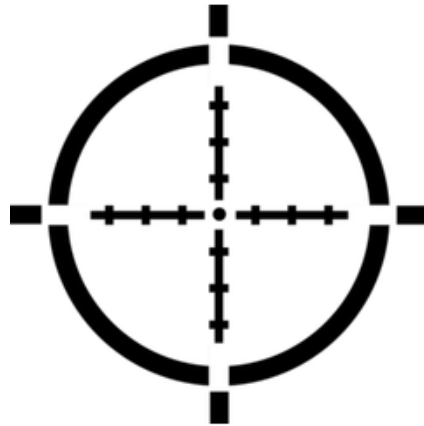


LinkedIn Corporation

Client Report

DangerZone Consulting



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Executive Summary

Bridging the gap between the social media and recruiting industries, LinkedIn is the world's largest professional networking website. The company monetizes its unique position in three ways: advertisements (Marketing Solutions), user fees for individuals that opt into expanded packages (Premium Subscriptions), and its recruiting branch (Talent Solutions). Customers choose LinkedIn, rather than another platform, largely because of its advanced analytics system and its detailed database, both of which ensure an ad or job posting only reaches specific users.

Overall, the financial health and growth opportunities of LinkedIn are above average compared to other recruiting companies, such as Monster.com and Dice Holdings. Its earnings per share and return on equity, however, are slightly low, likely because of the substantial costs associated with implementing global expansion strategies, through these presumably carry long-term returns. The company's future profitability depends on lowering these expenses and bolstering waning user metrics, such as registered members, unique visitors, and page views; currently LinkedIn is focusing on increasing member growth rather than user activity.

Because LinkedIn relies on its unique product—an advanced analytics system that can effectively mine a vast database of personal professional histories—for revenue, it is the only player in a new industry. Given this niche, LinkedIn doesn't yet face strong competition. With low barriers to entry, though, LinkedIn will likely see more threats from new entrants, especially if it mishandles its international expansion or overly diversifies its product line.

Our strategic recommendations, therefore, focus on targeting this expansion and growing LinkedIn's brand within its core competency. Though each of these recommendations is tailored to address a specific weakness, they both extend from the following need: LinkedIn will succeed or fail based on user satisfaction, and consequently it must create a product that members want, will use often (even if not a job seeker), and will have trouble leaving for a competitor.

Company History

LinkedIn is the world's largest professional networking site, boasting approximately 280 million users across 20 languages in more than 200 countries. The concept of the website is as follows: users request to be connected to business associates, giving them profile and messaging access. Ultimately, members form a directory of not just these "first-degree connections," but also an extended contact network including the contacts of each of these connections, called second- and third-degree connections. Mutual connections can be exploited to obtain an introduction, whether to find a job or take advantage of a business opportunity. Job seekers can also follow companies and be notified if a job becomes available, look at who views their profiles, and bookmark positions for which they would like to apply. Finally, individuals' LinkedIn profiles, which include a résumé and picture, are useful resources for conducting background research on someone's educational or employment history.

The company relies on a two-pronged business model: it monetizes social networking and harnesses user information to support its online recruiting service. LinkedIn's revenue, therefore, comes from advertisements (Marketing Solutions), user fees for individuals that opt into expanded packages (Premium Subscriptions), and its recruiting branch (Talent Solutions). Following the efforts of Google and Facebook and pivoting to capitalize on its changing user base, LinkedIn has done its best to diversify its product line. For example, in addition to the premium subscriptions offered to individual users, the company has created an option specifically for sales representatives looking to understand potential clients (Sales Solutions), essentially allowing LinkedIn to expand into a new market and mitigate some of the risks associated with being a social media company.

However, when former PayPal COO Reid Hoffman initially founded the company in December 2002, LinkedIn was exclusively a professional networking platform. It grew from a concept he developed in the mid-90s, SocialNet.com, an online dating site investor Peter Thiel described as

“literally... before its time. It was a social network 7 or 8 years before that became a trend.”¹

Hoffman left SocialNet.com unfinished to join PayPal, but after PayPal’s acquisition he settled in Mountain View to once again to pursue his vision; a vision that attracted several high-profile early-stage Silicon Valley venture capital investments, including series A funding from Sequoia Capital and series B from Greylock Partners.

LinkedIn enjoyed its first profitable year in 2006—two years ahead of Facebook—and continued to expand dramatically in the following years. In 2010 it opened its international headquarters in Dublin, made its first acquisition, mSpoke, a software company that specialized in adaptive content personalization, and earned its place as number 10 on the Silicon Valley Insider’s list of the top 100 most valuable startups. The company filed for an IPO in January 2011 with a \$1.6 billion dollar valuation in private markets. LinkedIn went public on May 19, 2011, trading on the NYSE under the ticker LNKD for \$45 per share. Shares skyrocketed more than 170% during the first day of trading, dropping to close around \$94.

The stock remained turbulent throughout its first year and a half—especially after a widespread user password leak in mid-2012—but LinkedIn outperformed analyst revenue projections for nine consecutive quarters and continued growing rapidly. Though revenue growth has begun to slow, dropping to 57% in 2013 from 86% in 2012, analysts still expect a substantial upside as LinkedIn takes its first steps to expand into China, where a Chinese beta version of the website is being released this year. Moreover, the company has continued its history of acquiring analytic companies, purchasing the data-driven job search startup Bright.com in February, which will work to solidify LinkedIn’s position as a leader in the recruiting industry.

As of December 31, 2013, LinkedIn had 5,045 employees—an increase from 3,458 from the year before—servicing 277 million registered members. LinkedIn’s 2013 net revenue was \$1.5 billion, up 57% from the prior year.

¹ "Reid Hoffman Revealed: Bloomberg Gamechangers." *Bloomberg Television*.

Financial Analysis

Overview

LinkedIn raised \$352.8 million when it went public in 2011, issuing 7.84 million shares for \$45 each. The stock more than doubled the first day of trading, closing at \$98 per share. After a tumultuous first year, LinkedIn's stock has followed a mostly upward trend to its current price of \$190.59, generally outperforming the S&P 500 and industry peers.

Overall, the financial health and growth opportunities of LinkedIn are above average compared to other recruiting companies, such as Monster.com and Dice Holdings. LinkedIn's unique fusion of social media and recruitment services means it holds a market niche that might cushion it from the risk of pure play recruitment providers. However, despite recording universally positive fourth quarter figures, including a 47% increase in revenue from Q4 of the prior year, LinkedIn user growth has failed to meet market expectations, suggesting the company may struggle to match future revenue goals.

	LinkedIn	Monster	Dice
Market Cap	22.65B	670.6M	407.37M
Net Income	26.77M	3.32M	16.25M
P/E	871.83	608.55	26.33
Current Ratio	4.29	0.97	0.74
D/E	0.00	17.13	70.91
EPS	0.22	-0.01	0.26
Beta	1.24	2.86	1.83
EBITDA	54.19	22.77	15.88
ROE	1.51%	-0.06%	8.59%

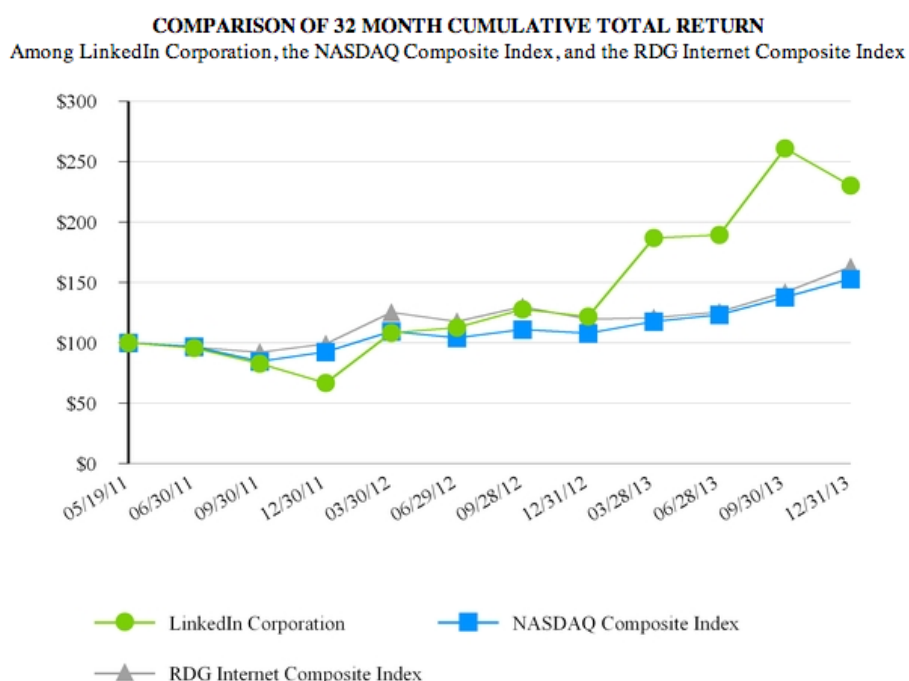
As stated in the table above, the company currently has a \$22.65 billion market capitalization, which is much larger than either of its competitors. LinkedIn's return on equity has fallen to 1.51%, after averaging 3.74% over the last two years, perhaps substantiating investors' concerns regarding slowing growth rates and future profitability. It could, however, be caused by the implementation of management's expansion strategies; increased global marketing expenses, for

example, would result in a lower net income for this quarter but could carry potentially impressive long-term returns. Ultimately, it doesn't appear that the share price has dropped as far as it will, given that the stock is still trading at a price approximately 871 times its earnings. It is important to note that LinkedIn is very liquid and has not taken on any long-term debt, which may be a positive next step to relieve its \$22.5 million 2013 income tax burden.

