



## **MSIS 2604 – Information Systems Policy and Strategy**



### **SNAP INC. PROJECT REPORT**

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## Executive Summary

Snap.Inc was founded by Evan Spiegel and Bobby Murphy on September 16, 2011. The company was first named picaboo where it was available only as an iOS app. They renamed it as Snapchat after its flagship product. It was renamed again on September 24, 2016, as Snap Inc. to include Spectacles as product under a single company. Founders have 95% voting power and have most of the decision-making authority. Snap.Inc went public in March 2017. The company filed its first initial public offering (IPO) with an estimated value of \$25–35 billion.<sup>1</sup>

Snap.Inc strategy is to invest in product innovation and take risks to improve their products thereby increasing the user engagement which can be monetized through advertising. It gained very high user base in its initial days. By the end of 2012, snap reported about 20 million images were shared per day or about 231 per second, when no other company could compete with snap. The key resources snap has is the customer base, customer data they could use for their advantage, acquisitions and partnerships. Snap at first relied on third party analytics, later it developed its own analytics platform to track Daily active users and make use of their data. However, Snap failed to effectively use its analytics platform.

<sup>2</sup>The industry Snap is in, is very competitive and rapidly growing. Snap was not able to maintain the competitive advantage it had with its product. Snap's competitors could easily implement its core features in a better way user liked. Also, Snap invested huge amount on acquisitions which did not help the company much. With its stock price improving, Snap seems to be refining but to gain the position of a dominant player in this industry it needs to focus on getting its users back and this can be achieved by redesigning its app to suit user needs and provide its unique privacy feature as optional catering to the needs of different age demographics and different types of users. It can also focus on improving into its augmented reality by building t

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<sup>1</sup> [https://en.wikipedia.org/wiki/Snap\\_Inc](https://en.wikipedia.org/wiki/Snap_Inc).

<sup>2</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

on top of their existing software. And also, as the CEO of Snap envisions, focus on augmented reality on top of its hardware product Spectacles, which can change the trajectory of Snap Inc.<sup>3</sup>

## Company Overview

Snap Inc. reinvents camera in order to improve the way people are living and communicating. Its flagship product is Snapchat, an application which is mainly used to share short videos or images called snaps which can be shared with friends and family. In less time Snapchat has become widely used camera app in the world. The products of Snap include the following<sup>2</sup>

**Snap Camera:** Snapchat acts just like a camera when opened, with features to stay connected

**Friends Page:** Snapchat's first version was a chatting platform that facilitated sharing snaps with friends. Now, on Snapchat, interaction with friends includes features to create and watch stories, to chat with groups, to make voice and video calls and to communicate using stickers and Bitmojis.

**Snap Map:** Users of Snapchat post videos and pictures every day. A real time map will open just by pinching on the camera screen and show friends and trending stories nearby, thus enabling users to see what is going on around them or across any place in real time.

**Discover:** Many Snaps are created everyday using Snapchat around the world. Discover helps to explore interesting stories posted by Publishers and day to day users of the community based on the interests and subscriptions of the user.

**Memories:** Snap's users also have an option to save the snaps they took in a personal collection that is searchable. This is called Memories and it allows users to create memories not only from saved snaps but also from mobile's camera roll. Snap is planning to roll out a Friendship Profiles where users can

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<sup>3</sup> <https://www.socialmediatoday.com/news/snapchats-ceo-has-a-new-strategic-focus-but-is-it-too-little-too-late/538961/>

<sup>2</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

find their favorite memory with their friends where each friendship profile is visible only to you and your friend.

**Snap Spectacles:** Another significant product of Snap is Spectacles. It is a great way to create memories hands free where sunglasses are designed with a camera that is connected to the Snapchat. The spectacles take snaps and videos from the perspective of a human, thus enabling users to record and capture memories from their view. In April 2018, Snap launched an advanced water-resistant spectacle.

**Business:** Snap. Inc generates revenue mainly through three sources Advertising Products, Campaign Management and Delivery, Measuring Advertising Effectiveness. Snap lets advertisers tell their stories, offer sponsored lenses, visiting advertiser website or recommend installing an app. Snap uses analytics tools which provide automated, sophisticated and scalable advertising management. It enables relevance of ads by determining best ads user could be interested in, thus improving effectiveness of advertisements. It moved towards transitioning advertising sales to self-service platform.

**Present:** It's core product, Snapchat lost more than 2 million users after a disastrous redesign in 2018. Around 1.2 million people petitioned snap to roll back the redesign. The stock price dropped to 9\$. Due to redesign and other factors such as growing demand for Instagram stories and WhatsApp status affected growth of Snap.[Refer Exhibit 10]

## Technology Overview

Snap works on developing innovative and creative solutions. Their efforts on research and development focuses on the following<sup>4</sup>[10k]

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<sup>4</sup> 7. [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

**Product Development:** Snap uses a wide range of new technologies and heavily invest on creating new and improved products in visual communication platform for their user community and their partner firms.

**Advertising Technology:** Snap constantly works on developing and expanding advertising products and technologies. The roadmap for their advertising tech is built to improve their content delivery framework and to improve measurement and precision capabilities of predicting the interests of users.

**Underlying Infrastructure:** Snap invests good amount of resources on the underlying infrastructure that enables their products like optimally delivering enormous number of videos to millions of users across the world every single day. Snap has partnered with Amazon and Google to support this need for infrastructure.

### **Financial Summary**

Snap Inc. primarily generates its revenue through advertising products **contributing 96% of the total revenue in 2018** and 97% in 2017. With the advent of “Discover” feature, ESPN and CNN began publishing stories to represent their content and Snap Inc. charged them \$100 for thousand views and collected 30% of the advertisement revenue when the ad space was sold by media company, but if sold by Snapchat it took 50% of it. With “Snapchat Originals” in 2018, the videos were created exclusively for Snapchat and it made the company distant from the user-generated content and stock fell to 6% and recorded low of \$6.59.<sup>5</sup>

As per the reports of its third quarter earnings, it recorded revenues of \$298 million for only one quarter and its revenue jumped to 43% setting up new records. However, it lost 2 million daily active users in Quarter 3. Its trailing 12 months revenue increased too (53% to 1.1 billion) as compared to the previous

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<sup>5</sup> <https://www.investopedia.com/articles/investing/061915/how-snapchat-makes-money.asp>

year. In, Q3 2018, it also improved its net loss from \$118 million to \$325 million. They expect their revenue to increase by 23% to 33% comparing it to Q4 2017. [Refer Exhibit 6]<sup>6</sup>

