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Jio and Facebook: Adding Value through An Alliance

Prashant Salwan, Shailesh Pandey, and Srinivasan R Iyengar wrote this case 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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At the core of the partnership is the commitment that Mark Zuckerberg and I share for the all-around digital transformation of India and for serving all Indians.

Mukesh Ambani[[1]](#endnote-1)

In April 2020, technology firm Facebook Inc. (Meta))[[2]](#endnote-2) agreed to buy a minority 9.99 per cent stake,[[3]](#endnote-3) worth US$5.7 billion,[[4]](#endnote-4) in the Indian telecommunications (telecom) company Reliance Jio Infocomm Limited (Jio), controlled by Reliance Industries Limited (RIL). This was the largest investment by a technology company and the largest foreign direct investment in the technology sector in India. RIL’s chairperson and managing director, Mukesh Ambani, announced that one of the goals of the Facebook deal was to reduce RIL’s debt by 2021. Jio expected to benefit by being able to exploit firm-specific competencies, access new markets, and increase its market presence and user base. The company would also gain access to complementary resources, institutional legitimacy, and organizational capabilities. Firms formed alliances not only for differentiation but also to prevent others from gaining a competitive edge by accumulating more capabilities; how could Jio ensure a co-operative and complementary partnership (despite their differences with Facebook) in order to succeed and set a precedent for future international alliances?

Reliance Industries Limited

In 2020, RIL was a global player in the integrated energy value chain, and it had a growing presence in retail and digital services in India. It operated through six reportable business streams: refining, petrochemicals, oil, gas, organized retail, and digital services. It was the largest publicly traded company in India in terms of market capitalization and the largest private-sector organization in India. On October 18, 2007, RIL became the first Indian company to have a market capitalization in excess of $100 billion (see Exhibit 1). RIL, with a value of ₹1,477.55 billion,[[5]](#endnote-5) was the largest merchandise exporter in India. The firm was ranked at 106 by the 2019 *Fortune* Global 500 list. RIL was contributing 5 per cent of total revenues to the government of India from custom and excise duty. RIL accomplished a market valuation of ₹13 trillion and it was the only Indian firm to achieve this. RIL was also the highest income tax payer in Indian market.[[6]](#endnote-6)

RIL’s upstream businesses comprised the complete value chain, from oil exploration, appraisal, and development to hydrocarbon production. Jio, which took its name from the mirror image of the word *oil*, started its commercial operations on September 5, 2016, and its performance had been unprecedented. The company gained more than 100 million subscribers in only five months, which it claimed was the fastest-ever customer acquisition by a telecom service provider or social media platform, including Facebook and Twitter. The company commenced operations by offering free data and voice calling for the first three months, and then extended the offer by another three months, which was beneficial for many smartphone users.

Facebook

Facebook, headquartered in Menlo Park, California, was a US social networking platform that allowed customers to share ideas, opinions, pictures, videos, and other activities.[[7]](#endnote-7) The company owned Messenger, WhatsApp, and Instagram, platforms that allowed people around the world to engage in real-time communication.[[8]](#endnote-8) Facebook facilitated and distributed advertising from marketers to consumers, who were targeted on the basis of their social behaviour, age, location, taste, interests, and gender. The company had a presence in Asia-Pacific, Europe, Africa, the Middle East, and the Americas. Oculus, a virtual reality (VR) technology and content platform, was one of its offerings.[[9]](#endnote-9)

Facebook classified its business into two reportable segments: (1) advertising and (2) payments and other fees.[[10]](#endnote-10) The company reported revenues of $55,838 million for the fiscal year (FY) ended December 2018, an increase of 37.4 per cent over FY 2017.[[11]](#endnote-11) In FY 2018, the company’s operating margin was 44.6 per cent; in FY 2017, it was 49.7 per cent. The company recorded a net margin of 39.6 per cent in FY 2018 and 39.2 per cent in FY 2017. Facebook had become a global giant, with 2.5 billion users and a market cap of $479.2 billion.[[12]](#endnote-12) In FY 2019, it reported a net income of $18.5 billion on $70.1 billion in revenue (see Exhibit 2).[[13]](#endnote-13)

Facebook’s chief executive officer, [Mark Zuckerberg](https://www.investopedia.com/terms/m/mark-zuckerberg.asp), and several other Harvard University students founded Facebook in 2004,[[14]](#endnote-14) using the company’s original name, FaceMash, and then modifying this to The Facebook and subsequently Facebook. Zuckerberg and his co-founders launched the service for Harvard students but quickly expanded it to other universities and, later, the general public.[[15]](#endnote-15)