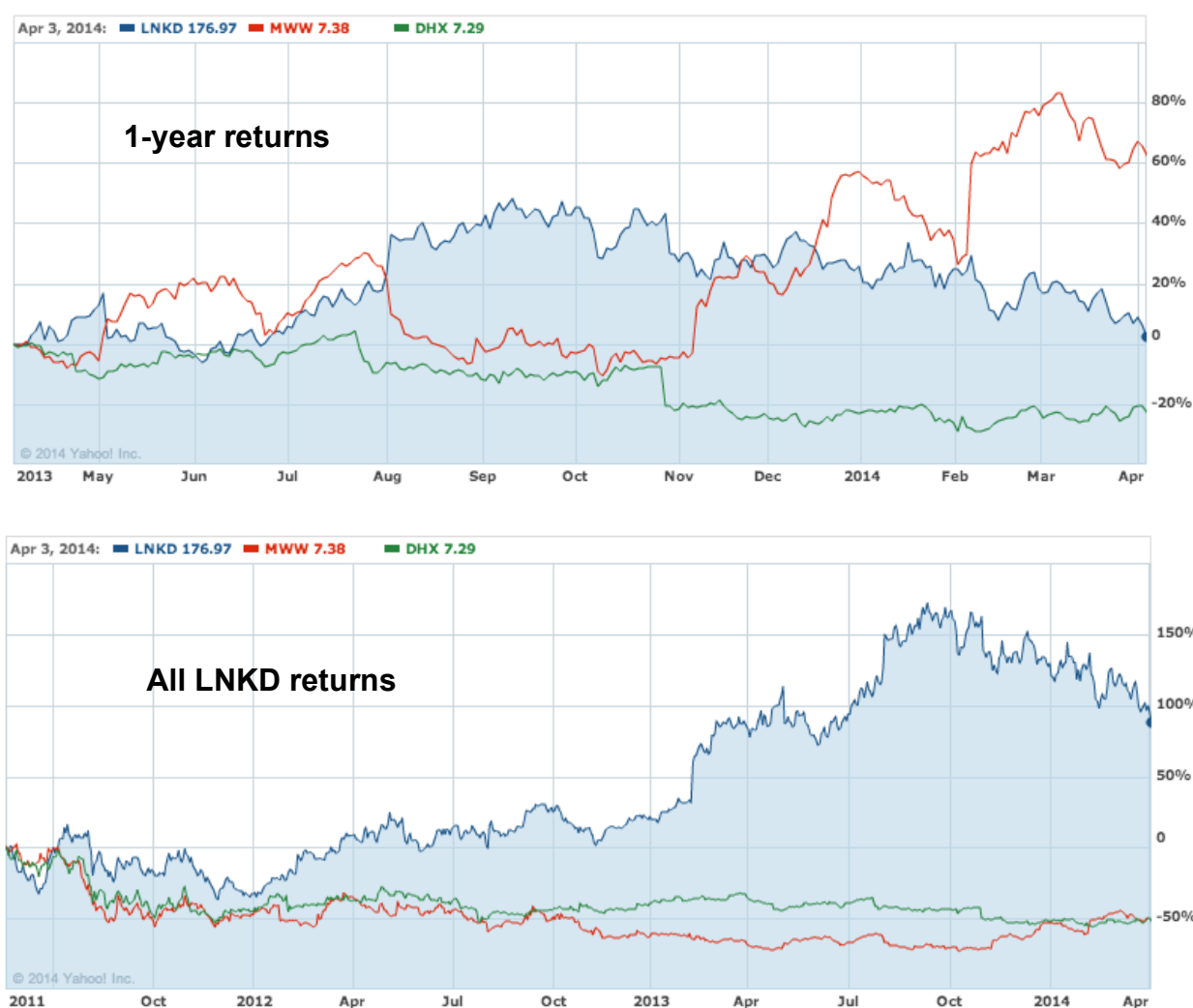
Despite Monster's negative ROE, its lagging profitability (which Monster is employing some questionable accounting tactics to hide), and LinkedIn's popularity, Monster investors clearly expect high levels of growth as its price is still over 600 times greater than earnings. Dice is quite the opposite. Unlike Monster, Dice has a more reasonable P/E ratio of 26.33 and healthy financials, though slightly high levels of debt, but has not historically fared well in the stock market. Ultimately, these measures reflect LinkedIn's market dominance and growth potential.

Stock Performance and Analyst Expectations

LinkedIn has largely outperformed both the market and other online information providers—as measured in the company's 2013 annual report by the NASDAQ composite index and the RDG Internet Composite Index—over the last two and a half years (see graph below).



These results hold when compared to Monster.com (MWW) and Dice Holdings (DHX) over longer periods (see the second graph: All LNKD returns). The one-year rates for these companies, however, clearly demonstrate the inverse relationship between LinkedIn and Monster's stock prices: as LinkedIn rises, there is a corresponding dip in Monster's share price, and vice versa. This signals that the two are, essentially, battling for market share and revenues. As previously discussed, they are the market darlings over Dice, whose price has been falling steadily over both the one- and three-year timeframes in spite of its positive financial performance.



Source: Yahoo Finance

In the debate between Monster and LinkedIn, analysts and financial writers predominantly side with LinkedIn. One *Seeking Alpha* article took this issue head-on, titled, “Buy LinkedIn, Short

Monster As Online Giants Wage War.”² The author, an independent financial planner, explains his pessimistic outlook:

Monster.com is a victim of the changing dynamics of the Social Media Industry, as companies like LinkedIn have jumped into career services by capitalizing on their large professional user bases.... We believe that Monster.com will face a declining growth trajectory, with LinkedIn taking away most of the online recruitment spending by companies.³

The author cites Monster’s search for a strategic buyer to acquire part or all of it as evidence of its long-run loss to LinkedIn. So far, with LinkedIn’s \$22.7 billion market capitalization dwarfing Monster’s \$670.6 million market share, his prediction seems to be accurate.

Despite its anticipated long-run victory over Monster.com, investors are becoming less bullish about LinkedIn’s stock, which declined 15% in the wake of Q4 2013 earnings announcements and the 2014 company outlook. These publications revealed that user growth was slowing and future revenues were projected to miss analyst estimates, prompting some investment advisors, such as Merrill Lynch, to downgrade the stock from “Buy” to “Hold.”

Apart from rallying these waning membership rates, LinkedIn management should not expect to have a great deal of control over this stock price decline, which is likely the inevitable impact of LinkedIn’s exceedingly high P/E ratio of 871.31; there is little that can justify a price that so drastically exceeds earnings, especially at this stage in the company’s lifecycle. Trefis, a company that analyzes the drivers behind various stock prices, agrees. Though their analysts predict a substantial growth upside for the company, they argue that once investor enthusiasm is removed LinkedIn’s stock price should only be \$141 per share, or a P/E multiple of 130.⁴

² “Buy LinkedIn, Short Monster As Online Giants Wage War.” *Seeking Alpha*. July 9, 2012.

³ “Buy LinkedIn, Short Monster As Online Giants Wage War.” *Seeking Alpha*. July 9, 2012.

⁴ “LinkedIn: Trefis Model.” *Trefis*. March 14, 2014.

Revenue, Profitability, and Growth

Since its IPO, LinkedIn has experienced tremendous revenue growth, increasing from \$522M in 2011 to \$1.5B in 2013. Its profitability is reliant on three departments: Talent Solutions, Marketing Solutions and Premium Subscriptions (explained in more detail below). Though the majority of LinkedIn's revenue is derived from the United States, its international presence is growing, and therefore will play a larger role in LinkedIn's future profitability.

Talent Solutions

Revenue from Talent Solutions is primarily derived from providing customers, who are primarily corporate recruiters sourcing for candidates, access to LinkedIn's database through a paid annual subscription. LinkedIn's unique product relies on its data-driven system, helping recruiting teams avoid the costs associated with prolonged search times by quickly identifying candidates based on industry, job function, geography, experience, and education, among others. Additionally, LinkedIn charges an additional fee to outfit corporate LinkedIn pages so they attract more job seekers and to post job placements on the LinkedIn website.

Fourth Quarter Results: Revenue from Talent Solutions products totaled \$245.6 million, an increase of 53% compared to the fourth quarter of 2012. Talent Solutions revenue represented 55% of total revenue in the fourth quarter of 2013, compared to 53% in the fourth quarter of 2012.

Marketing Solutions

LinkedIn also monetizes its website using a personalized advertising model. Customers can display a graphic or text link on their LinkedIn pages or target viewers using the same metrics described above.

