innovation in the BM is made along the three dimensions as (1) value creation innovation, (2) new proposition innovation (3) and value capture innovation (Clauss, 2017).

Clauss (2017) and Spieth and Schneider (2016) suggested that innovation activity in each dimension must be observed on a more fine-grained level of the BM. Therefore, every dimension can be disassembled and structured into BM components as follows: value creation innovation (new capabilities, technologies, partnerships and processes), new proposition innovation (new offerings, customers and markets, channels and customer relationships) and value capture innovation (new revenue models and value cost structures).
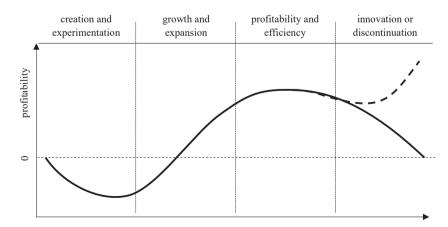

Figure 1.
Typical phases and evolution of the business model life cycle

Figure 2 illustrates the scheme we established in adapting the authors' concepts for our analysis.

Drivers of business model innovation. The lifespan of a BM is often limited. In particular, in a fast-paced environment such as the digital world, a previously successful BM may significantly decrease its ability to serve the customer base and lose profitability (Chesbrough, 2007, 2010). This situation compels companies to constantly search for new, optimal configurations of BM components even before they encounter pressures outside the organization that force them to do so (Hjalager, 2010). Adaptations of configurations have a positive impact on the performance of the firm and allow it to retain a competitive advantage (Teece, 2010). Especially in the case of environments that are characterized by major changes, research findings have indicated that the impact of BM innovations is significant (Breier *et al.*, 2021).

When BMI is viewed as an alteration of BM configurations, changes do not need to take place in all components simultaneously to have an impact on the success of the firm. For example, when the needed technology already exists and has a potential for success, firms can successfully opt for changing the BM configurations in the value capturing space, changing the revenue-generation mechanisms (Clauss *et al.*, 2020). However, some alterations are small calibrations leveraging other parts of the entire system and are therefore considered incremental (Muhic and Bengtsson, 2021). On the other end of the spectrum is a radical change in the configuration of components that consequently adjusts the entire incumbent BM significantly (Johnson and Christensen, 2000). In line with Clauss *et al.* (2020), we argue that modifications in BMs can differ in their extent and range from incremental changes to completely new and radical solutions.

The impelling reasons for these adaptations can be forces that are pushing or pulling entrepreneurial decisions in a certain direction, thus shaping the extent of any change as well as the new design of the BM (Lüdeke-Freund, 2010). Examples of pulling factors that influence BM include changes in institutional environments, significant industry and market shifts, and technological developments (Wang and Kimble, 2016). In addition, changes in a firm's internal resources and capability configurations, such as the organizational structure of a company, its culture, organizational inertia and leadership, may drive competitive advantage and consequently trigger the need for change in a firm's BM (Bashir and Verma, 2019).

Methodology

In this scholarly endeavor, we sought to best accommodate answering the research question regarding Facebook's decision to become Meta and its implications for the type of change to the company's BM by adopting a qualitative approach that offers great potential in the

Business Model Innovation		
Value Creation Innovation	**New Proposition Innovation**	**Value Capture Innovation**
New Capabilities	New Offerings	New Revenue Models
New Technologies/Equipment	New Customers and Markets	Value Cost Structures
New Partnerships	New Channels	
New Processes	New Customer Relationships	

Figure 2.
BMI and its
components

creation of understanding in complex environments (Massa *et al.*, 2017). Specifically, we chose the case study method for our investigation (Eisenhardt, 1989; Gustafsson, 2017; Yin, 2011).

To maximize the reproducibility and transparency of our findings, we employed a structured, systematic sampling strategy that used three sequential steps to discover data about Facebook/Meta. The first step involved developing a review protocol and identifying relevant types of publications. Second, doing the review required identifying and choosing data from the indicated sources, as well as extracting, synthesizing and discussing the data. Last came the reporting and distribution step, which concentrated on the conduction of the analysis and the observation of results, as well as evaluating the practical consequences of our findings.