Its revenue growth has remained significant since 2015. Snap Inc. is still suffering from loss of \$325 million for Q3 2018, but it still represents an improvement from the previous year. Its most expensive feature are the sponsored lenses that start from \$450,000 increasing upto \$700,000 for special occasions. Still, it's advertising sales has gone down after it went public, and a modest client base might be the reason as Snapchat continues to sell advertising at auction.[Refer Exhibits 7,8] <sup>7</sup>

## SWOT Analysis

### Strengths

**User Base:** By December 2018, Snapchat had 186 Million Daily Active Users.<sup>8</sup> [Refer Exhibit 1] Though there are some downfalls that Snap is facing right now, they are very well established and have a huge customer base which is 60 Million greater than the user base of Twitter.<sup>9</sup>

**More Privacy:** Snap has a feature which is the self-deletion of the user's messages/snaps where a snap disappears after the receiver views it.<sup>10</sup> Though this feature had many criticisms, it emerged as one of its main strength as it is compelling feature for young users who are snap's target audience. This short life span of snaps also ensure that those snaps are not misused.<sup>11</sup>

**Unique Features:** Snapchat not only provides options to take a snap but also to try on new looks using filters, to create your own personal emoji using Bitmoji, to play augmented reality games using Snappables lens, to create custom Lens using Lens Studio, to travel the world with Snap Map, to search

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<sup>6</sup> <https://investor.snap.com/news-releases/2018/10-25-2018-210948737>

<sup>7</sup> <http://www.businessofapps.com/data/snapchat-statistics/>

<sup>8</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

<sup>9</sup> <https://www.recode.net/2019/2/7/18215204/twitter-daily-active-users-dau-snapchat-q4-earnings>

<sup>10</sup> <https://support.snapchat.com/en-GB/a/when-are-snaps-chats-deleted>

<sup>11</sup> <https://phys.org/news/2018-06-snapchat.html>

for products on Amazon using Snap's camera and much more. Snap has such unique features which its competitors don't which is also a strong selling point for snap.<sup>12</sup>

**High Customer Engagement:** Snap's landing page itself is a camera. Snapchat uses a lot of visual aids than its competitors. One of Snap's motto is that "A picture is worth a Thousand Texts".<sup>13</sup> Than text messages visual representations are indeed stronger and are more engaging. Thus, Snap has higher customer engagement which is one of its strength.

### **Weakness**

**Declining Daily Active Users:** The daily active users of SNAP declined from 191M in Jan 2018 to 186 M in December 2018.<sup>2</sup>The pattern of activity of average snap users have become erratic and the daily active users' number have decreased drastically.[Refer Exhibit 1]

**Changes in the design and Issues with Android App:** There were recent changes made in the design of the Snapchat application. This was not welcomed by Snap users and had a major downfall. In addition to that, the android version of the app has many performance issues which also to decline in usage by the Android phone users.<sup>14</sup>

**Dependency on advertising:** Snap overly depends upon advertising for its revenue. By December 2018, 96% of Snap's revenue was from its third-party advertising. This over dependency is a major weakness for Snap as they heavily rely on third party for almost all their revenue.<sup>15</sup>

**Extremely Comparable Applications:** Established companies like Instagram, WhatsApp, Twitter, Facebook provide users with a range of features comparable to that of Snap's.<sup>16</sup>For example, Instagram introduced 'stories' which mimics Snap's feature. There are also smaller companies which compete with

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<sup>12</sup> <https://www.snap.com/en-US/news/>

<sup>13</sup> <https://www.hilltopviewsonline.com/17786/life-and-arts/snapchat-maintains-streak-among-young-people-social-media-lovers/>

<sup>14</sup> <https://www.bloomberg.com/news/articles/2018-10-25/snapchat-lost-users-in-quarter-and-says-decline-will-continue>

<sup>15</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

<sup>16</sup> <https://alternativeto.net/software/snapchat/>



specific features of Snap and as the switching cost is low for users of such applications, Snap is losing users.

**Controversy:** One main negative publicity that Snap has is its feature that enables things that create problems such as offensive comments, abusive language, abuse of others or sexting without any kind of evidence to investigate the issue. There was a major controversy when Evan Spiegel commented that Snap is only for rich people and that Snap doesn't want to enter into poor countries like India and Spain.

<sup>17</sup> Though many users in India were using Snapchat, after this controversy many have uninstalled the app. This also led to a decrease in rating of Snapchat in Apple store.

**Lack of presence among different age demographics:** Another weakness of Snap is that their current demographic mainly includes teenagers and young adults. The usage is very minimal from other age groups. According to a statistic in 2018, 78% of Snapchat users are between ages 18 through 24.

<sup>18</sup>[Refer Exhibit 4] This crowd can be less loyal to the brand and they are very likely to follow trends than other age groups. This is a weakness as it can lead to switching of users to some other platform.

## **Opportunities**

**Growing demand for privacy:** As information theft keeps increasing all over the world, privacy is a serious concern for many users. Especially in instant message applications, privacy has become very critical. There are a lot of features in Snap that ensures privacy unlike other social media sites. Snap can use this opportunity to scale their products to give improved privacy.

**Improved Functionality:** As there is increase in the use of smartphones and new technologies, there is a growing demand for new functionalities from users. Snap having made its mark as an innovative company in the past to come up with creative features, can use this opportunity to provide both improved and new functionalities.

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<sup>17</sup> <https://www.indiatoday.in/technology/features/story/snapchat-controversy-did-evan-spiegel-really-say-india-is-poor-971864-2017-04-17>

<sup>18</sup> <https://www.statista.com/statistics/814300/snapchat-users-in-the-united-states-by-age/>

**Increased usage of Smartphones from all age groups:** In the recent years, Smartphones are used by people from different age groups starting from kids to old people. Snap is mostly been used by young adults. But if Snap can make use of this widespread age group of Smartphone users, with the right kind of features and marketing, they can branch out and improve their customer base further.

