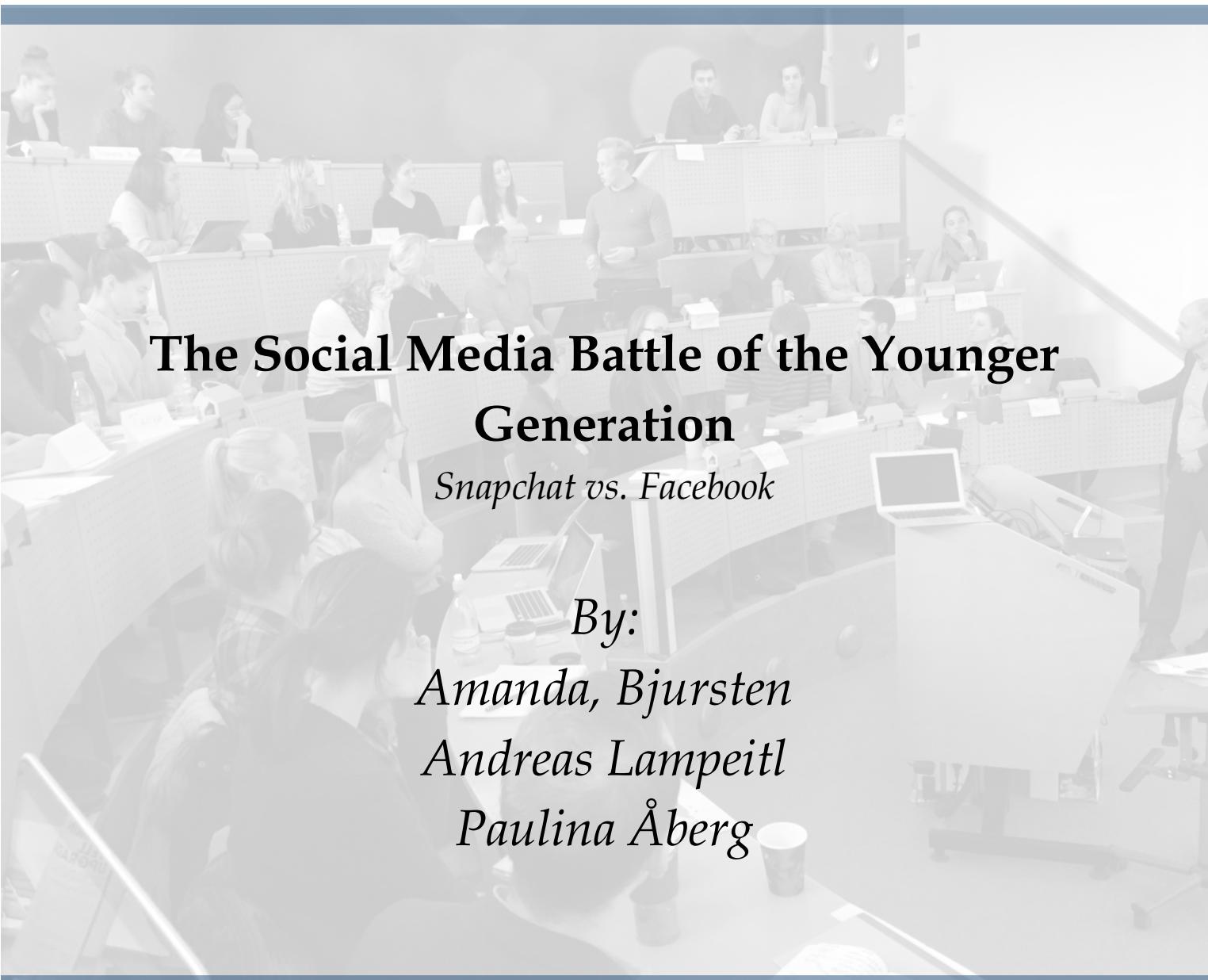


CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



The Social Media Battle of the Younger Generation

Snapchat vs. Facebook

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First Edition
Student Case Papers