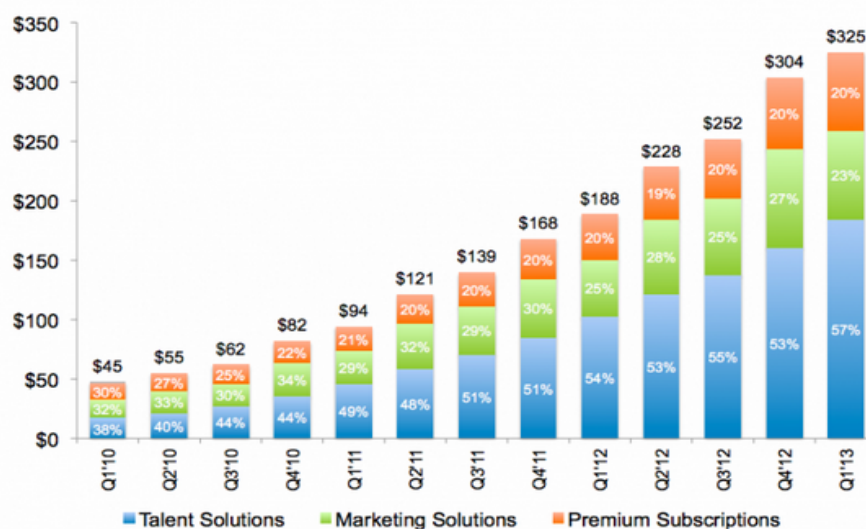
Fourth Quarter Results: Revenue from Marketing Solutions products totaled \$113.5 million, an increase of 36% compared to the fourth quarter of 2012. Marketing Solutions revenue represented 25% of total revenue in the fourth quarter of 2013, compared to 27% in the fourth quarter of 2012.

Premium Subscriptions

Premium Subscription customers can vary greatly, ranging from individuals who want increased access to advanced analytic or messaging capabilities, to Sales Solutions subscribers, who are primarily sales professionals looking to learn more about potential sales targets, to Job Seeker subscriptions, which help outfit users for employment networking.

Fourth Quarter Results: Revenue from Premium Subscriptions products totaled \$88.1 million, an increase of 48% compared to the fourth quarter of 2012. Premium Subscriptions represented 20% of total revenue in the fourth quarter of both 2012 and 2013.

Revenue by Product



Source: *TNW*, "LinkedIn's Talent Solution Service"

As is evident in the graph above, LinkedIn's Talent Solutions make up the majority of its revenue, and this percentage has been increasing each quarter. Though the remainder of 2013 is not depicted above, its proportional revenue has somewhat stabilized, averaging 56% for the year. Meanwhile, the revenue gained from Premium Subscriptions has remained unwavering at 20% of total revenue for the last two years, including the last three quarters of 2013.

These metrics suggest that 80% of LinkedIn's revenue is subject to appealing to its corporate customers in recruiting and marketing. Given that its success with these groups depends on user volume and activity, LinkedIn's focus on member growth through international expansion is understandable, though they have not been dedicating as many resources to addressing lags in user engagement. Perhaps for this reason, the company lowered monthly premium subscription fees from \$42 to \$25; because Premium Subscription revenues have not changed as a percentage of total revenues, it appears that demand is elastic and the reduced price has prompted increased subscription quantities. The company can expect stable profits in this area, then, regardless of price.

It is worth pointing out that while the majority of LinkedIn's revenues come from the United States, the company has prioritized international expansion as a part of its growth plan. The table below outlines LinkedIn's domestic and international revenues. LinkedIn's established international popularity grants credibility to its expansion plans, as its product has already proven it can thrive outside the United States labor market.

Revenue by Region (in thousands)

	2013	2012	% Change	2012	2011	% Change
United States	\$942,122	\$619,485	66%	\$619,485	\$353,834	75%
Other Americas	109,672	66,009	60%	66,009	28,800	130%
EMEA	358,244	217,342	61%	217,342	109,995	98%
APAC	118,507	69,383	59%	69,383	29,560	135%
TOTAL	<u>\$1,528,545</u>	<u>\$972,309</u>	<u>64%</u>	<u>\$972,309</u>	<u>\$522,189</u>	<u>86%</u>

Fourth Quarter Results: Revenue from the U.S. totaled \$271.1 million, and represented 61% of total revenue in the fourth quarter of 2013. Revenue from international markets totaled \$176.1 million, and represented 39% of total revenue in the fourth quarter of 2013

Expenses

As demonstrated in the tables below, the growth rate of LinkedIn's expenses has generally declined after their 2011 IPO. However, its 2013 profitability was severely hampered by cost increases, which totaled 97% of revenue. These larger than usual expenses are due to growth in three areas: depreciation and amortization, general and administrative (G&A), and sales and marketing.

LinkedIn's depreciation and amortization expenses, which consist of expanding technology infrastructure through "new investments in computer equipment, software, leasehold improvements, capitalized software development costs and amortization of purchased intangibles," are necessary to support the growing user base.⁵ The additional 2013 costs, however, decreased profits by 2%, and the company expects these expenses will continue to increase in the future.

G&A costs also rose in response to LinkedIn's membership growth, as the company had to address new litigation and compliance expenses. These costs will likely remain stable or increase as LinkedIn pursues international markets, where they will encounter many new regulatory, legal, and compliance challenges. Hopefully, once the infrastructure is created to address the externalities of global membership, LinkedIn will capitalize on economies of scale to reduce expenses in this area.

Expenses (in thousands)

	2013	2012	2011	2010	2009
Cost of Revenue	\$202,908	\$125,521	\$81,448	\$44,826	\$25,857
% Growth from prior year	61.7%	54.1%	81.7%	73.4%	39.1%
Sales and Marketing	522,100	324,896	164,703	58,978	26,847
% Growth from prior year	60.7	97.3	179.3	119.7	58.1
Product Development	395,643	257,179	132,222	65,104	39,444
% Growth from prior year	53.8	94.5	103.1	65.1	34.3
G&A	225,566	128,002	74,871	35,064	19,480
% Growth from prior year	76.2	71.0	113.5	80.0	50.1
Depreciation and Amortization	134,516	79,849	43,100	19,551	11,854
% Growth from prior year	68.5	85.3	120.4	64.9	86.2
TOTAL	\$1,480,773	\$915,447	\$496,344	\$223,523	\$123,482
% Growth from prior year	61.8%	84.4%	122.1%	81.0%	46.5%

Expenses as a Percentage of Revenue

	2013	2012	2011	2010
Cost of Revenue	13%	13%	16%	18%
Sales and Marketing	35	33	32	24
Product Development	25	26	25	27
General and Administrative	14	13	14	14
Depreciation and Amortization	10	8	8	8
TOTAL	97	94	95	92

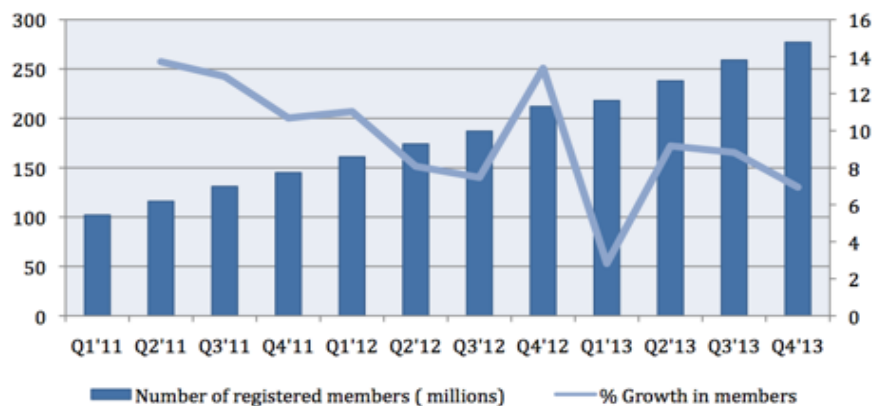
⁵ LinkedIn 2013 10-K, pg. 51.

LinkedIn should focus its efforts on short-term sales and marketing cost decreases, which include departmental employee compensation, agency commissions, overhead, and expenses from marketing, branding, advertising, and public relations campaigns. This year's increases, which accounted for 2% of revenue, consisted of substantial personnel increases (\$152.2 million), larger commissions paid to agencies (\$17.8 million), facility costs (\$16.6 million), and consulting fees (\$6.8 million). LinkedIn plans to continue investing heavily in marketing to augment their global expansion, and so should be careful that the marketing strategies are reaping an acceptable rate of return. If, however, marketing expenses continue to increase without substantially impacting revenue, LinkedIn could quickly encounter negative profits.

Growth

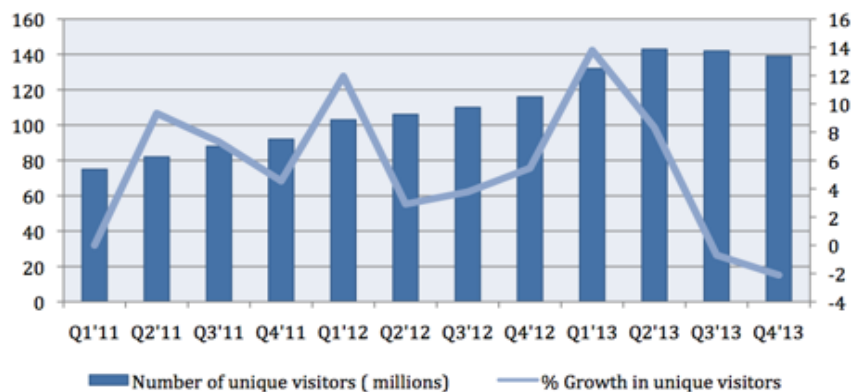
The company has identified three strategic investments to fuel growth: 1) Expanding into China; 2) Creating a world economic graph to map 3 billion workers; and, 3) Making efforts to increase user engagement on mobile devices, though these initiatives could aggravate short-term cost pressures. To be successful, LinkedIn's growth depends on the number of new members and member activity levels. The graphs below, which depict the number of registered members, unique visitors, and page views—the three main metrics used in determining a website's health—reveal declining growth rates, especially in the last year. These metrics will dictate the number of LinkedIn Corporate Solutions customers, who use this data to determine whether or not they will advertise or recruit on LinkedIn. As previously discussed, these customers constitute 80% of LinkedIn's revenue; thus, the company's future revenue growth is dependent upon bolstering these statistics.