## **Threats**

**Dependency on Infrastructure:** Snap heavily depends on Google cloud platform for majority of their storage, computing and operating needs. <sup>19</sup>Any transition to other cloud services could be very difficult as it is very expensive and time consuming. Google might take actions beyond Snap's control that can harm the business of Snap significantly. <sup>20</sup>

**Advancement in Technology:** Technology related to applications that facilitate instant message services keeps increasing and there is something new in the market every single time. Managing and coping up with this could be a challenge.<sup>20</sup>

**Restrictions because of Law and Regulations:** There are restrictions by law in many countries that affect the usage of Snapchat. Such laws and restrictions constantly evolves and there can be new restrictions that might affect the business further. For example, there is a ban on VoIP in countries like UAE, Libya, Korea, Dubai and Qatar that can be a serious threat to the growth of Snap in such countries.<sup>21</sup> Also, there is limited access to China market as their major infrastructure provider, Google has been restricted in China.<sup>22</sup>

**Competition:** Snap faces significant competition from both established companies like Apple, Facebook, Twitter and from smaller firms. They not only compete in terms of gaining users but also for

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<sup>19</sup> <https://www.recode.net/2017/2/7/14526832/snap-ipo-snapchat-s1-wall-street-business-google-cloud>

<sup>20</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

<sup>21</sup> <https://www.zdnet.com/article/skype-banned-whatsapp-blocked-whats-middle-east-problem-with-messenger-apps/>

<sup>22</sup> <https://www.saporedicina.com/english/list-of-blocked-websites-in-china/>

advertising budgets. As snap develop new products, they may be subject to additional competition.<sup>23</sup>

**IT Infrastructure Dependency:** Snapchat is a mobile based application which relies on data usage. An increase in the cost of data usage can be a threat to Snap's business. Also, customer satisfaction on using such instant messaging mainly depends on the speed and the bandwidth in their area of residence. Such problems are not under the control of Snap and it can be a threat to the business.

**Privacy:** With many hacking and privacy invasion happening in the digital era, if such a security breach happens in Snap's platform, it will frustrate the user's ability to access Snap's product and services. Snap's users, partners and advertisers may stop using Snap altogether, which can seriously harm Snap's business as privacy is a major selling point for Snap. [10k]

**Conclusion on SWOT analysis:** Though Snap holds a large user base and includes many unique features that is focused on privacy and customer engagement, there is a decline in their Daily Active Users after their app redesign in 2018 and drop down in the market. Because of the fierce competition that is prevailing in this market, Snap will have to bring in new features to regain its position and to further improve their revenue trends, they must find additional source of revenue.

## **External Analysis**

### **Stakeholder Analysis**

Snap Inc's stakeholders include its users, advertisers, suppliers, competitors, government, employees, and stockholders. Snap's business mainly depend on their size of user base. Snap's main user base consists of younger demographic who are more interested in Maintaining the data privacy. Compared to 21 million net additions to Daily Active Users (DAU) in 2016, it had reduced to -2 million in 2018. This decline has been due to the design changes in the application and performance issues with Android

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<sup>23</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

applications<sup>24</sup>. Hence in order to maintain the user retention, growth and engagement, Snap has to continue to introduce new, exciting products and services which forms the main interest of their users. Substantially, all the revenue for Snap, has been generated from the third parties advertising on Snapchat. Snapchat's revenue from advertising accounts for more than 95% of their total revenue. Main interests of their advertising partners are the strong return on their investment. Hence capturing the large business from advertisers is very crucial. Snap heavily relies upon suppliers such as Google for their "cloud computing" services and upon contract manufacturers for manufacturing their physical product, Spectacles<sup>25</sup>. Switching to new suppliers will cause significant loss of capital as well as time. Thus, establishing more favorable relationships with their suppliers is very crucial for Snap and interest of these stakeholders would be increased demand for their services and/or products.

Government creates a great impact on Snap's business through its laws, regulations, policies and any restrictions on their ability to collect and disclose data that could impact their user base as well as their business with advertisers and partners. Violating any existing or future regulatory orders or consent decrees could subject Snap to substantial monetary fines and other penalties that could negatively affect their financial conditions and results of operations<sup>25</sup>. In terms of stockholders, Snap's two co-founders, Evan Spiegel and Robert Murphy, own or control 97% of the voting shares of capital stocks through class B and class C common stocks and class A common stockholders have no ability to influence the stockholder decisions. Through this concentrated control, if those two co-founders take decisions that other stockholders do not view as beneficial, market price of the common stocks can be adversely affected. Since March 2017, when Snap went public at price of \$17 per share, their stock price has ranged between \$29.44 to as low as \$4.82<sup>25</sup>[Refer Exhibit 9]. The constant decline in its share price has

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<sup>24</sup> <https://www.recode.net/2019/3/1/18244943/two-years-snap-ipo-stock-chart-growth-problems>

<sup>25</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

led to many problems such as difficulty in attracting and retaining talented employees, adverse impact on employee morale and lawsuit filings by investors who faced financial harms<sup>26</sup> Hence maintaining the company growth thereby increasing the share prices would help maintain good relationship with stockholders as well as employees. Thus, all the stakeholders who hold different interests with the company impact Snap in many ways.

## **Internal Analysis**

### **Value chain Analysis**

#### **Primary Activities**

**Technological development:** Snap has been improving on the quality of the products they offer along with advancing the technology in their products. In addition to offering range of products such as Snap Camera, Friends Page, Snap Map, Discover, Memories, and Spectacles, technologically, Snap is also concentrating on making their technologies more efficient on the lower end devices and hence working with the carriers and other infrastructure partners to support services at lower cost to the community<sup>27</sup>.

**Inbound Logistics:** Snap has partnered with Google and Amazon in order to support infrastructure for their growing needs. This outsourcing has enabled them to scale quickly with low upfront infrastructure costs and letting them focus their efforts on the product innovation. Snap relies on Google Cloud for their vast majority of computing, bandwidth, storage, and other services for some of which there is no alternative in the market. Snap has committed to spend \$2 billion with the Google cloud for over five years, beginning January 2017. Hence, any interference or disruption with their supply partners could negatively affect their operations. Also, for their physical product, Spectacles, Snap do not possess any of their own manufacturing capabilities. They rely on the contract manufacturers to produce Spectacles.

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<sup>26</sup> [https://global-factiva-com.libproxy.scu.edu/ha/default.aspx#!/?&\\_suid=1551997258930017894820015204582](https://global-factiva-com.libproxy.scu.edu/ha/default.aspx#!/?&_suid=1551997258930017894820015204582)

<sup>27</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

Hence Snap's business and revenue mainly depends on the quality and performance standards delivered from their contract manufacturers. Thus, maintenance of relationship with their suppliers (for both Snapchat and Spectacles) is very critical for Snap's business<sup>28</sup>.