2017

Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organisations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: "*A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class.*"

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is "*to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice.*"

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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WRITTEN CASE

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MANAGEMENT DECISION CASE

08 - 2017

March 9th, 2015

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Part 1 – To sell or not to sell

Introduction

Evan Spiegel, CEO of Snapchat Inc. closed his door to the office in Venice Beach, Los Angeles after spending the entire morning with his Executive Management Team. The whole morning's discussion had revolved around the recent offer from Facebook Inc. to purchase the company for \$3 billion as an all-cash acquisition. For Spiegel and his co-founder Bobby Murphy who held most shares, the offer was both a critical business decision but also a large decision personally. With the offer, they would share close to \$1.5 billion for their start-up founded in 2011. Receiving such an amount only two years after the launch, is an astonishing accomplishment, even more so considering Spiegel being only 23 years old. Spiegel frowned his eyebrows on the documents with the offer in his hands and thought back on why they created the app. To him, allowing users to share images that explicitly are short-lived and self-deleting, was all about allowing people to communicate more easy-going with a natural flow of interaction. This without the integrity concerns that the users' communication would become an eternalized and published piece of information, searchable for everyone or owned by a company, such as the specific company putting the offer in his hands.

Murphy's opinion was very sceptical toward selling the company at this stage, as he expressed it the "brand and user-base alone is worth much more". Murphy considered that they were only present in North America and imagined the potential success of expanding overseas. However, a global launch was risky, and Murphy explicitly expressed that he would follow through with the sale if Spiegel, his co-founder, friend, and the CEO of Snapchat, thought that it was the best decision. With the heavy burden of making the final decision, Spiegel knew he would have to decide on the offer today as the phone conference with Mark Zuckerberg, CEO of Facebook Inc. was planned for tomorrow morning. The question remained to echo in his head, should he accept the final offer or decline it? What would it mean for Snapchat if he accepted, or even more importantly, what considerations would he have to do regarding the company, if not to sell?

The Rise of Social Media

During the late 1990's the first social media platforms started to arise and rapidly attracted a large audience. Early players were Friendster, Myspace, LinkedIn and Facebook, where the latter truly contributed to the big boom of the social media phenomena. This new way of communicating and connecting people changed the former one-way communication to dialogue, where everyone can contribute with their content. This shift empowered consumers and changed how information and content are consumed. At the end of 2009, the number of unique social media users were estimated to be approximately 830 million worldwide, which corresponded to almost every second Internet user.

Customer integrity concerns

With all the benefits and new opportunities, social media brings, it nevertheless has a dark side to it as well. When sharing pictures and personal opinions on social networks the actual site often owns the access of users' content and other users can often download and save this specific content. This has raised a concern about the personal integrity being violated, and many feel worried about the use and storage of their content. In a survey made by the Institute of Business Ethics (2011), 6 out of 7 respondents revealed that their highest concern regarding ethical issues with social media use is the integrity risks.

Snapchat: The Disruptive Social Media Challenger

Snapchat is often described as a company which stand for the new direction of social media, with a user base mainly consisting of millennials. What started out as an app for self-deleting photos, i.e. "snaps", has turned into a platform with both private messaging and public content. Snaps are both images and videos that can be viewed for 1 to 10 seconds, where users can add various effects, text, filters, and drawings. Originally the app only enabled pictures being sent, but in 2012 this was changed, and video messaging was added. Initially snaps could solely be sent as private messages, however in 2013 "My Story" was introduced, the content published as stories can be seen by friends and followers for 24 hours. The application does not in itself prevent the receiver from taking screenshots, however, if this is done, the sender will get a notification informing that the snap has been saved.

Snapchat started out as a conversation between two students at Stanford University, Evan Spiegel and Reggie Brown, in 2011. They discussed the issue with social media, that what you share will stay there, and possibly haunt you forever. The solution to this issue would be if there were a way that people could send photos to each other, which would be visible for a short time, and then disappear. This would keep the sender in control of their images. Spiegel and Brown became

obsessed with their "million-dollar idea" and recruited Bobby Murphy, former Stanford student, to help code the actual app.