Acquisitions had been key to Facebook’s business and revenue growth. Its strategy was to buy potential rivals before they could become too big. In the process, the company sometimes paid exceptionally high acquisition prices. Because of potential anticompetitive practices, the company had also drawn attention from the US Federal Trade Commission, which had recently demanded data on unreported purchases from Facebook and other big technology (big tech) companies.[[16]](#endnote-16) Facebook had acquired WhatsApp, Instagram, Oculus VR, Onavo, and Beluga within the past nine years (see Exhibit 3).[[17]](#endnote-17) It had 346 million active users in India in 2020.[[18]](#endnote-18)

Jio’s Alliances

Aiming to be India’s largest digital lifestyle company, Jio had entered into alliances to bring the best resources from around the world to create value for its customers. Over the months from April to July 2020, leading technology investors, such as Facebook, Silver Lake Partners, Vista Equity Partners, General Atlantic, and KKR and Co. Inc., had aggregate investments of ₹785.62 billion in Jio Platforms Inc. (Jio Platforms) (see Exhibit 4).[[19]](#endnote-19) RIL had raised more than ₹1,688.18 billion in just 58 days through investments from global technology investors; this included ₹1,156.93 billion from global investors and ₹531.24 billion for rights in Jio, raised on May 20, 2020 (see Exhibit 5).[[20]](#endnote-20)

Strategy Analysis: InterSectoral Strategic AllianceS

Companies used alliances as strategic vehicles to expand their products and their geographic or customer reach. Studies showed that the success of alliances varied. Firms had achieved and maintained success when they possessed alliance management capabilities—that is, superior organizational capabilities to manage the alliances.[[21]](#endnote-21) In an era in which alliances had become an important strategy, this capability was considered a competitive advantage.

Cross-border alliances provided multinational firms with opportunities to stabilize resource exchanges, smooth global operations, increase market presence, and achieve faster market entry. They also helped them maintain a higher level of corporate flexibility than other modes of entry into markets, such as mergers and acquisitions. Strategic alliances were used not only to enable firms to withstand competition but also to increase firms’ competitiveness. As market opportunities emerged, firms used alliances to enhance their capabilities to meet increasing demand while utilizing their partners’ resources.

Jio’s Strategy

Jio used the bait-and-hook model, offering the basic product (i.e., the bait) at low or no cost and selling a complementary product or refill (i.e., the hook) at comparatively higher prices. In this model, the complementary product was usually essential to the effective use of the core product. For example, Jio gave out free 4G SIM cards with free phone calling, data, and over-the-top (OTT) media services that enabled non-4G users to switch to 4G voice over long-term evolution (VoLTE) handsets and the Jio ecosystem. Jio also practised penetration pricing, keeping its product prices artificially low to gain market share quickly. It did this for new product launches on the understanding that prices would be raised at the end of the promotional period, after the company’s market share objectives had been achieved.

Jio also used diversification as a growth strategy to gain market share in different domains. It diversified its product portfolio in areas such as telecom, OTT, health care, retail, e-commerce, the Internet of things (IoT), VR, and augmented reality (AR).

ChangeS in THE telecom industry after Jio’s entry

The telecom industry was undergoing a number of significant changes around the time of Jio’s entrance.

Ultra-Cheap Data

Before Jio’s entry into the telecom industry, data plans were expensive, and consumers had to pay up to ₹450 for one gigabyte (GB) of data. The highlight of Jio’s launch offer was the free data it offered to consumers (4 GB of high-speed 4G data per day). Once customers reached this limit, they would get continued data at 128 kilobytes per second. The company eventually charged its customers fees after the incumbent operators protested. However, the fees were so low that consumers paid approximately ₹10 per GB of 4G data—an offer that no other operator could match. Jio’s data prices were among the lowest in the world. The company took advantage of the changing consumer trend away from voice toward data consumption and shifted its focus away from the voice-calling price wars to the data price wars.[[22]](#endnote-22)

Increased Consumption of Online Content

India had experienced an exponential rise in the consumption of online content since free data became available. Jio claimed that India’s data consumption grew from 0.2 billion GB to 1.2 billion GB in six months, with the average consumer now using 10 GB of data per month.[[23]](#endnote-23)

Free Voice Calling

Voice calls became free for all consumers across all telecom networks when Jio launched operations. The company stated that local and subscriber trunk dialling (STD) calls from its network to other networks would be permanently free, and its rivals eventually followed suit, offering pre- and post-paid packages with free bundled minutes for STD and local voice calls to all networks. Jio stated that its network carried 2.5 billion minutes of free calls per day for customers.[[24]](#endnote-24)