Registered Members



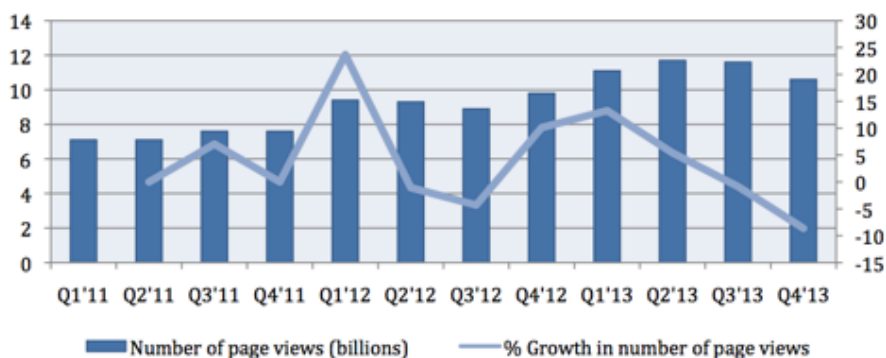
*LinkedIn defines the number of registered members as “the number of individual users who have created a member profile on their website as of the date of measurement.”

Unique Visitors



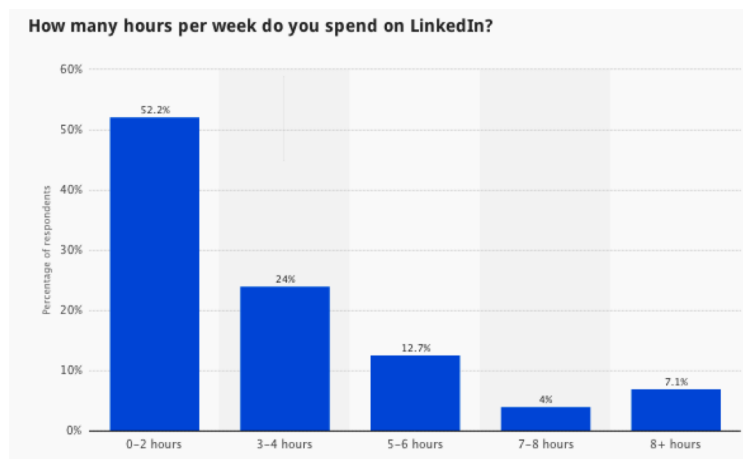
*LinkedIn defines unique visitors as “users who have visited our website at least once during a month regardless of whether they are a member.”

Page Views



*LinkedIn defines page views as “the number of pages on their website that users view during the measurement period.”

Moreover, the majority of LinkedIn's users (52%) tend to spend 0-2 hours on the site per week, and so even if the company is able to increase its membership they need to encourage users to visit the site more frequently:



Source: Statista

Liquidity and Solvency

LinkedIn is extremely solvent, being debt-free with a current ratio of 4.29. In the coming years, LinkedIn should consider taking on debt to finance its international expansion or corporate acquisitions. Though the company likely has the required cash on hand, with reserves of \$803 million in December 2013, debt can help shelter some of the company's income from taxation, which will boost its profitability.

5 Forces Analysis

5 Forces	Rating
Internal Rivalry	High
Barriers to Entry	Low
Substitutes and Compliments	Moderate
Supplier Power	Low
Buyer Power	Low-Moderate

Market Definition

LinkedIn occupies a specific niche within the social networking and online recruiting industries, which complicates LinkedIn's industry classification.⁶ We must look to LinkedIn's revenue distribution to understand its industry position: unlike other social media sites like Facebook and Twitter, who are reliant on advertising, LinkedIn's revenue predominantly comes from its recruiting services. Therefore, we will consider LinkedIn an information services provider to the recruiting industry, making its major public competitors Monster and Dice Holdings. Monster and Dice Holdings are primarily job-search engines, but while Monster relies on one, large website, Dice Holdings owns a number of smaller, industry-specific platforms (such as Dice.com, which is a recruiting website for technology and engineering professionals, and SourceForge, a space for technology professionals to develop and publish open source software). This means that while Monster is LinkedIn's largest competitor in terms of profit, Dice Holdings' product more closely matches LinkedIn's, as both offer recruiters the chance to source a more specific type of candidate.

Internal Rivalry

LinkedIn allows recruiters to post jobs and source members for qualified applicants, and therefore offers a similar product as that available through other recruitment websites such as Monster, CareerBuilder, and Dice Holdings. These companies are more established in this field, with an expansive user base that consists exclusively of job seekers, compared to LinkedIn's predominantly employed members. Monster, for example, is the largest job search engine in the

⁶ It is so complicated, in fact, that even LinkedIn's 10-K does not attempt to provide a definition.

world, with over 63 million job seekers each month, compared to CareerBuilder's 24 million monthly visitors and Dice.com's 2 million monthly visitors.⁷

Though these websites are more established for job postings, they lag behind LinkedIn in its ability to source candidates from its 280 million global members. There is no direct substitute for LinkedIn's advanced analytics system, which trumps the purely résumé-based job application functions that websites like CareerBuilder and Monster use to target candidates. While these other websites post jobs to, essentially, universal audiences, LinkedIn can save recruiters time and resources by only reaching qualified candidates.

Besides CareerBuilder and Monster, there are over a hundred other websites in this industry. Job searching has moved from being an offline venture to an online \$2 billion industry growing at an average annual rate of 10.5%. This makes competition fierce, and LinkedIn's largest challenge going forward. However, both recruiters and users benefit from a monopoly in this industry so they can avoid redundant searches and job posts, which has temporarily eliminated the threat posed by these smaller companies. No startup can offer the same unique product blend as LinkedIn, merely because it cannot amass the comprehensive database that LinkedIn works with. This means that though they may slightly decrease the number of job posts, they still cannot seriously challenge LinkedIn's overall recruiting revenue. Moreover, the buzz surrounding LinkedIn's IPO has given it enough media attention to differentiate itself, which may be its biggest advantage in cementing its market share for the foreseeable future.

Entry

The threat of new entrants is extremely high, given that there are relatively non-existent barriers to entry. Technological advancements have ensured that anyone with a personal computer and a coding background has the knowledge to create either a job-searching or social networking website, and capital requirements are low, as equipment costs are determined only by server space requirements. Industry profitability also entices many new competitors with "get rich quick" fantasies, who are safe from any personal financial downside given that founders' assets

⁷ Dice.com is the most popular subsidiary of Dice Holdings.

are protected should the startup fail. Finally, there are no governmental regulations that might scare away competition.

LinkedIn's reputation as a professional network should be enough to stave off these threats. New entrants lack "brand equity," while the ubiquity and popularity of the social media giants paint them as unassailable targets. Moreover, these established websites have pre-existing relationships and contracts with advertisers and recruiters, which makes entry slightly more challenging. These hurdles might explain why the industry is only expected to grow an annualized 0.8% over the next 5 years; startups, unable to compete with the brand-name firms, will go out of business as quickly as new firms can enter.

Should, however, a new entrant pose a threat, LinkedIn can always acquire it before it gathers too much traction; in the last 3 years, LinkedIn has acquired 5 companies and 15 patents, totaling almost \$230 million in deals. Any new website looking to break into the industry faces an uphill task, unless they offer something completely new and innovative.

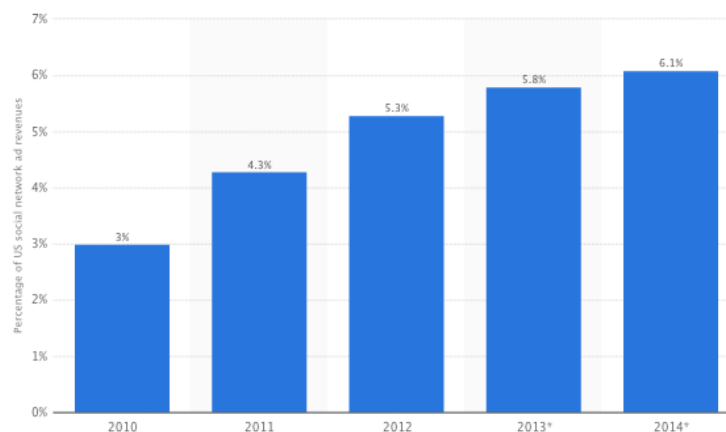
Substitutes and Complements

LinkedIn users could potentially switch to substitute recruiting platforms or another social network. There is enough product differentiation between all of these websites, however, that this move is extremely unlikely. LinkedIn members are looking for a professional network that is separated from their personal lives, and therefore cannot successfully switch to Facebook. Job seekers, as shown in the charts listed in Appendix A, rely on many LinkedIn capabilities that are not found on any of these major recruiting sites, leaving them unsuitable substitutes.