When Snapchat was launched, the underlying idea was different from previously seen social media platforms. The idea revolved around enabling users to send images that were both self-deleting and short-lived, mainly in a selfie format. CEO Spiegel communicated the company mission in 2012 as "Snapchat isn't about capturing the traditional Kodak moment. It's about communicating with the full range of human emotion—not just what appears to be pretty or perfect.". This new temporary social media format consequently led to users sharing and communicating more natural and in-the-moment, compared to other social media platforms where permanent material put more pressure on status and prestige.

The app was initially launched as Picaboo in the summer of 2011. However, the user base was growing slowly. By the end of the summer, the founders started fighting about the ownership of the start-up, which later led to a lawsuit where Spiegel and Murphy paid Brown \$157.5 million in a settlement. The app was relaunched by Spiegel and Murphy under the name Snapchat in September 2011. The focus of Snapchat has not been on the brand itself, but more on technical aspects and user-friendliness, however, the "Ghostface Chillah" logo has been a symbol of the brand from the beginning and is still strongly associated with the Snapchat brand and a standard emoji used in smartphones today.

By spring 2012 the growth had kicked off, and the app had 100,000 users that were active daily. However, the success came with problems, namely increasing server costs. The company needed money, so Lightspeed Venture Partners stepped in with Snapchats first venture capital at a sum of \$485,000. After four following venture capital funding rounds, Snapchat had by the end of 2013 collected a sum of \$163 million in capital. The app was experiencing continuous growth, and by the end of 2013 the number of monthly active users had accumulated to 30 million, still mainly consisting of millennials. At this point, Snapchat was a company with great potential, nevertheless without any revenue.

Industry

In 2013, an industry report from Nielsen showed that the internet usage has up until now grown exponentially, primarily benefitting the social media industry as almost 80 % of internet users visit social networks. As this industry and consumer behaviour phenomenon grows, companies continue to increase their online marketing spending at the expense of traditional advertising. The main proportion of companies marketing budget goes to "paid advertising", which is the sponsored content on social media networks. One of the main drivers for online advertising is the increasing opportunities to segment and target customers based on their personal data owned by the social network sites. This allows targeted advertising to focus on

potential customer segments with high precision, which may explain why 64 % of companies asked by Nielsen in 2013 expect to increase their social advertising budgets. Further, by 2013 all the leading social media networks see an increase in users showing strong growth for the entire industry. Ranked by size the dominant players are Facebook, LinkedIn, Pinterest, Twitter and Instagram (See Exhibit A) where one out of 7 people in the world has a Facebook page.

Competitors

Facebook – The social media with personal pages, activity flows and groups

The social network site Facebook was launched 2004 by Mark Zuckerberg along with his roommate and students from Harvard University. The site initially targeted the Ivy League schools but grew and spread quickly. From a user perspective, Facebook allowed people their personal profile with a personal timeline collecting their memories and connect with other users, sending personal messages and sharing pictures.

In 2006, the social media site opened for everyone, 13 years or older. By 2008 the company had set up an international headquarter in Dublin, Ireland and continued its global expansion. The company announced they had 500 million users in 2010, making it the world's largest social networking site. The success abroad continued, and only three years later the company had increased their user base to 1.23 billion active users and market capitalization on advertising where generating revenue for the company. As one of the fastest growing tech companies, Facebook did an initial public offering (IPO) at NASDAQ stock exchange 2012, rising \$16 billion and thereby being the third-largest IPO in the U.S. history. Co-founder and CEO, Mark Zuckerberg was at the age of 27 ranked by Forbes Magazine as 24th most powerful person in the world with a net worth of \$19 billion.

Instagram – The mobile photo sharing application

Instagram was founded in 2010 as a mobile based photo-sharing site, which allows users to share photos or videos either publicly or privately. The social media platform allows for people to follow their friends photo-flows or even build large fan-bases following people of their interest. The value proposition to customers was very niched, and the social media site had gained over 100 million active users within two years after its launch. With strong growth and high user-interaction, Facebook Inc. acquired Instagram for \$1 billion in April 2012.

