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SNAP inc.: BECOMING A “CAMERA COMPANY”[[1]](#footnote-1)

Ken Mark wrote this case under the supervision of Professor Neil Bendle solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In its first television advertisement, Snap Inc. (Snap), commonly known as Snapchat for its application (app) that allowed users to send disappearing pictures, tried to explain that it was a new kind of camera. The television advertisement, which debuted in late March 2018, tried to show how adults could communicate with their friends through pictures and videos, not just through text messaging or email. It showed people using Snap’s app to take pictures of moments in their lives and overlaying these pictures with filters, lenses, and graphics. The advertisements ran in heavy rotation over the next two months. The ads were necessary, it seemed, to explain to confused adults how Snap’s app could be used in the first place. “It’s a camera for talking, because a Snap says more than a text,” the advertisement emphasized.[[2]](#footnote-2)

The advertisements—targeting adult users over the age of 25—were developed internally, and the full 60‑second and a shorter 30-second version ran on television in prime-time, cable, and syndication slots for the next two months. For example, the advertisement ran during National Collegiate Athletic Association’s Final Four basketball tournament on American television channel TBS.[[3]](#footnote-3)

The fact that a social media platform was resorting to buying advertisements on traditional media hinted at the difficulties Snap was facing in trying to grow its user base beyond its core youth audience. The second challenge for Snap lay in defining a “camera company” and differentiating itself from competitors such as Facebook Inc. (Facebook), Apple Inc. (Apple), and Google. Competition for Snap’s market space was fierce, with industry giant Facebook adding a service similar to Snap’s Stories on March 28, 2017, and rolling out similar functions on its other apps, including Instagram, WhatsApp, and Messenger. Stories were compilations of Snaps that users had posted to their “Story” folders in the last 24 hours. After the 24 hours were up, the Snaps were automatically deleted from the folders.

However, a redesign of the app’s user interface that separated content from friends from content from advertisers (see the overview of navigating Snap on YouTube) triggered a backlash, with frustrated users venting online.[[4]](#footnote-4) The changes combined Stories with one-to-one Snaps on the same screen and relied on an algorithm to prioritize the friends users interacted with the most. These changes were confusing because users were familiar with seeing Stories and individual Snaps on separate screens. Now, if users wanted to see the Stories of friends they had not recently interacted with, they had to search for those friends by name. In an informal poll on SocialBlade,[[5]](#footnote-5) 74 per cent of nearly 3,000 users found the new updates “Terrible. Just awful.”[[6]](#footnote-6)

In April 2018, it remained to be seen whether Snap would be able to continue to grow its user base in the highly competitive social media platform industry.

Social Media Platforms

There were several key social media platforms that garnered the majority of attention from users. By offering many of their features—search capabilities, profile hosting, messaging functions—for free, these platforms attracted millions of users interested in connecting with each other. These platforms were monetizing their user bases by selling advertisements and other ways to engage with users to those interested in reaching their users. While many social media platforms had had their start on desktops and laptops, the increasing power and sophistication of mobile phones prompted the majority of platforms to focus on mobile engagement.

Platforms competed for users by offering most of their services for free and so did not compete on price. Competitive advantages included a combination of functionality, brand, ease of use, and the nature of the offerings. Advertisers were attracted to these platforms because of the ability to reach groups of users (see Exhibits 1 and 2). Platforms competing for advertising revenues included well-capitalized firms such as Apple, Facebook (including Instagram and WhatsApp), Google (including YouTube), and Twitter.

The number of monthly active users by company continued to grow (see Exhibit 3) and varied by age (see Exhibit 4). Snap’s core user was young, female, and used the app for 40 minutes per day. In 2017, Snapchat reached 11 per cent of the total U.S. digital population; 71 per cent of Snapchat users were under the age of 34, and 45 per cent were between 18 and 24. Roughly 70 per cent of Snapchat users were female. In the United States, 30 per cent of millennial Internet users used Snapchat regularly; people under the age of 25 used Snapchat for 40 minutes on average every day.[[7]](#footnote-7)

Snap Inc.