### **Support Activities**

**Firm Infrastructure:** Snap possesses a public policy team who are responsible for monitoring legal and regulatory actions in the United States, also in other countries where they operate their business.

Technological companies usually own large number of patents, trademarks, copyrights, and frequently enter into litigation with other competing companies for the misappropriate or unlawful use of their intellectual properties. As Snap introduces new products into the market in the future or adopt new systems in their business, it is highly possible to get exposed to patent, trademark or copyright claims from competitors and non-practicing entities. Snap has been subject to claims and legal proceedings from holders of patents, trademarks, copyrights, and other intellectual property rights alleging that some of their products or content infringe their rights. For example, in January 2017, Vaporstream, Inc. filed complaint against Snap in the U.S. District Court for the Central District of California alleged that certain Snapchat features infringe several Vapor stream patents. Also, in April 2018, Blackberry Limited filed a lawsuit against Snap alleging that they infringed six of its patents<sup>28</sup>. Thus, Snap's legal counsel department, public affairs and government relations holds very important role in protecting firm's legal rights.

**Human Resource Management:** In the highly competitive social media market, retaining and attracting highly skilled and talented individuals is also one of the prime responsibilities for the Snap. In addition to offering competitive and attractive compensation packages to their employees, Snap competes for talent by promoting a culture for working hard to create great products, allowing their

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<sup>28</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

employees to have a direct and meaningful involvement with the new and exciting projects. Snap has 2,884 employees as of December 31, 2018<sup>29</sup>.

### **Porter's Five Force Analysis**

**Threat of New Entrants (Low to Moderate):** With the social media industry growing and getting profitable, new entrants are attracted to this industry. The main source of revenue for the social media industry is advertising. Low switching cost for advertisers can strengthen this force but economies of scale is tough to achieve for new entrants in this industry.<sup>30</sup> Also, due to strong product differentiation and invested capital expenditure in R&D, it would be difficult for new entrants to invest the huge amount. Loyal user base and existing brand value of giants in this industry also makes it difficult to scale upto that level.

### **Bargaining Power of Suppliers (Very High):**

Software: The suppliers to this industry are the Cloud service/computing providers. For hosting their applications (computing, storage, and other services) they are heavily dependent on Google Cloud and Amazon Web services. If either of these services go down and cause disruption, it could substantially damage their ability to operate. Although there are other suppliers available, but it could incur high switching costs and time to switch to other cloud services.<sup>31</sup>

### **Bargaining Power of Buyers (High):**

Major buyers for social media industry are the members/users using the app and the advertisers. With substitutes like radio, television and print media available as well as several competitors in the market the switching cost is low for the advertisers and users of the app.<sup>22</sup> With increasing user base and social

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<sup>29</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

<sup>30</sup> <https://www.essay48.com/term-paper/6132-Snap-Inc-Porter-Five-Forces>

<sup>31</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)

media becoming a more effective platform to advertise, there is high demand from the buyers for online advertising weakening this force to some extent.<sup>32</sup>

**Threat of Substitutes (Moderate):**

Advertisers can easily pay for substitutes, such as print advertising, radio, billboards and television, instead of paying for Snapchat's social media advertising.<sup>23</sup> There is high accessibility and availability of such substitutes and low switching costs. But the impact of social networking sites to advertise supersedes the other medium. Also, its expensive to advertise on television. These things make this force moderate.

**Threat of Existing Rivalry (High):**

Competitors for this industry are other social media giants such as WhatsApp, Facebook, TikTok for young userbase and Twitter, LinkedIn for professionals.<sup>33</sup> They compete based on quality of their products and brand value rather than on pricing of their products. There are only few companies that offer online display advertising services like that of Snap Inc. For example, YouTube LLC has a social media website which propositions targeted online advertising service. Similar product features availability strengthens this force with shifting of the user bases to other competitors in the industry.<sup>32</sup>

**Role of Complements:** The Internet service providers and smartphones industry (including compatibility of OS) are the complements of the social media industry and they play a significant role in making it a success.

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<sup>32</sup> <http://panmore.com/facebook-inc-five-forces-analysis-recommendations-porters-model>

<sup>33</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm)



**Conclusion of Five Force:** Environment is competitive with high rivalry and strong bargaining power of suppliers. Thus, to remain a dominant player in the industry and move to a profit-making position, continuous innovation is necessary.

### **Balanced Scorecard**

According to the Balanced Scorecard Analysis, performance effectiveness of any company can be analyzed using financial, internal, customer and innovation and learning perspectives. A company is said to have a good performance if they place a balanced emphasis on achieving both their strategic and financial goals. As you can see from the exhibit, **[Refer to exhibit 11]**, Snap's revenue has increased over the years but, the percentage of growth has reduced from 589.5% from 2016 to 43.09% growth in 2018.<sup>34</sup>

We believe that this could mainly be because of the decline in the daily active users [10k] due to the changes in the design of Snapchat and performance issues with Android. Though Snap had a strategy to improve customer engagement by innovating new products, provide more privacy and acquiring companies, the results are not very promising. Both strategic and financial objectives are highly interdependent. A good strategic performance will give way for good financial results. The above stated facts are indicators of the performance of Snap.

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<sup>34</sup> <https://quotes.wsj.com/SNAP/financials/annual/income-statement>