LinkedIn – The social business and employment network

LinkedIn was founded in 2003 with the intention to offer a platform for professional networking. Users can create their profiles and connect with other professionals and companies, to find or post new job opportunities. This distinguishes LinkedIn from most other social media platforms since the conversations focus on work related

topics. LinkedIn reached 1 million users in 2004, and by 2007 the number of users reached 10 million. In January 2011 LinkedIn filed for an IPO at the New York Stock Exchange.

Pinterest – The inspiration pin board network

Pinterest is a social network where users can upload and share pictures on their "pin boards", which is their profile site. The uploaded pictures are called pins and users can like and share other users pins on their pin boards as well. Pinterest was founded in 2010, and the idea was to create a social media platform where people could share inspiring photos - they call it the world's catalogue of ideas. In January 2012 Pinterest had 10,4 million registered users in the US and was the third largest social media network in the world after Facebook and Twitter.

Twitter – The social micro-messaging network

Twitter was launched in 2006. The idea behind the online news and social networking service is to provide a platform where users can interact with text messages limited to 140 characters. This creates a unique dynamic, where users can write to each other or join in around news and current topics using hashtags, which is a keyword that users insert to have their posts appear when others search for topics or news using these keywords.

The ease of use and quick interactions between users made Twitter grow rapidly, and they had by 2012 more than 100 million users posting 34 tweets a day per user on average. It also generated 1.6 billion search queries per day, indicating high frequency on the social network.

The offer & Management decision

During 2012, the up and coming app Snapchat saw a big rise in their user base, while Facebook still struggled with the younger millennial groups, which was Snapchats primary users. Zuckerberg visited Spiegel in late 2012, with the intention to intimidate the start-up with Facebook's launch of a competitor app called Poke. Snapchat continued their course despite the competition, and within twelve months Facebooks challenger app had not gained any market share and was removed from AppStore. For this reason, Zuckerberg reached out once again to Spiegel with a \$3 billion all-cash offer for Snapchat, realising that a consolidation of the two networks would be beneficial in the long run for Facebook.

The owner's dilemma: Sell or not to sell?

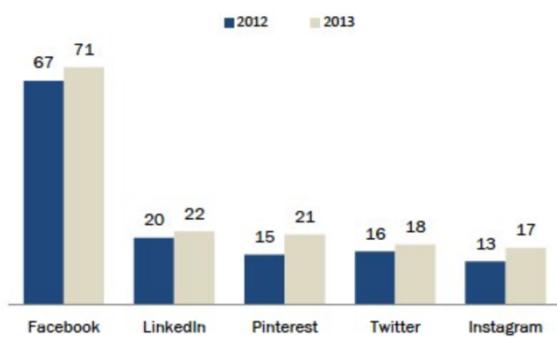
The time is starting to run out, and the phone conference with Zuckerberg is just a few hours away. Spiegel needs to make the final decision, which will determine the future of Snapchat. Spiegel has gone through the pros and cons all night, taking into consideration the business aspects as well as his feelings toward the company. The fact that Snapchat shows signs of becoming the emerging leader in the younger

generation and has the potential of going international is very promising. However, Snapchat is not taking in revenue at the moment and does not have an established revenue model. Nevertheless, having developed this successful and disruptive app with such a rapid user growth gives a certain pride. Spiegel's main concerns are whether they have what it takes to compete with the big and established players that have more or less unlimited resources and if they dare to go their own way. Since Snapchat has a clear and different position in the market, he wonders how strong the brand is and what role it will play in the company's future success. The thoughts are spinning in Spiegel's head, and he finally falls asleep with two main questions yet remaining to be answered. Should we sell Snapchat to Zuckerberg or not? And if we choose not to sell, what is the next move for Snapchat to stay relevant and defend the unique position in the marketplace?