Based in Venice, California, Snap had 3,069 employees at the end of 2017. Evan Spiegel and Bobby Murphy had created an app they called “Picaboo” in the spring of 2011. The aim of the app was to enable users to send pictures that would disappear after a set time. But when they launched their app on the Apple iOS App Store in July 2011, the uptake was low, and they realized that users were able to take screenshots of the pictures, rendering the disappearing feature useless. The two founders regrouped and redesigned the app to notify users if recipients took a screenshot, and then rebranded and relaunched it as Snapchat. Spiegel described the app in a blog post in 2012: “We’re building a photo app that doesn’t conform to unrealistic notions of beauty or perfection but rather creates a space to be funny, honest or whatever else you might feel like at the moment you take and share a Snap.”[[8]](#footnote-8)

In its early days, Snapchat’s popularity was driven by the fact that many students were using the app to send intimate photos—or “sexting.” The challenge for those wishing to send intimate photos by text or email was that the photos, once sent, were under the control of the recipient. Snapchat allowed users to send photos—Snaps—that disappeared within seconds of being viewed.[[9]](#footnote-9)

By October 2012, the app had caught on, and 20 million Snaps were being sent per day. In December 2012, Snapchat allowed users to record and send 10-second videos to others. The company continued to add features, launching “Stories” in October 2013:

Snapchat Stories add Snaps together to create a narrative. When you add a Snap to your Story it lives for 24 hours before it disappears, making room for the new. Your Story always plays forward, because it makes sense to share moments in the order you experience them.

Your Story never ends and it’s always changing. The end of your Story today is the beginning of your Story tomorrow. And each Snap in your Story includes a list of everyone who views it.[[10]](#footnote-10)

By January 2014, the company had refused offers of acquisition, including overtures from Facebook. Spiegel stated that trading independence and the chance to grow a platform company “for some short-term gain isn’t very interesting.”[[11]](#footnote-11) In December, the company acquired Vergence Labs, Inc., the developer of Epiphany Eyewear, for US$15 million[[12]](#footnote-12) in cash and stock, and mobile app Scan for $50 million.[[13]](#footnote-13) In September 2016, Snapchat rebranded as Snap, Inc. when it launched Spectacles, its camera sunglasses. A year later, only 0.08 per cent of Snap’s users had purchased the camera sunglasses. Less than half of buyers kept using the glasses after one month. Critics pointed out that the company had waited five months before selling Spectacles online, and that there were quality and usability issues.[[14]](#footnote-14)

Products

Snap’s app opened directly into its Camera function, allowing users to capture a Snap and send it to friends. Users could overlay their Snaps with augmented reality lenses and filters. Snap’s Lens Studio allowed users to design augmented reality lenses for the app. A Lens was a feature that embedded special effects such as sound or a picture or animation that modified a Snap. For example, as *Time* magazine noted, “The lenses option . . . can transform your face into that of a horrifying monster or make it look like you’re vomiting rainbows.”[[15]](#footnote-15) A Filter was an image that overlaid a Snap, much like a picture frame. In certain areas around the world, Snap had location-specific Geofilters, which were filters available only in that area.[[16]](#footnote-16) The creation of Lenses and Filters was aimed at getting users to engage with the app more often, as Snap noted in its public filing:

Over one third of our Daily Active Users play with our Augmented Reality Lenses every day on average, and anyone can create their own Lens using our Lens Studio. Additionally, we also offer contextually relevant content and creative tools based on things like time, location, and objects.[[17]](#footnote-17)

Snap provided to users a Friends Page, where they could interact with their friends, watch Stories, engage in group chats, make voice and video calls, and send messages. In November 2017, Snap launched its Discover feature, which separated user-generated content from the professionally created content of publishers, creators, and advertisers (see the overview of navigating Snap on YouTube).[[18]](#footnote-18) A journalist noted,

The left side of the app has always been for chats with friends, and the right side has always been for brands. But before now, stories—the ephemeral, public photo and video posts that disappear after 24 hours—have been housed in their own tab to the right of the camera screen. The stories tab blended content from friends and brands, to sometimes confusing effect. . . .

The move could have negative consequences for publishers, who are accustomed to their stories appearing in a central feed alongside stories from users’ friends, likely generating more views as a result. Publishers could begin following back their user bases en masse, but unless they start interacting with millions of accounts, they might show up lower in the feed than they would on the Discover page. Snap said it would release unspecified new tools to help creators profit from their work on the platform.[[19]](#footnote-19)

There was a Snap Map feature that showed users live maps of their locations, friends who were nearby, Stories, and a list of recent Snaps posted. Users were able to save Snaps in a folder called Memories and use the content to create Stories. Finally, Snap had its Spectacles products, which connected with Snap’s app and allowed users to capture video as they moved around (with Spectacles on their noses).

Business Model

Snap’s revenues were generated by selling advertising, static display ads, and interactive Lenses and Filters. For example, Sponsored Lenses allowed advertisers to create visually engaging three-dimensional experiences for users. Sponsored Geofilters allowed users to create and send location-specific Snaps to their friends. Advertisers could pay for Snap Ads or Promoted Stories, which were displayed to users as videos. Additional features could entice users to interact with ads, click through to websites to purchase products or services, watch longer videos, or install apps. To make it easier for advertisers to review Snap’s ad inventory and other advertising products, the company built a suite of self-service tools that automated ad-buying and campaign management for advertisers. Snap also had access to third-party and first-party solutions to provide analytics to advertisers on the effectiveness of their campaigns. Selected metrics included brand favourability or purchase intent and increases in actual behaviour like purchases, foot traffic, app installations, and online purchases. Several products were available to advertisers (see Exhibit 5).