Because we wished to guarantee that we would be able to explore the full scope of the data, we implemented the following collection method. First, we did a keyword search in the EBSCO Business Source Ultimate database using phrases such as "Facebook," "Meta," "Strategy," "Innovation," "Transformation," "Business Model" and "Metaverse." The search keywords were deliberately broad in order to encompass all pertinent information and lead to interesting results. For example, the search for the keyword "Metaverse" led to 20 publications in academic journals, including Dionisio *et al.* (2013), Gadalla *et al.* (2013) and Falchuk *et al.* (2018). Next, we used the same or comparable search terms to search additional databases (ScienceDirect, JSTOR and Google Scholar). The third step involved carefully scanning all annual and quarterly reports, along with press releases and the corporate website published by Facebook/Meta. Fourth, we conducted a keyword search in two leading Internet search engines (Google and Bing) to integrate information from various stakeholders, such as reports and articles from reputable newspapers and weblogs. The keywords used for this search were similar to those used in our search in the EBSCO Business Source Ultimate database, with the further addition of specific search terms such as "start-up phase" or "scandals." Data until December 6, 2021 were included in the analysis.

Data set
The research protocol described above produced 153 relevant data points. We structured the data into three clusters according to their source and issuing institution: (1) data from journal publications (48 data points), (2) data from (online) sources issued by other institutions (such as newspaper articles) (83 data points) and (3) data from online sources issued by Facebook/ Meta (22 data points). Figure 3 provides further details on these data points.

Data analysis
In performing our data analysis, we followed Mayring's (2000) guidelines for qualitative content analysis. The authors of this study conducted separate analyses of the available textual material, guided by the principles proposed by Fairclough *et al.* (2007) and Hardy (2001), who suggested analyzing three aspects. The first involved the text's subjects and objects (i.e. who are the text's protagonists and how do they connect). Next, the analysis considered the language used, including types of text and speech actions (e.g. does the text defend, criticize, accuse, sympathize, correct, explain or threaten) as well as the tone of the text (e.g. aggressive and peaceful). Finally, we analyzed the key ideas emerging from the text to understand the context in which the text is embedded. After independently conducting our analysis of the text material, we compared and discussed our findings to eliminate subjectivity and arbitrariness.

Findings
Our findings are threefold, comprising the evaluation of (1) the life-cycle phase of Facebook's BM, (2) the type of change to Facebook's BM and (3) the drivers of change that can be

Journal Publications	(Online) sources issued by other institutions	(Online) sources issued by Facebook / Meta
Facebook Company Focus e.g., Glick and Ruetschlin, 2019; Srinivasan, 2019; ur Rehman, 2019. [28 data points]	**Online / Offline Publications (e.g., Newspaper / Magazines)** e.g., Arthur and Kiss, 2010; Blodget, 2014; Canales, 2021. [55 data points]	**Investor Relations Reports** e.g., Facebook, 2012; Facebook, 2021a; Facebook, 2014b. [7 data points]
		Press Releases e.g., Facebook, 2006; Facebook, 2007; Facebook, 2008. [4 data points]
Metaverse Technology Focus e.g., Jaynes et al., 2013; Goosens et al.; 2021; Lee et al., 2021. [20 data points]	**Online-Only Publications (e.g., Web-Blogs)** e.g., Cordasco, 2003; Evans, 2021; Ghaffary, 2021. [28 data points]	**Website Publications** e.g., Facebook, 2014a; Meta, 2021a; Meta, 2021b. [11 data points]
48 data points	**83 data points**	**22 data points**

Figure 3.
Distribution of data
points in clusters

observed. In our results, we describe five observations and link them to the theoretical framework.

Descriptive analysis of Facebook's entrepreneurial journey
Taking the aforementioned phases and development in the BM life cycle into consideration, the following discussion outlines the descriptive analysis of Facebook's entrepreneurial journey, accompanied by an overview of Facebook's evolution (see Figure 4).

Creation and experimentation phase (2004–2005)
Facebook is a US-based social media technology company that was founded in 2004 by Harvard student Marc Zuckerberg and his fellow students Eduardo Saverin, Dustin Moskovitz and Chris Hughes in Cambridge, Massachusetts. Under the initial name "thefacebook," the company provided a web-based multi-sided platform that exclusively connected Harvard students. On this platform, the students were able to create a personal profile and share content across the personal network. In the first month, more than half of the students at Harvard University registered on Facebook (Philipps, 2007). After the successful launch of the platform at Harvard University, Facebook expanded to all Ivy League universities, going on to include more than 800 universities globally by 2005 (The Telegraph, 2012). By the end of 2004, Facebook had more than 1 million registered users; at this time, the first corporates approached Facebook about advertising on the platform (Pereira, 2021). In 2004, Facebook received its first investment of $500,000 from Peter Thiel, the co-founder of PayPal (The Age, 2008), and an additional investment of $12.7 million in 2005 from Accel Partner (McBride, 2012). By the end of 2005, Facebook hosted more than 6 million registered users on the platform (Pereira, 2021).