## Multiple Dimensions of Value

| Products                                     | Tech Stand-Alone Value   | Network Externality Value  | Conclusion   |
|--|--|--|--|
| <b>Snap Camera</b><br>(TSAL-High, NEV-High)  | <ul style="list-style-type: none"> <li>Thousands of lenses to choose from</li> <li>Ease to personalize and add context to Snap<sup>35</sup></li> <li>Launched desktop camera where users don't need to log-in</li> <li>Desktop camera offers Improved effects in streaming, calling services<sup>36</sup></li> </ul> | <ul style="list-style-type: none"> <li>Can be selected as camera output in skype, Hangouts, YouTube<sup>37</sup></li> <li>Good Complementary products like Sponsored lenses<sup>38</sup></li> <li>High installed base</li> <li>Snap's partnership with big brand like Amazon to scan barcode using its camera and redirect to its site<sup>39</sup></li> </ul> | <ul style="list-style-type: none"> <li>New Idea, Huge success</li> <li>Desktop Camera is a good move to remind people of snapchat</li> <li>Desktop app can attract users of older age group and advertisers who are not comfortable using mobile app</li> <li>Many companies like Instagram, Twitter launched a camera similar to snapchat<sup>40</sup></li> </ul> |
| <b>Friends page</b><br>(TSAL-High, NEV-High) | <ul style="list-style-type: none"> <li>Ease to share snaps</li> <li>Includes creating, watching stories</li> <li>Stickers and Bitmojis[10K]</li> <li>Chatting in groups, Voice and video call, with 16 friends at a time<sup>41</sup></li> </ul>   | <ul style="list-style-type: none"> <li>High user base, as the users use and share content its network externality value increases</li> <li>Acquired Bitstrip, for bitmoji's</li> <li>Allows advertisers to post stories [10K]</li> </ul>   | <ul style="list-style-type: none"> <li>Snap is the first mover to introduce stories, however Instagram dominated over snap implementing both feed and stories together in the way users wanted it.</li> <li>Cost of advertising on snap is very much higher than Facebook and Instagram, small and Mid-size companies could not afford.<sup>42</sup></li> </ul>    |

<sup>35</sup> <https://snapcamera.snapchat.com/guides/>

<sup>36</sup> <https://techcrunch.com/2018/10/26/snap-camera-desktop/>

<sup>37</sup> <https://mashable.com/article/snapchat-snap-camera-app-desktop-and-twitch/#.7Ta04sLZsq3>

<sup>38</sup> <https://adespresso.com/blog/advertising-snapchat-guide-sponsored-lenses-filters/>

<sup>39</sup> <http://fortune.com/2018/07/09/snapchat-amazon-visual-search-snap-camera/>

<sup>40</sup> <https://www.dailymail.co.uk/sciencetech/article-6805431/Twitter-launches-Snapchat-style-camera-puts-photos-videos-center-app.html>

<sup>41</sup> <https://techcrunch.com/2018/04/03/snap-introduces-group-video-calls-for-up-to-16-people/>

<sup>42</sup> <https://wallaroomedia.com/snapchat-advertising-costs/>

|   |   |  |   |
|---|---|--|---|
| <b>Discover</b><br><br>(TSAL-<br><b>Moderate</b> ,<br>NEV-<br><b>Moderate</b> ) | <ul style="list-style-type: none"> <li>• Browse stories based on subscriptions/interests</li> <li>• Recommends stories</li> <li>• Option to watch Live [10K]</li> </ul> | <ul style="list-style-type: none"> <li>• Moderate user base</li> <li>• Landed good investments in terms of sponsor and partnership with CNN, cosmopolitan etc.<sup>43</sup></li> </ul>   | <ul style="list-style-type: none"> <li>• Success</li> <li>• Good engagement for users</li> </ul>  |
| <b>Memories</b><br><br>(TSAL- <b>High</b> ,<br>NEV- <b>High</b> )               | <ul style="list-style-type: none"> <li>• Option to save snaps personally in snap and also to mobile gallery [10K]</li> </ul>  | <ul style="list-style-type: none"> <li>• High user base</li> </ul>   | <ul style="list-style-type: none"> <li>• Instagram copied basic idea of memories from snap, Snap launched “year in review” as defensive move against Instagram<sup>44</sup></li> </ul>  |
| <b>Snap Map</b><br><br>(TSAL-<br><b>Moderate</b> ,<br>NEV-<br><b>Moderate</b> ) | <ul style="list-style-type: none"> <li>• Live map of your location</li> <li>• Stories create around special locations</li> <li>• Geo-Filters<sup>45</sup></li> </ul>    | <ul style="list-style-type: none"> <li>• Good user base</li> <li>• Direct ads based on user’s location sharing data</li> <li>• Let advertisers know a location’s density of snap uploads</li> <li>• Acquired Zenly SAS, which allows users to see where their friends are on map<sup>46</sup></li> </ul> | <ul style="list-style-type: none"> <li>• Instagram tried implementing <b>photo maps</b> before snap, however later removed this feature as it was not widely used<sup>47</sup></li> <li>• More success than Instagram’s map feature</li> <li>• Advertising through Geo-filters is relatively cheap. Small companies can take advantage of geo-filters<sup>48</sup></li> </ul> |
| <b>Spectacles</b><br><br>(TSAL- <b>Low</b> ,<br>NEV- <b>Low</b> )               | <ul style="list-style-type: none"> <li>• Sun Glasses that make snaps and videos</li> <li>• Connects with snapchat only<sup>49</sup></li> </ul>                          | <ul style="list-style-type: none"> <li>• Very Low user base</li> <li>• Can be linked to snapchat only</li> </ul>   | <ul style="list-style-type: none"> <li>• Created huge hype before release and postponed the release date<sup>50</sup></li> <li>• Lost 40 million on unsold Spectacles.<sup>51</sup></li> </ul>  |

<sup>43</sup> <https://www.adweek.com/digital/snapchat-seeking-ad-revenue-launches-partnerships-with-25-media-companies/>

<sup>44</sup> <https://techcrunch.com/2017/05/16/to-clone-or-not-to-clone/>

<sup>45</sup> <https://www.buycustomgeofilters.com/blog/snapchat-geofilters-everything-you-need-to-know>

<sup>46</sup> <https://techcrunch.com/2017/06/21/snapchat-buys-zenly/>

<sup>47</sup> <https://www.theverge.com/2016/9/6/12817340/instagram-photo-map-removals>

<sup>48</sup> <https://www.stateofdigital.com/advertisers-guide-snapchat-geofilters/>

<sup>49</sup> <https://techcrunch.com/2018/04/26/snapchat-spectacles-2/>

<sup>50</sup> <https://techcrunch.com/2017/10/28/why-snapchat-spectacles-failed/>

<sup>51</sup> <https://www.theverge.com/2017/11/7/16620718/snapchat-spectacles-40-million-lost-failure-unsold-inventory>

Also, Snapchat does not have a feature to like photos or videos, there is no feature to know who viewed your post unlike Facebook and Instagram. Instagram successfully implemented what users need taking the basic idea from snapchat and became a huge success. Snapchat available only on iPhone and Android app. It does not support Windows, Blackberry, or Linux. So, it doesn't reach all the target audience. To conclude, Snap has high technological stand-alone value and Moderate Network externality value.