Challenges

For Evan Spiegel, Snap’s co-founder and chief executive officer, the task of building Snap into a sustainable, growing, and competitive social media app continued to be a work in progress. Spiegel’s work was made more difficult when internal data showing that Snap was more of a *messaging service* than a *social media platform* was leaked. A review of data for the period April 2017 to September 2017 by The Daily Beast revealed the following:

Beyond the cultural and morale implications of keeping employees in the dark, the figures paint a dire picture of Snap’s struggle to grow into a mature social media platform. The vast majority of usage on the service revolves around sending basic photo/video messages, making Snapchat much more of a messaging service than a full-featured social media platform.

For example, just 11 per cent of Snap’s user base (19 million) accessed Snap Maps on a daily basis in the month of September, which doesn’t inspire a lot of confidence in Snap’s efforts to turn Snap Maps into a real-time news source. Snap Maps was expensive to build too, since Snap acquired Zenly for $213.3 million last May to develop the feature. That’s an awful lot of shareholder money to waste if the intended feature flops with users, whereas the financial downside to internally developing features is much lower.[[20]](#footnote-20)

On February 23, 2018, Snap saw its shares fall by $1.3 billion in value—to $21 billion—when celebrity Kylie Jenner tweeted that she no longer used the app. Observers pointed out that Snap had been dealing with several issues, including the controversial redesign and competitive pressures, even before Jenner’s tweet. While Snap’s revenue per user had jumped from $1.17 in the third quarter of 2017 to $1.53 in the fourth quarter of 2017, its user growth rate had slowed (see Exhibit 6). With 187 million global users at the end of March 2018, Snap was lagging behind Instagram’s 800 million users, a target the latter had reached in September 2017.[[21]](#footnote-21)

All eyes were on Spiegel and his management team. What should they do to reinvigorate user growth at their social media platform?

Exhibit 1: Projected U.S. Digital Advertising Revenues by Company, 2016–2019

(US$ billions)



Note: Including advertising that appeared on desktop and laptop computers as well as mobile phones, tablets, and other Internet-connected devices; net and revenues after companies pay traffic acquisition costs to partner sites; including banner and other ads (static display ads such as Facebook’s News Feed ads and Twitter’s Promoted Tweets), rich media sponsorships, and videos (including advertising that appeared before, during, or after digital video content in a video player).

Source: “Net US Digital Ad Revenues, by Company, 2016–2019 (Billions),” October 9, 2017, eMarketer, accessed September 15, 2018, [www.emarketer.com/Chart/Net-US-Digital-Ad-Revenues-by-Company-2016-2019-billions/211332](file:///C:\Users\kpepers\Downloads\www.emarketer.com\Chart\Net-US-Digital-Ad-Revenues-by-Company-2016-2019-billions\211332).

Exhibit 2: Social Media Platforms ranked by Social Media Marketers, march 2016

|  |  |
| --- | --- |
| Company | Percentage of Respondents |
| Facebook | 95.8% |
| Twitter | 63.5% |
| Instagram | 40.1% |
| LinkedIn | 37.7% |
| Pinterest | 10.4% |
| SlideShare | 3.9% |
| Snapchat | 2.1% |

Note: Respondents chose up to three options.

Source: “For Social Media Marketers, Facebook Produces the Best ROI,” eMarketer, May 5, 2016, accessed September 15, 2018, [www.emarketer.com/Article/Social-Media-Marketers-Facebook-Produces-Best-ROI/1013918](http://www.emarketer.com/Article/Social-Media-Marketers-Facebook-Produces-Best-ROI/1013918).

Exhibit 3: Forecast—U.S. Monthly Active Users by Company (in millions)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Facebook** | **168.8** | **172.9** | **176.6** | **180** | **183.3** | **186.7** |
| % Change | 3.4% | 2.4% | 2.1% | 1.9% | 1.8% | 1.9% |
| % of Social Network Users | 89.7% | 89.1% | 88.6% | 88.2% | 87.9% | 87.6% |
| **Instagram** | **69.1** | **85.5** | **96.3** | **104.5** | **111.9** | **118.1** |
| % Change | 17.2% | 23.8% | 12.6% | 8.4% | 7.1% | 5.6% |
| % of Social Network Users | 36.7% | 44.1% | 48.4% | 51.2% | 53.6% | 55.4% |
| **Snapchat\*** | **62.9** | **79.2** | **86.5** | **92.7** | **97** | **100.2** |
| % Change | 36.3% | 25.8% | 9.3% | 7.1% | 4.6% | 3.3% |
| % of Social Network Users | 33.4% | 40.8% | 43.4% | 45.4% | 46.5% | 47.0% |

Note: Active users were Internet users of any age who used their Facebook or Instagram account via any device at least once per month; \*mobile phone users of any age who accessed their Snapchat account via mobile phone app at least once per month.