Growth and expansion phase (2005–2012)
After receiving those first investments and in light of its growing user base, Facebook decided to grant access to everyone on the platform to connect with friends (Facebook, 2006). Next, Facebook launched the Facebook Developer Platform in 2007 to encourage developers to build applications that were integrated into Facebook (2007). By 2008, more than 400,000 developers from 160 countries had registered to develop applications (Facebook, 2008). In 2010, more than 500 million users had registered on Facebook (TechCrunch, 2010); half of the users accessed Facebook daily and spent on average 34 min on the platform (Arthur and Kiss, 2010). Also in that year, the valuation of Facebook rose to more than $33 billion (Wearden, 2010). By that time, Facebook had documented more than 870 million visitors and was estimated to reach 46.9% of all Internet users (Protalinski, 2011). In this time frame, Facebook became the second most accessed website after Google (BBC, 2012). In 2012, Facebook launched an initial public offering (IPO) on the Nasdaq Stock Market, selling shares that raised the valuation of Facebook to $104 billion (The Guardian, 2012a). Also by that time, Facebook had reached one billion users (Smith *et al.*, 2012).

Efficiency and profitability phase (2012–2020)
The second decade of the twenty-first century was shaped by the emergence of developments in global technology and innovation. The initial Facebook platform was accessible via personal computers, but changing user demands mandated a solution that would allow user access via mobile Internet (Constine, 2012). While Facebook was the forerunner in social media and social networks, an increasing number of competitors entered the market and offered mobile services and solutions. One result of the successful IPO on the Nasdaq Stock

	2004-2005	2005-2012	2012-2020	2021-
Phases	Creation & Experimentation	Growth & Expansion	Efficiency & Profitability	Innovation or Discontinuation
Activities	• Launch of Facebook at Harvard	• Facebook grants platform access to everyone • Development of new features on Facebook • Launch of Facebook Developer Platform	• Shift from portable computer platform to mobile application • Increase financial performance and diversification of value proposition • Capital-intensive acquisitions of new technologies and companies • Acquisition of Instagram for $ 1 billion in 2012 • Acquisition of WhatsApp for $ 19 billion in 2014 • Acquisition of Oculus for $ 2 billion in 2014	• Rebranding to Meta • Vision to build the metaverse • Focus on soft- and hardware development
Acquisitions		• Parakey • ConnectU • FriendFeed • Octazen • Divvyshot • Friendster Patents • ShareGrove • Zenbe • Nextstop • Chai Labs • Hot Potato • Drop.io • Rel8tion • Beluga • Snaptu • RecRec • DayTum • Sofa • Mailrank • Push Pop Press • Friend.ly • Strobe • Gowalla	• WhatsApp • Oculus VR • Ascenta • ProtoGeo Oy • PrivateCore • LiveRail • WaveGroup Sound • Wit.ai • Quickfire Networks • TheFind, Inc. • Surreal Vision • Endaga • Pebbles • MSQRD • Two Big Ears • Nascent Objects • Infimiled • CrowdTangle • Faciometrics • Zurich Eye • Ozlo • Fayteq AG • Lemnis Technologies • CaffeinatedMind • Instagram • Tagtile • Glancee • Lightbox.com • Karma • Face.com • Spool • Acrylic Software • Threadsy • Atlas Solutions • Osmeta • Storyline • Hot Studio • Spaceport • Parse • Monoidics • Jibbigo • Onavo • SportStream • Little Eye Labs • Branch • Kustomer • Tbh • Confirm • Bloomsbury AI • Redkix • Vidpresso • Dreambit • ChainSpace • GrokStyle • Servicefriend • CTRL-labs • Packagd • Beat Games • PlayGiga • Sanzaru Games • Scape Technologies • Giphy • Mapillary • Ready at Dawn	• Downpour Interactive • Unit 2 Games • BigBox VR • AI Reverie • Within

Figure 4.
Facebook's
entrepreneurial
journey

Market was the great pressure investors put on Facebook to increase its financial performance (Glick and Ruetschlin, 2019). Hence, the increasing pressure of the investors and the changing user demands required a gradual shift from a web-based platform into a mobile application (Tsukayama, 2012). Therefore, aiming to improve the user experience and broaden its product portfolio by adding and improving mobile services and applications, Facebook spent more than $23 billion to acquire more than 90 companies, most of which were acquired between 2012 and 2020. The following discussion will shed light on the three most important acquisitions with the highest capital expenditures: Instagram, WhatsApp and Oculus.