### **Strategic Choice Suggestions**

We can conclude that Snapchat is one the declining phase. It can regain its position Snapchat's initiative to provide unique feature of privacy, is not going well with certain advertisers. Snapchat can redesign its app to suit user needs and provide this privacy feature as optional catering to the needs of different age demographics and different types of users as well as make the app easy to use. It can also focus on improving into its augmented reality. Snap currently relies heavily on their suppliers, like Google, for their complete infrastructure requirements. Hence, they should focus on reducing their high dependency from only one supplier and gain some level of control over their infrastructure as well. Also, their large part of revenue resource is from the advertising domain, hence they should build on technologies that would improve their advertising platform without disrupting the data privacy of the users. Additionally, they should also capture improved income recourses by through their spectacles domain by improving on the augmented reality, which can be a potential income source in the near future.

## Exhibits

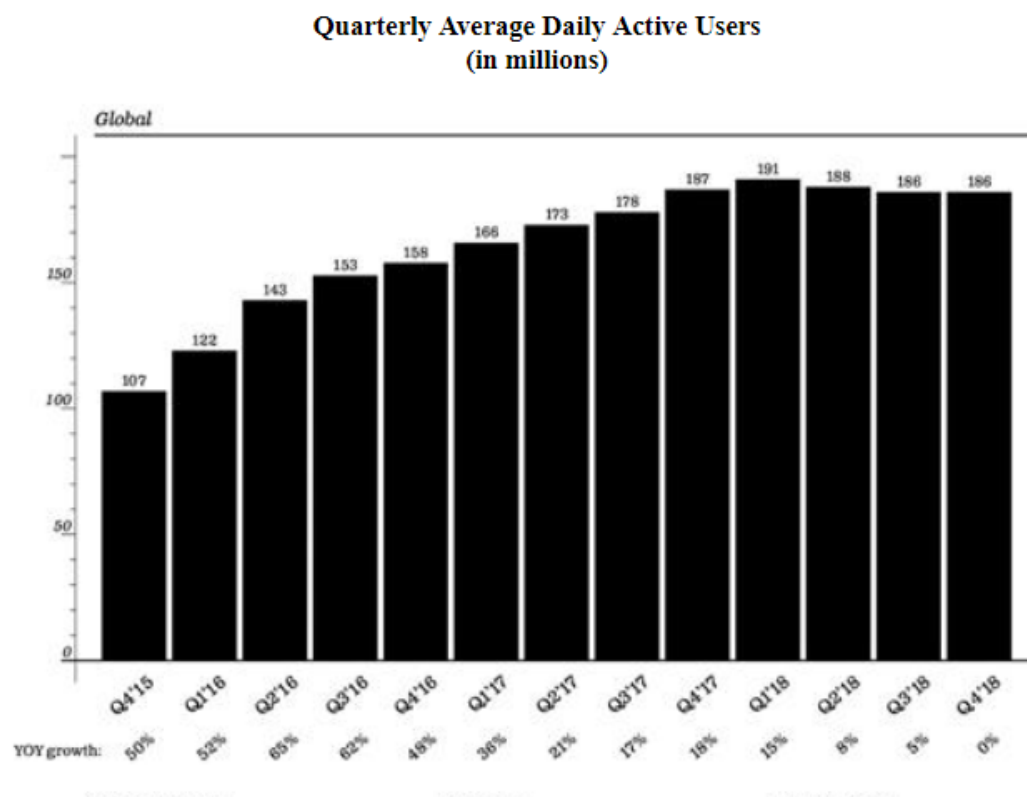
### Exhibit 1 – Snap Inc’s Timeline<sup>52</sup>

| SNAP INC. TIMELINE |  |
|--------------------|--|
|                    |  |
| July 2011          | SnapChat was founded by Evan Spiegel and released in App store                                       |
| October 2012       | Launches its application in Android store  |
| October 2013       | Launches Snapchat stories  |
| November 2013      | Mark Zuckerberg attempted to acquire Snapchat for 3 million dollars, but Snapchat refused the offer. |
| August 2014        | First introduced Geofilters to public  |
| August End 2014    | Observed a 40% increase in the number of users in United States                                      |
| January 2015       | Snapchat introduces its highly used filters 'Discover' and 'Lenses'                                  |
| January End 2015   | Increased its user base to 75 million  |
| May 2016           | Snapchat offered acquisition by Gogle for \$30 billion but offer was rejected again                  |
| July 2016          | Memories' and 'Bitmojis were introduced  |
| August 2016        | Instagram in competition to Snapchat launches stories  |
| September 2016     | Changes its brand name to 'Snap Inc.' and introduces Spectacles                                      |
| March 2017         | Snap Inc. becomes Public   |
| November 2017      | Altered stories feed to algorithmic feed   |
| April 2018         | Feeds reverted back to reverse-chronological stories   |

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<sup>52</sup> <https://www.buycustomgeofilters.com/blog/snapchat-history-and-updated-timeline>

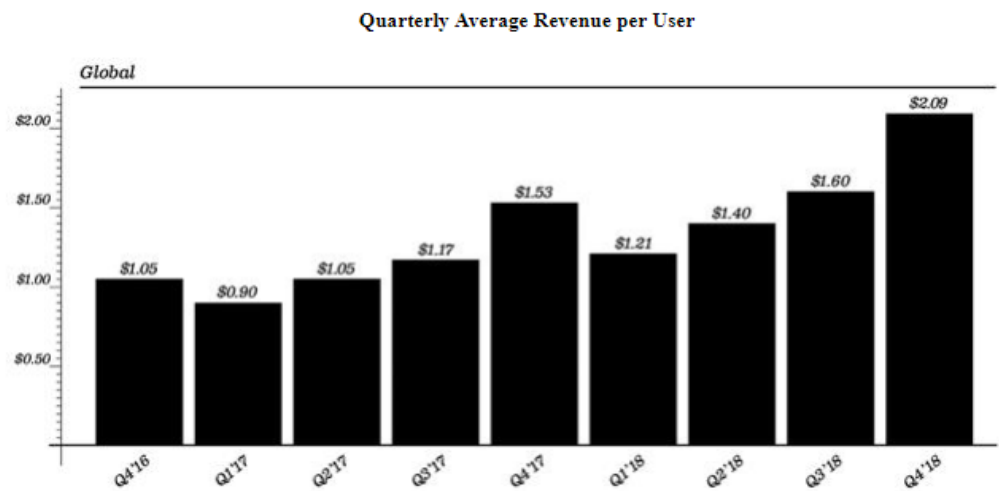
## Exhibit 2 – Quarterly Average Daily Active Users<sup>1</sup>