Source: Natasha Lomas, “Teens Favoring Snapchat and Instagram over Facebook, Says eMarketer,” TechCrunch, August 22, 2017, accessed September 15, 2018, https://techcrunch.com/2017/08/22/teens-favoring-snapchat-and-instagram-over-facebook-says-emarketer/.

Exhibit 4: Social Media Platform Users, by Age (2017) in millions

|  |  |  |  |
| --- | --- | --- | --- |
| **Age** | **Facebook** | **Instagram** | **Snapchat\*** |
| 0–11 | 3.1 | 1.4 | 1.2 |
| 12–17 | 14.5 | 4.2 | 15.8 |
| 18–24 | 23.5 | 22.1 | 24.4 |

Note: Social media platform users were Internet users who used their Facebook or Instagram account via any device at last once per month; \*mobile phone users who access their Snapchat account via mobile phone app at least once per month.

Source: Natasha Lomas, “Teens Favoring Snapchat and Instagram over Facebook, Says eMarketer,” TechCrunch, August 22, 2017, accessed September 15, 2018, <https://techcrunch.com/2017/08/22/teens-favoring-snapchat-and-instagram-over-facebook-says-emarketer/>.

exhibit 5: Snapchat products available to advertisers

|  |  |  |
| --- | --- | --- |
| **Product** | **Description** | **Example of Cost** |
| Snap Ads | Mobile video ads and interactive ads. For example, the Gatorade Snap Ads campaign gave users a mini game within Snap. This was an eight-bit version of a tennis game featuring Serena Williams. Thirty million people downloaded the ad, and the average user spent three minutes playing it. | $3,000 a month in advertising costs, not including the creative costs required to build the game or the client’s advertising agency fees |
| Sponsored Lenses | An Augmented Reality Lens that modified a Snap. For example, the Taco Bell Sponsored Lens modified the user’s face into a taco shell and featured the Taco Bell logo in the bottom left-hand corner. The Taco Bell Sponsored Lens was viewed 224 million times, and the average user played with the lens for 20 seconds. | $450,000 per day from Sunday through Thursday; $500,000 for Fridays and Saturdays; and $700,000 for special events such as holidays or sports events such as the Super Bowl |
| Sponsored Geofilters | A company could provide users within a tight geographic area access to a filter they could use in their Snaps. For example, McDonald’s sponsored a nationwide McDonald’s-branded Geofilter that allowed users to overlay a picture of McDonald’s fries and a burger on their Snap. Users could only get McDonald’s Geofilters if they were within a block of a McDonald’s restaurant. | Geofilters for an area covering a few blocks could cost as low as $5. Nationwide Geofilters could cost thousands of dollars. There were approximately 14,000 McDonald’s restaurants in the United States. Assuming McDonald’s received a discount of 20 per cent, the Sponsored Geofilter cost 14,000 × $5 × 0.8 = $56,000. |
| Snapchat Discover | Discover ads appeared prominently and separately in a user’s feed. For example, Cosmopolitan, a publisher, had a Discover ad that was getting several million views per day. | Starting at $50,000 per ad, per day; a Discover ad inside a “Live Story” cost $250,000 a day. |
| “Snap to Unlock” Filters | Users took a Snap of a code embedded in a magazine, unlocking a filter. | Unknown, but rumoured to be priced just above local Geofilters |
| Snapisodes | Containing content that was high in quality and created by brands and influencers, Snapisodes were launched on Snap and viewed by users. | Unknown |
| Promoted Stories | In 2018, Snap was preparing to launch advertising that would feature Stories that had elements of the advertiser’s brand or product within their storylines. | Unknown |

Source: “Snapchat Advertising Costs–A Breakdown of Each Offering,” Wallaroo Media, accessed September 3, 2018, https://wallaroomedia.com/snapchat-advertising-costs/.

Exhibit 6: Snap—Quarterly Statistics



Note: NA = not available; Q = quarter

Source: United States Securities and Exchange Commission, *Form S-1 Registration Statement: Snap Inc.,* February 2, 2017, accessed September 15, 2018, www.sec.gov/Archives/edgar/data/1564408/000119312517029199/d270216ds1.htm; United States Securities and Exchange Commission, *Form 10-K:* *Snap Inc.,* February 22, 2018, accessed September 15, 2018, www.sec.gov/Archives/edgar/data/1564408/000156459018002721/snap-10k\_20171231.htm.

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