In 2012, Facebook bought the mobile media-sharing company Instagram for $1 billion in stock and cash. The company, founded by Kevin Systrom and Mike Krieger in 2009, was not profitable at the time of the acquisition, but the steadily growing user base provided an enormous potential for advertising as a central revenue stream (Geron, 2012). In addition, a growing user base for Instagram was highly anticipated due to the user and media-sharing experience. Facebook aimed to derive some essential learning from this acquisition in order to improve the user experience and Facebook's features sustainably (The Guardian, 2012a, b). Due to Instagram's rapid growth rate, Facebook identified a great opportunity for massive scaling of a digital and mobile platform BM (Wagner, 2017).

Facebook bought the American mobile-messaging company WhatsApp in 2014 for $19 billion, representing the company's largest acquisition at the time. Founded by Brian Acton and Jan Koum in 2009, at the time of the acquisition, WhatsApp already had 500 million active customers who used the mobile-messaging application frequently (Chowdhry, 2014). Potentially, WhatsApp was acquired due to the rapidly growing user base and the increasing customer demand for mobile messaging services (Olson, 2014). In addition, this acquisition was a strategic investment to create strong market entry barriers for competitors (Blodget, 2014). By 2020, more than 2 billion people were using WhatsApp frequently (Facebook, 2020). Facebook's acquisitions of Instagram and WhatsApp demonstrated the company's strong capability to integrate new companies and to scale them rapidly to a new level.

In 2014, Facebook acquired Oculus, an American company that develops virtual reality devices and digital services, for $2 billion in stock and cash. At that time, Oculus had a steadily growing customer base and was highly regarded in the gaming industry (Dredge, 2014). The acquisition of Oculus was a strategic investment to expand the emerging virtual reality technology from gaming into new business verticals (Facebook, 2014). This investment supported Facebook in developing the virtual reality gaming platform Facebook Horizon Worlds and the virtual remote working application Facebook Horizon Workrooms, virtual environments that can be accessed via the Oculus Quest devices (Meta, 2021a).

By 2020, Facebook had more than 2.8 billion users and generated a revenue of $86 billion (Facebook, 2021b).

Innovation or discontinuation phase (2021–present)

In October 2021, Facebook announced the change of the company's name to Meta. Despite the rebranding of the parent company, the corporate structure has remained the same; however, Meta announced a plan to split the financial reports of the operating segments into Family of Apps and Reality Labs (Meta, 2021a). Facebook rationalized the change by emphasizing that rebranding was necessary to encompass the company's expanded offering of products and technologies. The new name refers to the prospective vision of Meta to build a "metaverse" (Lock, 2021): a new form of social network in an interactive virtual world that connects different users for the purpose of gaming, working and entertainment (Forman, 2021).

The context of the metaverse inhabits both the present and the future as an accumulation of different technologies that will be developed in the next decade (Velazco, 2021). Consequently, Meta sees the metaverse as the successor of the mobile Internet, having a significant market and adoption potential (Needleman, 2021). In the future, the company will focus on soft- and hardware development to create a unique virtual experience for users. To date, Facebook has already introduced two metaverse projects, the *Horizon World* and the *Horizon Workrooms* (Paul, 2021b).

The announcement of the rebranding had a significant impact on the capital market. On the day of the announcement, market capitalization increased by $20 billion to $900 billion (Russolillo, 2021).

The rebranding revealed Meta's strategic vision, leading us to the following observation:

Observation 1. With the change to Meta, Facebook evolves into the fourth phase of the BMI life cycle and takes aim at an innovation trajectory.

Analysis of BM components and innovation activities
As shown beforehand, we structured the gathered data along with the three aspects of BMI – value creation innovation, new proposition innovation and value capture innovation.