Exhibit A Social Media Sites 2012-2013

Social media sites, 2012-2013

% of online adults who use the following social media websites, by year



Pew Research Center's Internet Project Tracking Surveys, 2012 -2013. 2013 data collected August 07 -September 16, 2013. N=1,445 internet users ages 18+. Interviews were conducted in English and Spanish and on landline and cell phones. The margin of error for results based on all internet users is +/- 2.9 percentage points.

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Part 2 - The Decision & Competitors Move

The owner's decision

The offer from Facebook to acquire Snapchat for \$3 billion was revealed to the public by an article in the Wall Street Journal in November 2013. Snapchat had rejected the offer.

Spiegel himself commented on the situation and told the Wall Street Journal: *There are very few people in the world who get to build a business like this, I think trading that for some short-term gain isn't very interesting.*

The short-term gain for Spiegel in this case was \$750 million from the all-cash offer. What might have been an underlying reason for Spiegel's decision was that Snapchat was sensing weakness from their main competitor Facebook and therefore realised their opportunity.

Competitor's move

In August 2016, less than three years after the offer was rejected, Instagram, owned by Facebook, releases their newest feature "Instagram Stories". Not only similar to Snapchats "My Story", but in functionality and design a near replication of it. In addition, as Instagram has opened private chat functions with the ability to send personal pictures, it has become evident that Facebook is using Instagram to take up the fight against Snapchat, with its growing popularity amongst millennials and the younger generation.

Customer reactions to Instagram Stories

The bold move of Instagram (owned by Facebook) copying Snapchat was quickly picked up and commented on social media – The question whether it was socially acceptable became a topic on its own. Reactions came in from social media profiles, such as Casey Neistat, a New York based YouTuber with 6.5 million followers. His video-post "Instagram MURDERS Snapchat", illustrates the exact functionality side-by-side and calls it "the biggest rip-off in history".

Although some social media consumers were sceptical, a survey amongst Wishbone users, yet not completely representative, still gives the picture of a worrisome situation for Snapchat. Currently, 63 % of users according to the survey prefer Snapchat over Instagram, 25 % believed their friends would move to Instagram instead due to Instagram Stories. Even more so, if Instagram Stories were to introduce face recognition filters, 43 % believed they or their friends would move from Snapchat to Instagram.

Snapchat Filters – The last unique value proposition remaining

Given the fact that Instagram has replicated the functionality of Snapchats "My Story", the only functional attribute left distinguishing Snapchat in the market is their image-filters. The filters are using facial recognition to apply fun and entertaining filters on top of people's faces, this feature was introduced after the purchase of Lookser for \$150 million in September 2015. In total, Snapchat acquired a total of nine companies between 2014 and 2016, to secure important technologies at a total market value of \$500 million (See Exhibit B).

Snapchat has reshaped the social media landscape and created changes in young people's communication behaviour. There are more than 158 million active users of the app, but the increase of 15 million new users per quarter during 2016 suddenly dropped to only 5 million in the fourth quarter.

Managing the threat & how to move forward

Spiegel felt that the situation resembled much of a game of chess. Facebook had done a bold move stealing their main functionalities and talked about it as something general on social media when it was their innovation. This Friday afternoon he reflected upon the offer that had been on the table. Moving forward, he thought, how should Snapchat defend their position in the social media landscape to sustain growth?

Exhibit B Snapchat Acquisitions between 2014 - 2016

Date	Acquired	Amount
Dec 25, 2016	Cimagine Media	\$30M (terms undisclosed)
Dec 19, 2016	Flite	Unknown
Aug 15, 2016	Vurb	\$114.5M in Cash & Stock
Jun 3, 2016	Obvious Engineering	\$47M (terms undisclosed)
Mar 24, 2016	Bitstrips	\$64.2M in Cash & Stock
Sep 15, 2015	Lookscopy	\$150.6M in Cash & Stock
Dec 17, 2014	Scan	\$50M in Cash & Stock
Dec 17, 2014	Vergence Labs	\$15M in Cash & Stock
May 2, 2014	AddLive	\$30M in Cash & Stock

(Source: Crunchbase Inc.)