Companies that source job candidates through LinkedIn have no direct substitutes, because currently LinkedIn is the only company with an extensive level of information on members' professional lives. In contrast, companies that advertise on LinkedIn could easily switch to another social media site. Again, these aren't perfect substitutes, as other platforms tend to be more informal and have less information regarding users' professional lives. Likely for these reasons, LinkedIn's share of social media advertising is growing (see chart below).

Likewise, there are no direct complements to LinkedIn. Joining other social media sites may increase a user's probability of joining LinkedIn, but because LinkedIn is substantially more formal than Facebook or Twitter, for example, it is doubtful membership for these sites are highly correlated.

LinkedIn's social network ad revenue as share of total social network ad revenues in the United States from 2010 to 2014



Source: Statista

Supplier Power

The main suppliers to online companies such as LinkedIn, Facebook, and Monster are the server storage companies and bandwidth providers. Neither of these two groups have much bargaining power, since the popularity of websites like Monster and LinkedIn mean their business would constitute a substantial portion of any server storage and bandwidth providers' revenue. Competition for their business would lead to price-cutting amongst these suppliers, giving LinkedIn the advantage in negotiations.

Buyer Power

LinkedIn Premium Subscribers have low bargaining power, because no particular Premium Subscription customer—who is typically an individual, not a corporation—has the power to impact pricing or volume. Though price sensitivity may be a factor, LinkedIn's previous Premium Subscription price decrease has shown that, though price shifts may change the number of subscribers, LinkedIn's overall profit will remain stable. Consequently, price does not pose a substantial threat.

Unlike Premium Subscribers, companies that advertise on LinkedIn have moderate bargaining power, since they can advertise on other social media sites and switching costs are low. Thus price sensitivity is a key factor here. How much advertisers pay is not public, but we can assume

that negotiations revolve around user numbers and activity. LinkedIn does not have the same cachet or user frequency as Facebook, but it does have a strong, professional brand. We can therefore conclude advertisers retain a moderate, but not high, level of bargaining power.

Companies that use LinkedIn to source candidates for jobs have no buyer power. LinkedIn's professional network remains unique, and so if companies want to source candidates they don't currently have any viable alternatives. Moreover, LinkedIn is the only company that personalizes the hiring process, allowing recruiters to rely on mutual network connections instead of anonymously cold-calling candidates.

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Unique Product • Versatile Analytics Platform • Proven Success 	<ul style="list-style-type: none"> • Slowing Metrics • Overly Diversified Product Line • International Expansion: Infrastructure
Opportunities	Threats
<ul style="list-style-type: none"> • Targeted International Expansion • Become Domestic Market Leader 	<ul style="list-style-type: none"> • International Expansion: Regulation and Public Perception • Vulnerability of the Social Media Industry

Strengths

LinkedIn's breakout success can be largely attributed to its unique product: organizing what used to be an informal and intangible process into a user-friendly professional networking platform. Where LinkedIn's competitors—Monster, CareerBuilder, and Dice—can only offer recruiters the option to post jobs to universally accessible lists, LinkedIn's advanced analytics system allows recruiters to customize what kind of applicant a post reaches. Recruiters on LinkedIn can see any shared connections and directly contact prospective applicants, humanizing an experience that can feel distant and impersonal and increasing their probability of success.

Moreover, because of the nature of social media, where it is in consumers' best interests for one site to dominate, LinkedIn's unique product—and therefore its first-mover advantage—has secured its spot in this market, at least for the short-run.

Should LinkedIn's grip on this market begin to slip, its analytics platform has proven itself versatile across industries. Though this could also be perceived as a weakness, as discussed in the next section, it provides the company a certain level of security: minimally, they have

amassed a detailed and massive database containing 280 million members' employment history, and have the analytic capabilities to effectively sort and interpret this information.

Finally, LinkedIn's performance thus far has established that there is a strong demand both domestically and internationally. Its financials, as discussed, are consistently sound in both markets, and compare well to direct competitors. Likewise, though investor enthusiasm has fallen slightly in the recent quarter, the stock is still priced 870 times current earnings, which implies the market has faith that demand for LinkedIn will continue to grow.

Weaknesses

User engagement drives LinkedIn's profitability, and though engagement is still increasing, growth rates are decreasing across all indicators. Unique visitor growth, or the increase in users who have visited the website at least once in a one-month period, is falling from a 62% increase in 2011, to a 50% increase in 2012, to a 45% increase in 2013. Likewise, page views increased only 24% in 2013 compared to 30% in 2012 and 63% in 2011 and the number of registered members increased only 37% in 2013 compared to 39% in 2012 and 60% in 2011. If LinkedIn cannot continue to attract new users and increase site traffic, they can expect to lose significant revenue from marketing and recruiting clients.

Partly in response to these declining metrics, LinkedIn has made an effort to look for alternative revenue sources and expand its product line. However, it has looked too far outside its core competency to do so. LinkedIn's latest effort to diversify was its introduction of Sales Solutions, or a "social selling solution" that allows sales representatives to find and create new opportunities using advanced LinkedIn search capabilities. This venture has created new vulnerabilities for the company, not the least of which is that, when it comes down to it, this is a social media and recruiting company hybrid trying to expand into a third and entirely unrelated industry. Not only do they have no industry knowledge, but even if the product doesn't fail of its own volition, LinkedIn must also compete with well-established competitors whose entire companies focus solely on monetizing sales networks, such as Salesforce.com.

More importantly, by expanding into another industry LinkedIn could be endangering its brand. The upside is small, while the downside is substantial: Sales Solutions revenue is negligible, comprising only a fraction of LinkedIn Premium Subscription revenues—its lowest earning product line—but it could jeopardize user loyalty. As previously discussed, user loyalty is everything for LinkedIn, who must wrestle with the whims of a fad industry. LinkedIn monopolizes the professional networking arena because of its first mover advantage with this unique product. If its brand loses power (e.g. it is no longer seen as a professional networking site), users may look to switch to a more clearly defined platform. Or, worse, users may feel alienated by a company that sells special profile access to sales representatives, effectively destroying all trust LinkedIn has accrued with customers. Limiting the downside of this sales program, it seems, lies in the consumers being ignorant of its existence; yet, ignorance also means the company cannot effectively market the service, limiting its upside.

LinkedIn is also actively pursuing an aggressive international expansion model to increase the number of users. However, LinkedIn's existing infrastructure may not be able to handle a dramatic influx of new members, which could severely weaken its performance. One manifestation of this would be slower load times, while another would be that the site would not adequately localize postings. In either case, users may lose faith in the brand, ultimately becoming frustrated and leaving the site.

Opportunities

Though LinkedIn's international expansion poses some challenges, it should also be seen as an opportunity. If LinkedIn creates a more directed plan, targeting countries based on specific historically profitable parameters—such as high tech areas, business centers, or high-population cities—expansion could be largely driven by organic growth without the threats associated with entering too many countries at once. A well-defined strategy can help focus the movement in a way that does not overextend resources, while still providing the user growth LinkedIn needs.

Domestically, LinkedIn should capitalize on its growing popularity and waning competitors to become the market leader for recruiting services. It is on its way, already gaining traction and a

growing percentage of the market share—nearly quadrupling to \$23 billion from its \$6.5 billion market cap in January 2012—but there are more opportunities for the company to cement its position. The corporation needs to focus its development on establishing products that further its brand and expand its active user base, eliminating all projects that don't accomplish either of these goals. Essentially, LinkedIn should rely on its proven strength: revolutionizing the way professionals work by digitizing and consolidating different parts of their lives. The company should continue to develop, not by diversifying out of professional networking, but by reaching into other areas of professionals' lives (implementing a business card application, for example).

In this vein, an opportunity exists for LinkedIn to more directly challenge Monster's entire platform and institute a version of "Monster College," or a recruiting site targeted towards undergraduate students to help them find internships and entry-level employment. An internship site could help LinkedIn solidify its domestic dominance, while also increasing its new member and unique visit rates.

Threats

LinkedIn's emphasis on international expansion will open the company up to a number of disparate regulatory problems, which become increasingly hazardous to overall company health as international traffic grows as a percentage of total revenues: 32%, 36%, and 38% in 2011, 2012, and 2013, respectively. Each country will have diverse sets of regulations regarding illicit user activity, how to store user information, and company responsibility in the aftermath of an information breach from hacking activity, notwithstanding entirely different tax policies. As LinkedIn expands into China, for example, they must face additional costs ensuring the site is not used for any political messaging. The United States, on the other hand, has relatively no regulatory prescriptions in place; yet, the lack of regulation is just as threatening, as Congress can always pass new bills rendering LinkedIn liable on any of the aforementioned topics. For each new country LinkedIn enters, they must be aware of how these additional compliance obligations may impact their bottom line.

It's also important to note that some of these regulatory changes may not originate in the government, but instead may come from the public. Recently, social media privacy has been a trending news topic. If the public—be it American or international—chooses to mobilize and press the issue, demanding that companies be more judicious in how user information is distributed or that they do more to protect user information, LinkedIn could be faced with huge personnel cost increases. If LinkedIn and other social media companies do not comply with evolving privacy expectations, users are likely to abandon the sites entirely, effectively ending the industry.