Value creation innovation. New technology is a key factor in the reconfiguration of BMs (Clauss, 2017). Meta's decision to focus on the metaverse makes the company the forerunner of new technology with immense future potential (Needleman, 2021). Although academics have already written about similar concepts, known as "extended reality" and "virtual worlds," the commercialization of this technology has not yet materialized (Dionisio *et al.*, 2013; Kelly, 2021). From an overarching perspective, a clear definition of the metaverse remains to be established, but experts assume that it will be a combination of technologies currently known as virtual, augmented and mixed realities (Hall and Li, 2021; Lee *et al.*, 2021).

The so-called non-fungible-tokens (NFTs) represent another vital technology that plays a central role in the metaverse because of its capability to mimic real-world economic behavior (Regner *et al.*, 2019). With its roots in the crypto industry, this blockchain-based technology facilitates designing of digital goods that are unique and highly secure against counterfeiting (Clark, 2021). Despite the established maturity level that many of the technologies already have gained, the path to achieving a "feel like a hybrid of today's online social experiences, sometimes expanded into three dimensions or projected into the physical world" (Facebook, 2021a, b) will not be quickly traversed. Along the same lines, the technological vision Meta announced is rather ambitious and will need constant utilization and expansion of Meta's current technological base.

The capabilities needed for the new technologies are already partly available at Meta. In particular, the acquisition of Oculus was a crucial puzzle piece to prepare for the technological challenges of the metaverse (Constine, 2014). The company's newfound expertise in the virtual and augmented reality space means that Meta can count on having the necessary competencies at the hardware interface of the user and the network (Desai *et al.*, 2014). These capabilities, such as the build-up, scaling, and operation of a social network and server infrastructures, are obviously present at Meta (Weedon *et al.*, 2017). Apparent expertise gaps are in technologies that the company does not currently focus on, though they are relevant for achieving the overall vision of the metaverse, such as blockchain development (Jeon *et al.*, 2021). Even though potentially not fully available at the company at the moment, such technologies can be acquired rapidly, considering the high financial stability and resource integration power that Meta has already proved to exercise multiple times (Glick and Ruetschlin, 2019). In summary, Meta does not need to significantly revolutionize its capability base for the metaverse but can mostly rely on further revolutionary developments of its

current competencies. Although additional expertise regarding new technologies such as NFT need to be acquired, they retain something of a complementary character.

In terms of processes, Meta may well already have the most relevant internal processes in place; thus, the company will rather need to focus on further increasing its efficiency than completely redesigning it (Thompson, 2018). Supporting evidence for this claim is the announcement that the company does not plan to change its corporate structure (Canales, 2021). Processes that will need further sharpening might include customer-facing processes needed for new monetization mechanisms or data security topics that are not relevant in the current social network environment but are likely to gain traction in the future.

Partnerships need to be differentiated into those with clients in the advertisement space and those that shape the metaverse ecosystems. As one of the leading advertisement outlets in the world, with over \$84 billion in revenue from advertisement (comprising 97% of Meta's overall revenues) in 2020 (Facebook, 2021b), Meta has already established relevant partnerships with leading corporations in this space (Edwards, 2014). Even though some partners, such as Patagonia, have highlighted the shortcomings of Meta's practices, the company has an excellent positioning (Egan, 2021). In support of its metaverse vision, Meta will need to create new partnerships to strengthen the ecosystem and integrate other companies on the platform (O'Flaherty, 2021). Examples of such cooperation include a hardware-focused partnership with the eyeglasses manufacturer Ray-Ban (Meta, 2021b) and software-focused cooperation as seen in online meetings with Microsoft (Rodriguez, 2021a).

In summary, despite Meta's approach to build new technology, the company's announcement represents an evolutionary development in its value creation mechanism rather than a revolutionary change. The company already has most of the relevant capabilities it requires, including internal processes and partnerships, to build on to develop the technology. We therefore derive the following:

> *Observation 2.* Changes in the company's value creation are focused primarily on one dimension – technology – and are therefore of a rather incremental nature.