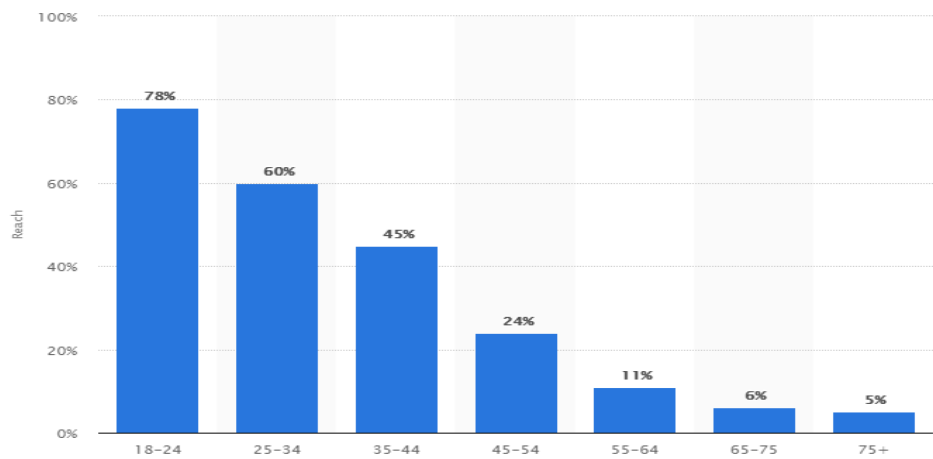
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<sup>1</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm#ITEM\\_1A\\_RISK\\_FACTORS](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm#ITEM_1A_RISK_FACTORS)

**Exhibit 3 – Quarterly Average Revenue per User<sup>1</sup>**



**Exhibit 4 – Percentage of U.S. internet users who use Snapchat as of January 2018, by age group<sup>28</sup>**



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<sup>1</sup> [https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k\\_20181231.htm#ITEM\\_1A\\_RISK\\_FACTORS](https://www.sec.gov/Archives/edgar/data/1564408/000156459019002053/snap-10k_20181231.htm#ITEM_1A_RISK_FACTORS)

<sup>28</sup> <https://www.statista.com/statistics/814300/snapchat-users-in-the-united-states-by-age/>

Exhibit 5 – Annual Income Statement<sup>53</sup>

Income Statement Snap Inc. →

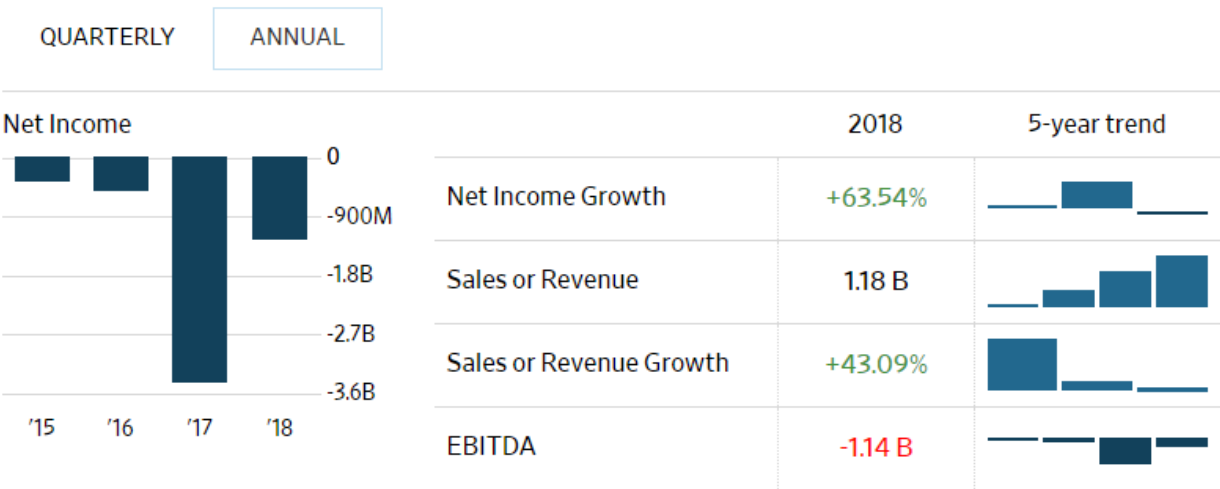
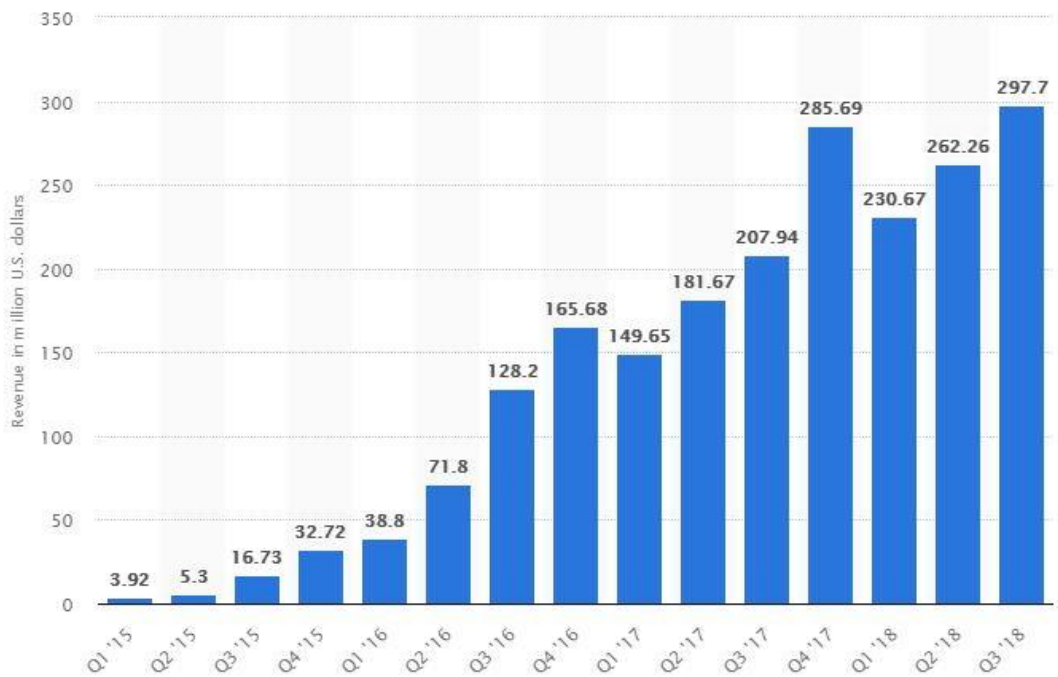