In addition to the privacy debate, the social media industry has a number of other embedded threats to profitability. For one, the industry may disappear, replaced by the next fad; or, potentially only LinkedIn will fall out of style and consumers will turn to a new substitute. Given that the costs to entry are extremely low, LinkedIn must be on guard to defend against startups that challenge its market share. One of the best ways to ensure this happens is by hiring talented engineers and designers who, using effective R&D efforts, can keep LinkedIn relevant. However, employee retention can be a problem at public tech firms; it is still too early to determine the extent that LinkedIn will suffer from talent flight, especially from recently acquired companies.

Moreover, LinkedIn must develop a strategy to stop external websites from aggregating user information and selling it to LinkedIn's customers at a discount, which is a large source of revenue loss for all major social media companies. In the future, LinkedIn will also need to address the cyclical and seasonality of both the hiring process and website viewership, both of which will impact quarterly metrics. Finally, social media is largely going mobile, and LinkedIn must ensure its revenues will not be impacted if the majority of users access the site from smartphones.

Strategic Recommendations

Based on the information above, LinkedIn should focus its strategic development in two areas: designing a targeted model for international expansion and clarifying its brand by honing its product line. Though each of these recommendations is tailored to address a specific weakness, they both extend from the following need: LinkedIn will succeed or fail based on user satisfaction, and therefore it must focus on creating a product that members want, will use often (even if not a job seeker), and will have trouble leaving for a competitor.

International Expansion

LinkedIn's management has made it clear that international expansion is a priority, hoping it will to boost stalling membership and page view growth rates. Recruiting websites, such as Monster and CareerBuilder, have already proven that an international market exists, and LinkedIn's success, domestic and otherwise, has established that it is both prepared and qualified to take this next step. However, our financial analysis has shown that this step abroad, if mishandled, could seriously undermine overall profitability. These preparations have already impacted LinkedIn's cost structure, and if these expenses aren't offset by substantial future returns, investors should expect to see share prices drop substantially.

Given these concerns, LinkedIn's expansion should be guided by two main factors: growth potential and the marginal costs of expansion.

Here we define growth potential as a country's capability to contribute new users. To understand how many new members may join LinkedIn—and, more importantly, how many new active users a country will provide—we will rely on the following parameters:

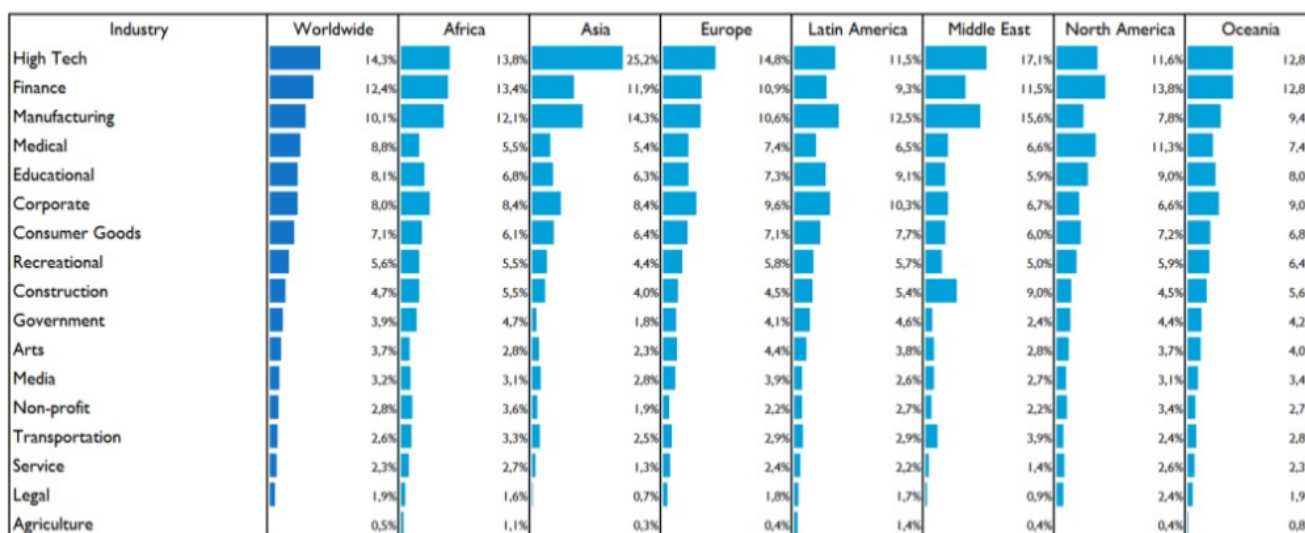
❖ Number of White Collar Workers

- LinkedIn end users are primarily highly educated white-collar workers, and so the company should look to expand into countries with large professional

populations.⁸ If this data is not universally available, it is possible to create a proxy based on the percentage of people that work in white-collar industries in countries with similar levels of economic development.

❖ Industry Concentration

- As shown in the chart below, LinkedIn's global members are predominantly professionals in the service sector, specifically from high tech, finance, and manufacturing industries. Countries selected for expansion should therefore collect a substantial percentage of GDP from the service sector, especially if there is considerable high tech or finance activity.



Source: "LinkedIn Demographics and Statistics – Jan 2012." *SlideShare.com*.

❖ Current Users

- It will be easier to expand if LinkedIn already has an established foothold in the market. Therefore, the number of current users in an area should be taken into consideration.

❖ Market Saturation

- At the same time, if the market is already saturated then LinkedIn won't see as much growth per dollar spent. The company should avoid targeting countries with a current penetration rate of over 20%, because it can't expect to gain more than a

⁸ "LinkedIn.com: People." *Quantcast.com*, March 29, 2014.

15 percentage point increase – the US market, the object of substantial marketing efforts, has only a 32% penetration rate, and can be considered the current period growth ceiling.

❖ Membership Correlation to User Activity

- A country's established correlation between registered users and frequent activity would mean higher long-term revenue per new member. See Appendix B for an understanding of these rates, as they relate to other social media platforms, for a selection of countries.

Excluding China, where an expansion policy has already been implemented, these conditions suggest the following countries would be the most profitable expansion targets (where the bolded columns represent estimated numbers):

Country	Current Users	Penetration	Remaining Market	Services as % of GDP	Size of Target Market	% of Active Members	Increase in Active Users
India	26,183,865	2.1%	1,244,877,543	57%	708,335,322	44%	311,667,542
Indonesia	3,128,311	1.3%	247,136,569	39%	96,383,262	38%	36,625,640
Brazil	17,214,681	8.6%	183,891,405	68%	125,046,156	24%	30,011,077
South Africa	3,332,017	6.4%	48,407,377	69%	33,401,090	51%	17,034,556
Total							<u>395,338,815</u>

We recognize that this is a simplistic model using imperfect proxies (such as services as a percent of GDP standing in for industry concentration), and we acknowledge that the estimate produced is rough. However, robustness checks still reveal a clear leader: reducing the services proxy to 30% or 45% means India would still produce between 164 million and 246 million active users, which surpasses the second-best option in Indonesia by far. Each of these countries has a sizable number of current users without market saturation, but Indonesia, Brazil, and South Africa aren't perfect targets given a small percentage of service industry employees, lower conversion of registered to active users, and a comparatively small population, respectively. However, even if LinkedIn underperforms by 25% in these collective markets, these new *active* members would still double the current total number of global *registered* members.

Given LinkedIn's current expansion into China and that growing costs are a concern, our recommendation is to target India in the coming year and wait to expand into Indonesia, Brazil,

and South Africa. India's marginal costs should be the lowest of these four countries, not just because there are more potential users, which would split the overhead per user, but also because LinkedIn already has two international offices in India. The company could therefore hope to recognize some economies of scale in G&A expenses, increasing the profitability of this expansion. Moreover, LinkedIn should finance this expansion with debt, and begin to shield some of its income from taxes.

Once LinkedIn has further established itself abroad, allowing it to safely increase its global infrastructure without its costs overcoming revenues, then the company should survey these three countries to determine which, if any, it should look to target next. If there is already a professional networking site in one of these markets, LinkedIn should consider a strategic partnership to break into these areas.

Brand Development

Although LinkedIn has thus far been successful because of its unique product, it will continue to thrive and defend against new entrants long-term because of its brand recognition. Ultimately, other companies will develop similar analytic-based platforms, and if consumers become dissatisfied with LinkedIn's service or its product offerings they will turn to these alternative options. It's important for the company to fortify its brand and make its product more "sticky," or accumulate user data—like Facebook does by aggregating users' pictures—so it becomes more difficult for customers to leave LinkedIn for a competitor.

Hence, LinkedIn should stop trying to be a big company, and instead become a big name in professional networking, only pursuing projects that underscore this status. This has two immediate implications: LinkedIn should eliminate its Sales Solutions branch and instead implement projects—such as a business card application or an internship platform—that build this image.

Sales Solutions

As previously discussed, the upside for the Sales Solutions department is limited. These sales constitute only a fraction of Premium Subscription sales, a division that has maintained a stable 20% position of LinkedIn revenue since its IPO. The fact that this department's share of revenue hasn't increased suggests that there is a limit to the growth of paid subscriptions.

Meanwhile, this product's constrained upside is complemented with a severe downside: if customers realize that LinkedIn is selling special access to users' profiles to sales representatives, members may cancel their accounts, anticipating that a personal profile will do more harm than good. Additionally, introducing a Salesforce-esque product may confuse LinkedIn's brand. Members join to be a part of a virtual professional network, but if LinkedIn instead also includes a sales aspect consumers may look elsewhere for an alternative website that specializes only in professional networking.