New proposition innovation. Meta has communicated itself as a new platform enabling users "to do almost anything you can imagine—get together with friends and family, work, learn, play, shop, create" (Meta, 2021c). This self-description, however, constitutes little more than a visionary statement at present, considering that many relevant details for a truly functioning metaverse experience are still in the research stage (Meta, 2021c). The first prototype, "Horizon Home," shows that the visionary offering of Meta might change users' "how" in terms of the ways they will interact, without significantly changing the "what," namely interaction (Dwoskin, 2021). Moreover, exactly how users will create their virtual avatar as a high-quality rendering remains unclear, despite this feature representing a key aspect of virtual experience and interaction. In any event, Meta will still serve as a platform that enables users to connect and share content with other users (Evans, 2021); the company only promises that it will offer a new user experience in the future, which will be enabled by technology. Nevertheless, this future capability includes the additional offering of new hardware components, such as Oculus virtual reality headsets and remotes, which will allow users to access the metaverse and experience it differently from their familiar participation (O'Flaherty, 2021; Velazco, 2021). Such hardware can be seen as the gateway to the metaverse and are fundamental for the metaverse experience (Meta, 2021c; Oculus, 2021).

Reflecting its foundations as a social media giant with users across the globe, the new platform will be available globally and has the potential for mass-market adoption (Needleman, 2021). Conceivably, future social media will take on the form of virtual presence (Paul, 2021b); along those lines, data up to this point have indicated that change will happen on both the demand and supply sides of the platform. Even as the platform continues to target

private customers, Meta will additionally focus on the market for virtual reality hardware acquisitions (Oculus, 2021). Despite changes in the private customer side, Meta will keep the focus on the advertising market while also expanding its efforts to participate in transactions for virtual reality hardware and services used for such applications as meetings, games or digital objects (Meta, 2021a).

Facebook's customer channels for direct marketing and sales are conducted through digital offerings and technologies. Reflecting the company's established interaction with its private and business customers, the future platform model might build on these previous channels. In other words, Meta will expand its efforts to accommodate the newly added hardware offering while continuing to use existing partnerships with consumer electronic dealers and distributors to sell its Oculus equipment. Thus, the customer channels remain unchanged at this point in the process.

Customer relationships will not be affected by the transition, as Meta will remain a self-service platform, with users and customers accessing the offerings directly and frequently. However, other potential impacts cannot be ruled out of the equation. The company is promising to enhance the user experience, incorporating such features as augmented reality and a virtual reality user interface, seamless integration of all applications and security (Luther *et al.*, 2020), along with more options to connect and exchange as well as the opportunity for users to create their own virtual world. The downside of these promised augmentations is the potential that switching costs for users could increase, thereby negatively impacting Meta's customer relationships. This situation leads us to:

Observation 3. Changes in the value proposition are focused primarily on a new user experience but do not affect the core offering and are therefore incremental in nature.

Value capture innovation. In the case where Meta can deliver the new value proposition and offer the promised user experience for the metaverse, the firm could benefit from an increase in virtual connection and interaction across many areas of life. With a successful implementation, Meta could establish a platform BM and thereby capture value through three additional platform-based revenue streams from both private and business customers (Eisenmann *et al.*, 2009; Parker *et al.*, 2016). In the first place, different payment models that include a variety of features and options, as currently offered by many digital platforms, could enable additional revenue streams. Second, Meta could participate in transactions made on one side or across both sides of the platform, such as communication, virtual experiences (e.g. gaming, exhibitions and sight-seeing) or the exchange of virtual artifacts (Meta, 2021c). These services can be provided by Meta "creators" or by businesses bringing their offerings in the metaverse. The third new revenue stream would result from Meta's heavy expansion of its revenues through its hardware sales of Oculus accessories, as the latter represents the gateway to the metaverse (Oculus, 2021). Additional revenues could also come from third-party licenses for compatible virtual reality devices and accessories, such as headsets, haptic gloves and controllers. Thus, these developments could also be implied by the rebranding and re-registration from "Facebook Inc." to "Meta Platforms Inc."

The move toward a platform will affect Meta's cost structure as well. Initially, research and development activities are required to transform the communicated vision into practicable services and deliver them to customers. Here, Meta announced to invest $10 billion in 2021 alone (Kastrenakes and Heath, 2021). Future efforts for technology integrations as well as software and hardware development will require extensive capital expenditures. Additionally, once developed, the actual provision to users of the high-quality metaverse experience will increase the demand for IT server capacities across the globe, swelling operational costs. We thus derive the following:

Observation 4. Revenues rely on existing revenue streams until a successful technology integration and user adaptation might create new revenue sources. The company's cost structures might be affected by an increase in one-time investments in R&D and constant costs associated with value delivery. Therefore, value capturing innovations are subject to incremental change.