Exhibit 6 – Quarterly Revenue History



<sup>53</sup> <https://quotes.wsj.com/SNAP/financials>



## Exhibit 7 – Advertising Sales



## Exhibit 8 – Cost and Revenue 2017 vs 2018

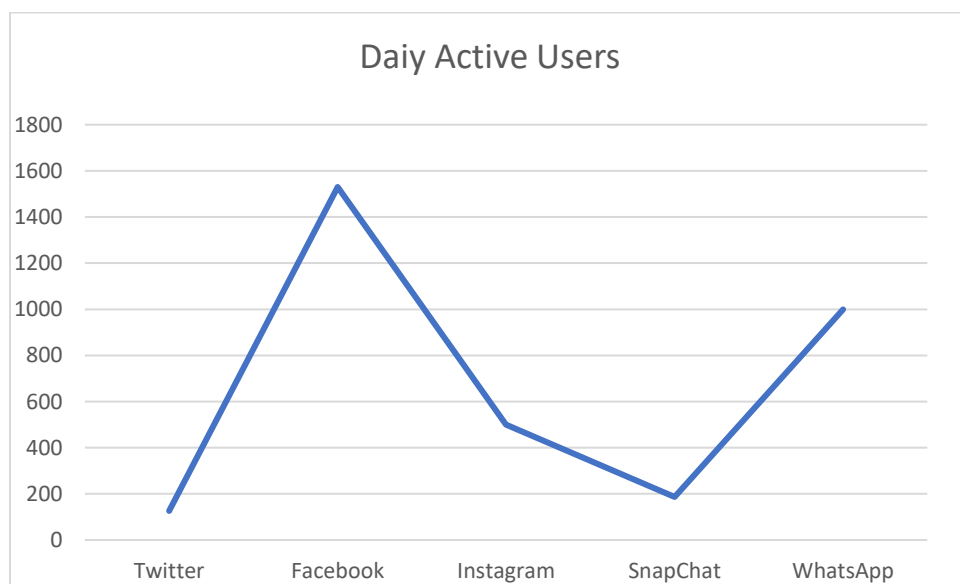
### Snapchat costs and revenues, Q3 2017 vs Q3 2018

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |                |
|---|-------------------------------------|--------------|------------------------------------|----------------|
|   | 2017                                | 2018         | 2017                               | 2018           |
| Revenue   | \$ 207,937                          | \$ 297,695   | \$ 539,256                         | \$ 790,624     |
| Costs and expenses:   |                                     |              |                                    |                |
| Cost of revenue   | 210,710                             | 197,554      | 526,216                            | 585,917        |
| Research and development  | 239,442                             | 203,510      | 1,301,025                          | 607,742        |
| Sales and marketing   | 101,511                             | 97,552       | 412,147                            | 301,350        |
| General and administrative  | 118,101                             | 122,450      | 1,424,480                          | 369,358        |
| Total costs and expenses  | 669,764                             | 621,066      | 3,663,868                          | 1,864,367      |
| Operating loss  | (461,827)                           | (323,371)    | (3,124,612)                        | (1,073,743)    |
| Interest income   | 6,253                               | 7,011        | 15,026                             | 19,715         |
| Interest expense  | (887)                               | (919)        | (2,580)                            | (2,783)        |
| Other income (expense), net   | 1,002                               | (7,625)      | 1,975                              | (4,533)        |
| Loss before income taxes  | (455,459)                           | (324,904)    | (3,110,191)                        | (1,061,344)    |
| Income tax benefit (expense)  | 12,300                              | (244)        | 15,102                             | (2,899)        |
| Net loss  | \$ (443,159)                        | \$ (325,148) | \$ (3,095,089)                     | \$ (1,064,243) |
| Net loss per share attributable to Class A, Class B, and Class C common stockholders: |                                     |              |                                    |                |
| Basic   | \$ (0.36)                           | \$ (0.25)    | \$ (2.71)                          | \$ (0.83)      |
| Diluted   | \$ (0.36)                           | \$ (0.25)    | \$ (2.71)                          | \$ (0.83)      |
| Weighted average shares used in computation of net loss per share:                    |                                     |              |                                    |                |
| Basic   | 1,232,993                           | 1,309,918    | 1,140,004                          | 1,277,293      |
| Diluted   | 1,232,993                           | 1,309,918    | 1,140,004                          | 1,277,293      |

## Exhibit 9 – Stock Price Since its IPO – March 2017<sup>54</sup>



## Exhibit 10 – Daily Active Users Comparison 2019<sup>55</sup>



<sup>54</sup> <https://www.nasdaq.com/symbol/snap/stock-chart>

<sup>55</sup> <https://dustn.tv/social-media-statistics/>

## Exhibit 11 – Balance Score Card

|                                 |   |   |   |  |
|---------------------------------|---|---|---|--|
| <b>Snap's Strategy</b>          | Strategy is to invest in product innovation and take risks to improve camera platform, drive user engagement, which can be monetized through advertising, using the revenue we generate to fund future product innovation to grow our business. |   |   |  |
| <b>Snap's Mission</b>           | “Reinventing the camera to improve the way people live and communicate”   |   |   |  |
|                                 | <b>Financial Perspective</b>  | <b>Customer Perspective</b>   | <b>Internal Perspective</b>   | <b>Innovation and Learning</b>   |
| <b>Critical Success Factors</b> | 1. Investment in R and D<br>2. Maintaining balance between income and expenses  | 1. Good Design of app, Ease to use<br>2. Proper functioning of app in android and iOS<br>3. Improved security or privacy policy | 1. Acquisitions<br>2. Expanding user base of different age groups<br>3. Employee satisfaction | 1. Investing in new lines of business, new products, and other initiatives to generate revenue |
| <b>Critical Measurements</b>    | 1. Measuring Return-on-Investment<br>2. Overall Cash Flow<br>3. Average revenue Per user  | 1. Increase Engagement of users, advertisers and partners<br>2. Increase number of daily active users                           | 1. Net Profit made by the company globally<br>2. Employee Turn-over rate                      | Employee Productivity  |

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