However, LinkedIn should not entirely concede this income. It should still continue its Sales Navigator product, in which LinkedIn provides CRM integration through a partnership with Salesforce. We believe selling access in this capacity does not carry the same downside as the Sales Solutions product because Sales Navigator is not, per se, a LinkedIn product, and so it does not confuse its brand, and the company is not publicly offering special access to personal profiles.

Product Offerings: Mobile

LinkedIn's efforts to diversify *out* of just social media and recruiting should instead focus on diversifying their product line *within* these industries. We would like to acknowledge that LinkedIn is already making some inroads here, having acquired a mobile application that converts pictures of business cards into contacts, a move that will boost its name recognition and brand as a professional networking solution. However, these efforts need to be bolstered. The app currently receives low ratings and it is not integrated with the company website (the app only includes "LinkedIn" in the title, but is otherwise completely separate from the website), and so does not directly impact LinkedIn's mobile presence or grow LinkedIn's user rates.

This can be an opportunity for the company to fully incorporate its services onto one, clear platform, and reconcile these issues. For example, LinkedIn could add a segment of the website that interfaces with this business card app, where users can tap phones and virtually share profiles and contact information (much like iPhones can share pictures), building a digital archive of “LinkedIn” business cards. This would cut costs for professionals, who would no longer need paper cards printed, and would solidify LinkedIn’s position as a necessity for professionals. Moreover, it addresses LinkedIn’s concerns regarding the importance of a mobile platform. By adding additional features that aggregate a professional’s network, LinkedIn makes it increasingly difficult for a new entrant to seriously challenge LinkedIn’s market share while augmenting user activity among all members, rather than just among job seekers.

Product Offerings: Internship Platform

A platform geared specifically for undergraduate internships could also help expand LinkedIn’s market share, but into a very different age group. Targeting college-age internship seekers will make these users commit to LinkedIn early: if they use the site for internship searches, they will likely return to find entry-level positions. This gives the company more time to personalize their experience, collect information, and increase their long-term loyalty to LinkedIn. In essence, attracting workers at a younger age gives LinkedIn a head start on making the online experience “stickier.” Finally, LinkedIn has thus far done a poor job at attracting young professionals, who are also the most active job seekers and social media users; an internship platform may be a good way to reach this population.⁹

The concept is as follows: LinkedIn would create a new, but separate, portion of its website under a slightly different name, such as LinkedInInternships. This separation works to preserve the original LinkedIn brand and keep the original website attractive to adults. LinkedInInternship users will have to create a LinkedIn profile to access this alternate internship website—increasing LinkedIn’s main website page view and click-through rates—and can only apply to positions by “sharing” their profile to recruiters, the equivalent of submitting their résumé electronically.

⁹ The majority of LinkedIn users are between the ages of 30 and 64.

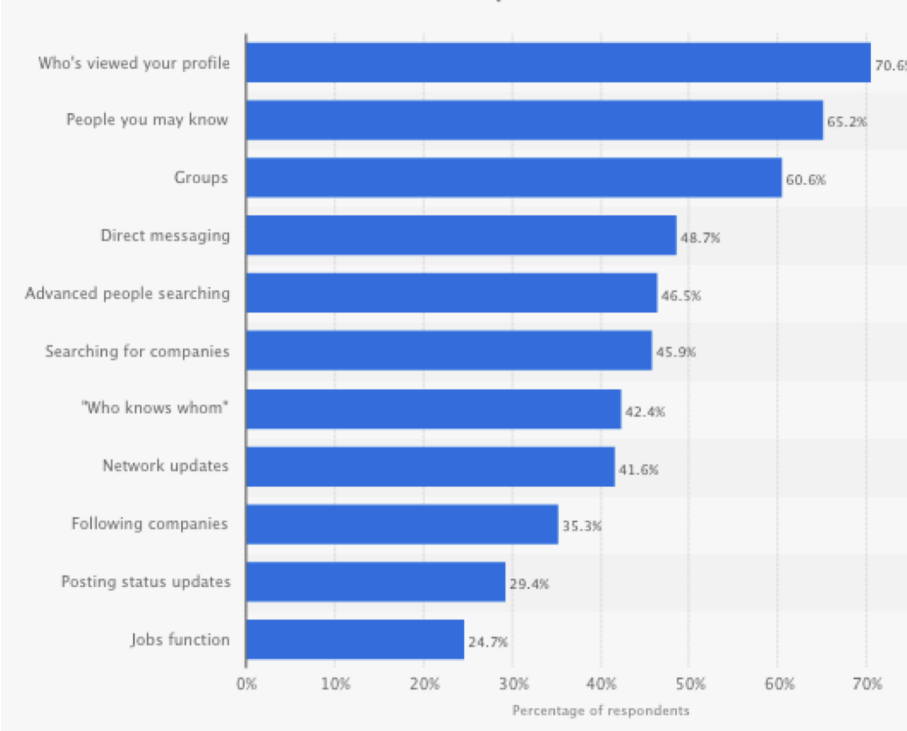
Monster's "Monster College" product, a job-seeking platform for undergraduate students, has proven this market exists. It is relatively successful, with 5 million annual visitors, and has prompted many similar spin-off sites, such as InternMatch. There is no current standout site, however, signaling that the market is vulnerable to penetration.

Moreover, LinkedIn continues to dominate Monster in recruitment expenditures, and has demonstrated that it can provide better candidate sourcing products to customers. LinkedIn's analytics are only as good as its users, however, and LinkedIn isn't currently attracting a younger audience; recruiters looking for younger candidates must necessarily turn to Monster College for these kinds of positions. It can therefore be expected that recruiters would prefer sourcing these younger candidates using LinkedIn's advanced analytics system, and will do so if LinkedIn captures these users.

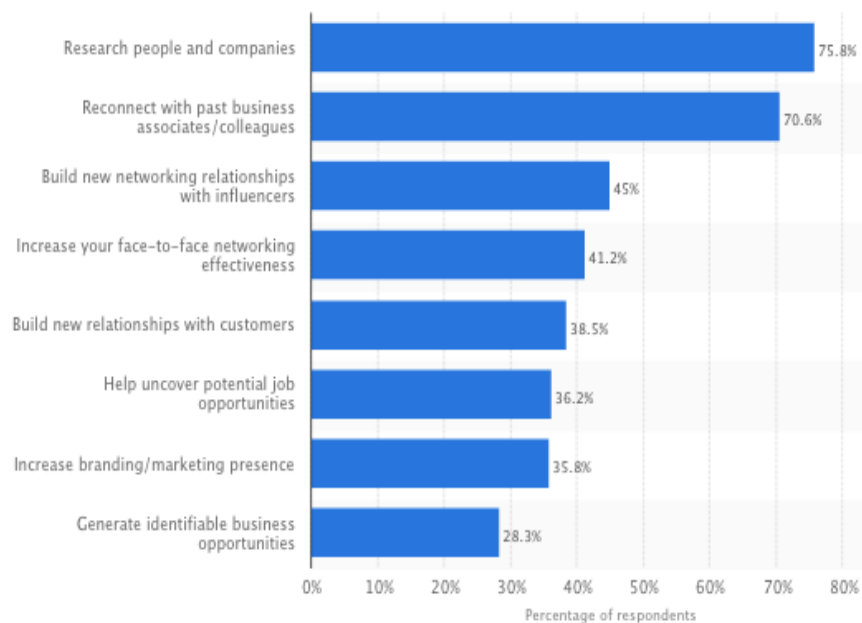
We recommend that LinkedIn develops this product—again, potentially financed by debt—and introduces it for beta testing domestically. If successful, the company should consider limited international expansion based on whether internships are the cultural standard.

Appendix A

Which LinkedIn features are the most helpful?



Which of the following has LinkedIn helped you with?

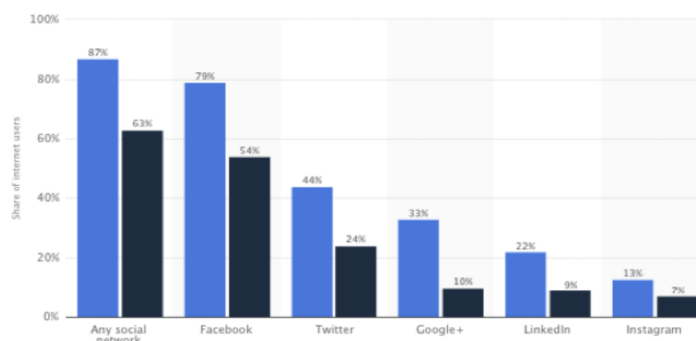
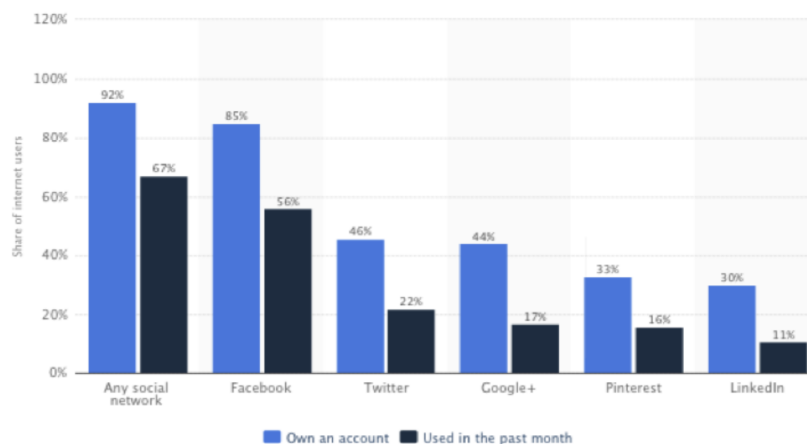