Factors influencing Facebook's entrepreneurial decisions. As discussed above, despite their futuristic appearances, the modifications to the basic parts of Facebook's BM toward the metaverse represent a gradual change rather than a drastic transformation. We hypothesize that a combination of factors mainly "pushed" Facebook toward these decisions, complemented by market opportunities that "pulled" the company into communicating radical changes in its BM.

Relevant external factors that might have pushed the announcement include the ongoing and publicly led debate regarding such topics as privacy invasion and the manipulation of elections (Sadowski, 2021), hateful content affecting mental health (Olson, 2021), fake news during the coronavirus disease (COVID) pandemic (Roose, 2021) and anti-competitive behavior (Meisenzahl and Canales, 2021). Meanwhile, internal factors might be found in the inadequacies of the company culture, where dissent is discouraged and questionable managerial practices in a significant proportion of cases (Rodriguez, 2019). The ongoing debate led to an increasing loss of reputation for the company, making it harder for the public "to believe that Facebook is a net good for society" (Ghaffary, 2021). As a result of various scandals, top executives of the company were compelled to testify in front of Congress multiple times (Rodriguez, 2021b). Even though many cases against the Facebook corporation were due to practices by the social media business unit, the negative reputational effects were generalized and spread to other parts of the company, such as WhatsApp (Statt, 2021).

At the same time, the company is facing a decreasing customer base in its social media unit, forecasting in-house a decline of 45% by 2023 among the target group of teenagers (Roose, 2021). Reasons for the decline are manifold. For example, teens' decreasing interest in the Facebook platform is a reflection of this group's tendency to distinguish themselves from the older generation (Press-Reynolds, 2021). In addition, the rise of new competitors is driving users to other platforms, such as Twitter, TikTok or YouTube Shorts, that are used for everyday social network interactions (Press-Reynolds, 2021). Consequently, the Facebook platform is hampered by an aging userbase and will probably also lose its exposed position as a social media brand inside the Meta corporation (Heath, 2021). At the same time, other parts of the Facebook corporation have gained traction; for example, teens spend most of their online social platform-related time on Instagram (Leonhardt, 2021), and WhatsApp is the leading messaging service in the world (Statista, 2021). This shift in user preferences may have led the management to conclude that the future of the corporation is not the social network platform Facebook, leading to the assessment that rebranding, even without radical impact on the BM, is the right entrepreneurial decision. Other mentioned reasons for this decision were the significant signaling effect on the internal organization as well as using rebranding as a recruiting vehicle to acquire the best talent (Vaynerchuk, 2021).

However, external factors also "pulled" the corporation to the decision. As already discussed, even though the metaverse remains to be developed, the hype around the technology has already increased significantly (Robertson and Peters, 2021). Apart from technology, research has demonstrated that strong brands provide better returns to shareholders through increases in stock value (Madden *et al.*, 2006). Combined with the enforced holding structure, the move serves as a signal aimed toward the capital market. Thus, with its rebranding, Facebook potentially can monetize based on the hype surrounding

the new technology. Additionally, other positive effects, such as a better potential for acquiring new talent, might have positively influenced the decision toward rebranding. This understanding leads us to the observation that non-BM-related factors seem to have contributed to Facebook's entrepreneurial decision making. More specifically:

Observation 5a. Factors such as a worsening image, frequent and recent bad publicity, increasing competition, and a stagnating user base seem to have contributed to Facebook's entrepreneurial decision making.

Observation 5b. Factors such as faster technological change, the metaverse opportunity, and internal and external signaling effects seem to have contributed to Facebook's entrepreneurial decision making.

Figure 5 provides an overview of the results of our analysis.

Conclusions
Theoretical implications
The results of our analysis indicate that through its recent rebranding, Meta has embraced the option to gradually switch from an advertisement revenue model toward a transaction-based revenue model. Nevertheless, Meta's core offerings intended to foster social community remain the same, even as the company aims to provide a more digital, virtual and augmented environment. Contrary to an increasing number of companies changing their BM from that of a hardware to a software company, Meta is strongly focusing on the development of hardware and software to make the metaverse accessible for the mass market and to

Theoretical Framework	Case Study Results
Trajectory of BM Greiner, 1972; Levitt, 1965; Mc Gahan, 2004; Peltoniemi, 2011; Tavassoli, 2015	**Observation 1:** With the change to Meta, Facebook evolves into the fourth phase of the BMI life cycle and takes aim at an innovation trajectory.
BMI and change of BM components Boudreau, 2017; Chesbrough, 2007; Clauss, 2017; Kraus et al., 2020; Nielsen et al., 2019; Spieth and Schneider, 2013; Teece, 2010	**Observation 2:** Changes in the company's value creation are focused primarily on one dimension—technology—and are therefore of a rather incremental nature. **Observation 3:** Changes in the value proposition are focused primarily on a new user experience but do not affect the core offering and are therefore incremental in nature. **Observation 4:** Revenues rely on existing revenue streams until a successful technology integration and user adaptation might create new revenue sources. The company's cost structures might be affected by an increase in one-time investments in R&D and constant costs associated with value delivery. Therefore, value capturing innovations are subject to incremental change.
Drivers of BMI Bashir and Verma, 2019; Clauss et al., 2020; Hjalager, 2010; Wang and Kimble, 2010	**Observation 5a:** Factors such as a worsening image, frequent and recent bad publicity, increasing competition, and a stagnating user base seem to have contributed to Facebook's entrepreneurial decision-making. **Observation 5b:** Factors such as faster technological change, the metaverse opportunity, and internal and external signaling effects seem to have contributed to Facebook's entrepreneurial decision-making.

Figure 5.
Case study results

encourage user loyalty by increasing switching costs. Thus, Meta's strategic acquisition of Oculus, the planned partnership with hardware and software providers such as Ray-Ban, Microsoft and Rockstar Games, and the development of Horizon World and the Horizon Workroom has established the surrounding conditions to develop the most social network.

Our case analysis demonstrated that Meta aims to take high investments to transfer its BM into a virtual future. However, the existing internal capabilities, processes and partnerships do not provide evidence for a radical BM innovation for now. Consequently, the communication of the rebranding had a strong signaling effect on the capital markets but did not comprise a radical but rather an incremental change in the BM.

Practical implications
From our study, several relevant implications for managers and corporates are evident. The emergence of advanced digital technologies, the shortening of technology life cycles, and the changes in customer demands require corporations to constantly reimagine their BM and offerings to sustain competitiveness in a rapidly changing environment. Meta's strategic virtual reality acquisitions do not change the "What-to-play" in the short run, even as they define "How-to-play" in the long run. Hence, the strategic acquisitions and the planned partnerships emphasize the necessity for businesses to operate in an ecosystem of valuable partnerships and alliances. In addition, critical reflection concerning ostentatious and public communications suggesting radical changes in the BM is essential. In this regard, the case analysis involving Meta demonstrated well that apparent BMI can be disguised in a fancy dress to distract from ingrained corporate challenges.

The rebranding of Facebook reveals certain features in common with the rebranding of Philip Morris that was announced in the introduction to this article. In particular, the rebranding was not attended by significant changes in the BM and occurred in response to the extensive reputational crises. Hence, rebranding appears to be a common mechanism that corporates may adopt as a signal to shareholders and society to retrieve trust that was forfeited due to harmful managerial practices and unethical standards.

Our study is a preliminary endeavor to understand the BM transition from Facebook to Meta. The rapid growth of Facebook over the last decades has shaped one of the most prominent entrepreneurial success stories. By advancing a strong vision to build the metaverse, Meta has once again demonstrated a strong entrepreneurial behavior in announcing that the company will use its existing capabilities, processes and partnerships to shift the adjacent BM into a more virtual future. Thus, the metaverse promises to provide a new experience for users and customers in terms of communication, work and entertainment. Nevertheless, further research is required to understand the potential uses and capabilities of this new virtual platform world, especially when the technology matures in a later phase.

Limitations
This study explores the BM transition from Facebook to Meta by applying a single case study methodology. Building on established concepts of BMI while collecting and analyzing publicly available data, the study aimed to determine whether Facebook's rebranding could be characterized as a radical BMI or if the change was intended to serve as a way out of the company's reputational crises. In summary, this qualitative study provides an in-depth understanding of Facebook's rebranding. However, as stated, this investigation focused on one specific and prominent case. Therefore, additional research efforts might be needed to validate whether the research results can be transferred and applied to other companies as well as industries that pursue a BM transition. Due to the topicality of the rebranding, this study focuses primarily on secondary data to explore the transition from Facebook to Meta. This limitation suggests the potential benefit of enriching this study by conducting further

studies that consider primary data. In particular, future research might explore the transition of Facebook at a more mature phase to identify whether the proposed metaverse technology comprises a feasible strategic vision or merely reflects an attempt at brand washing to distract from the company's severe reputational crises.

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