Source: Statista

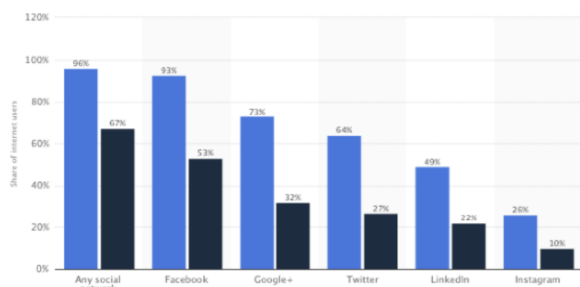
Appendix B

Penetration and Activity Rates of Social Media Platforms by Country

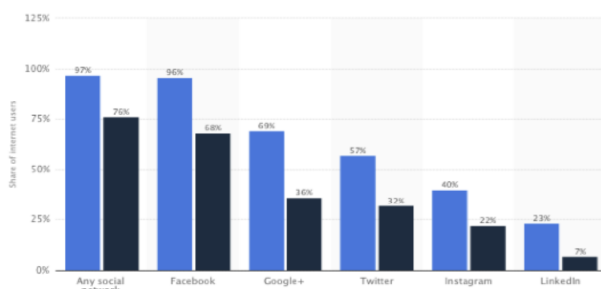
Penetration of selected social networks in the United States as of 3rd quarter 2013



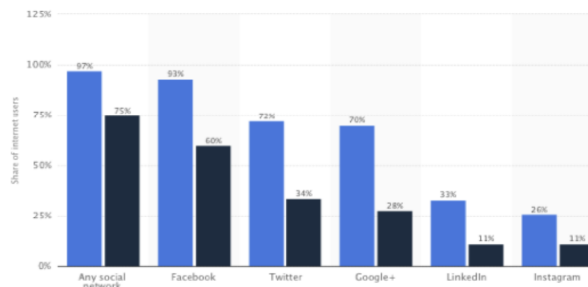
United Kingdom



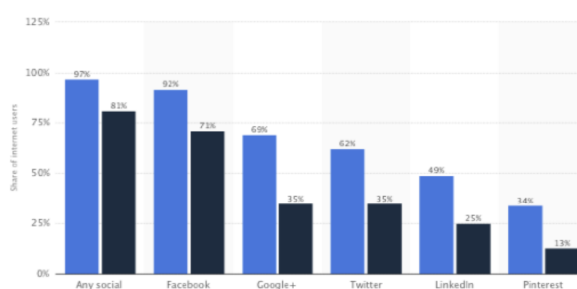
United Arab Emirates



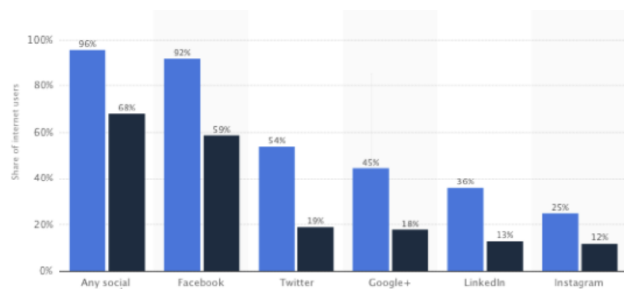
Thailand



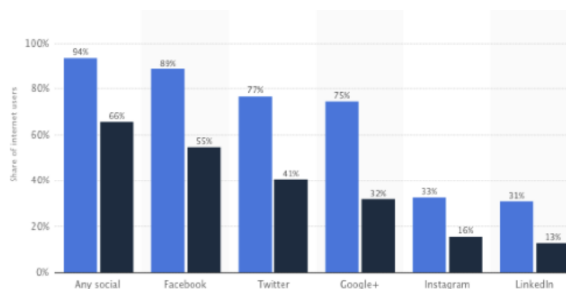
Turkey



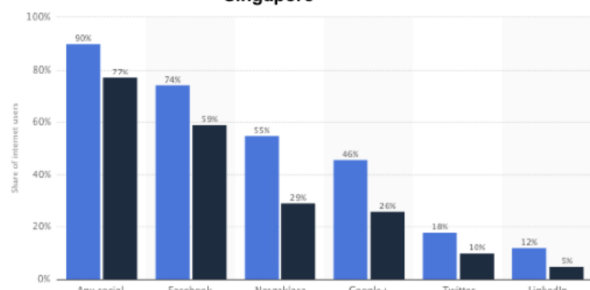
South Africa



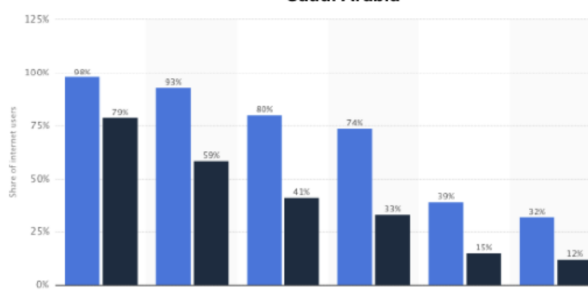
Singapore



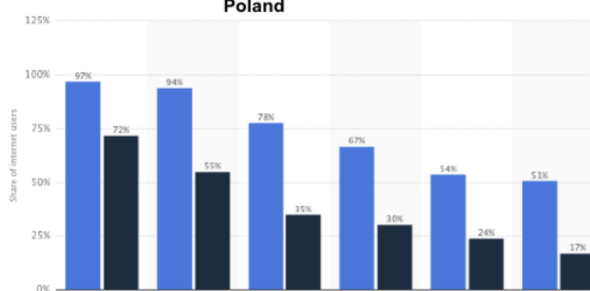
Saudi Arabia



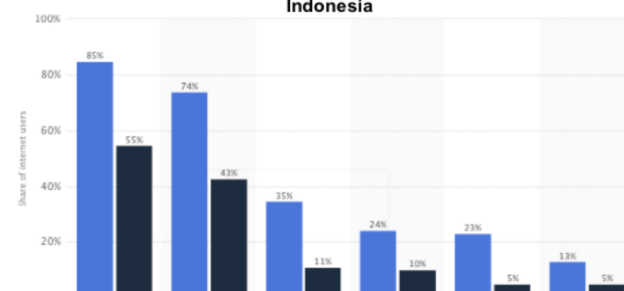
Poland



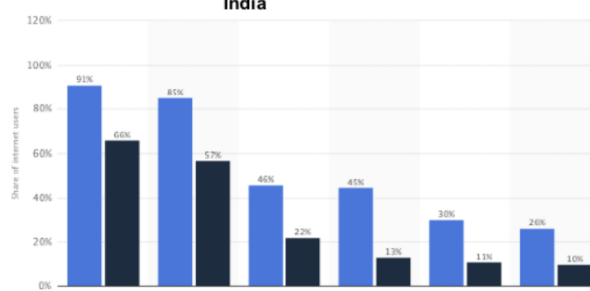
Indonesia



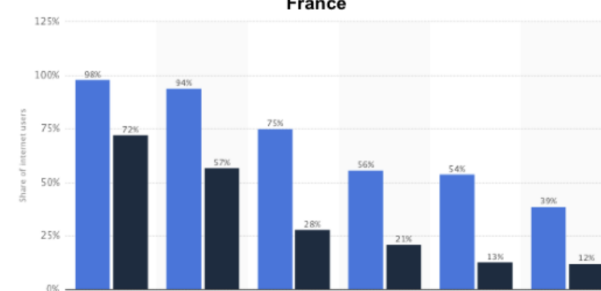
India



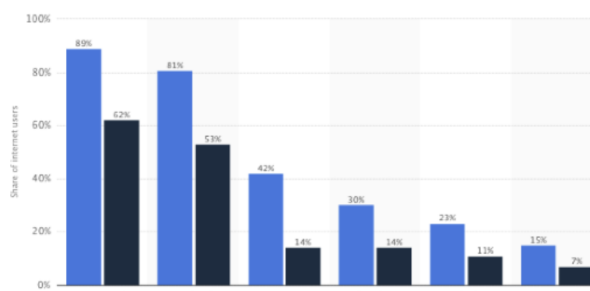
France



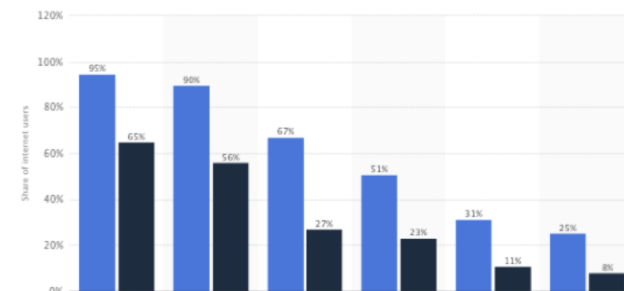
Canada



Brazil



Australia



Argentina

Source: Statista