Proliferation of 4G Smartphones

After Jio launched its services, the 4G smartphone market grew rapidly because of free access to its 4G network. Although 4G handsets became available in the affordable segment in late 2015, 4G VoLTE-capable smartphone prices dropped to ₹2,999 after Jio’s launch. Indeed, according to data from the International Data Corporation and Morgan Stanley Research, 95 per cent of the smartphones sold in India in the first quarter of FY 2016 (September to December) were 4G capable.[[25]](#endnote-25)

Faster Mobile Data

With 4G becoming the norm, mobile data speeds increased significantly over the 3G networks that most people had used. A June 2020 report from the Telecom Regulatory Authority of India (TRAI), using its My Speed application (app), indicated that Jio offered average download speeds of approximately 18 megabytes per second (Mbps), while the incumbents delivered speeds of approximately 10 Mbps.[[26]](#endnote-26)

Facebook’s Strategy

The strategic alliance between Facebook and Jio was a voluntary arrangement in which resources from both firms were combined to create synergies. The market presented limited opportunities and resources that both firms needed to access. Facebook increased its market share by establishing alliances with telecom and mobile manufacturing companies, thus ensuring that its products were installed by default to increase the number of users who accessed its social media services through the Facebook mobile app.[[27]](#endnote-27)

Facebook used diversification to support an intensive growth strategy with the main objective of establishing new businesses. For example, the company acquired Oculus VR in order to offer VR technology to complement its social networking services. This intensive growth strategy supported Facebook’s strategic objective of acquiring or establishing new subsidiaries or businesses to increase revenues and its market reach. The implementation of this cost leadership generic competitive strategy was undergirded by cost minimization.[[28]](#endnote-28)

Benefits of the Jio–Facebook Alliance

RIL’s total investment in Jio was approximately ₹ ₹1.08 trillion (US$14 billion). Therefore, what effectively cost the company approximately ₹108 billion (a 10 per cent stake) was sold for more than four times that amount (₹435.74 billion) to Facebook.[[29]](#endnote-29) It could be considered that the value created by Jio through a successful business model of staking a claim was thrice the value of the initial investment. Beyond this, what did these two giants gain from this deal? Few theories explained the implications for the companies and for consumers. The partnering of these two powerful platforms would not only create richer consumer experiences but also provide 400 million consumers with access to the digital India dream. The Facebook–Jio deal was much deeper than it appeared on the surface; it was central to a well-considered philosophy that could ultimately reap large returns in ushering in a hyperlocal digital India.[[30]](#endnote-30) Jio had the potential to leverage its online and brick-and-mortar retail customers with Facebook’s subscriber base.

Several factors made the alliance beneficial for both companies.

Reliance Industry Limited’s Ecosystem

RIL’s entry into the telecom industry with the launch of Jio laid the foundation for India’s digital transformation.[[31]](#endnote-31) RIL’s loss-leader strategy of offering free phone calling, short messaging service (SMS), 4G data, and OTT services enabled it to become India’s largest telecom company. Jio built an ecosystem that included telecom, digital services, and information technology infrastructure. Jio was poised to capture the market for fibre to the x, a fixed-line fibre-optic broadband connection that was currently under-penetrated. It would be able to offer JioTV to its subscribers, thereby disrupting the satellite television industry.

Reliance Industry Limited’s Ambition to Be Debt-Free

Facebook’s investment would help RIL achieve its goal of being debt-free by early 2021. Jio was expected to retain ₹150 billion of the cash from the Facebook deal. The remainder would be used by RIL, which would lower its debt by redeeming the optionally convertible preference shares it held. This investment was expected to reduce RIL’s debt by ₹500 billion. In December 2019, RIL’s gross debt was more than ₹3 trillion, and its net debt was ₹1.53 trillion.[[32]](#endnote-32)

Facebook’s Penetration in India

India accounted for the highest percentage of Facebook’s 2.44 million monthly active users. Approximately 20 per cent of WhatsApp’s more than two billion users were in India,[[33]](#endnote-33) where Internet use was still limited to a few apps, such as YouTube and WhatsApp, which had become household names. The number of Facebook users in India was expected to increase from 281 million in 2018 to 444.2 million in 2023, indicating that the user base was growing steadily.[[34]](#endnote-34)

Regulatory Woes

Facebook needed an Indian representative, and its investment in Jio was a safeguard against the political risks of entering India, which included intense scrutiny of big tech, particularly foreign companies, by law enforcement and concerns about the management of the sensitive data of Indian citizens and organizations. Facebook had previously been criticized for issues ranging from net neutrality to Pegasus spyware.[[35]](#endnote-35) It had also come under increasing scrutiny from the Indian government, and this had negatively affected its image. This deal could prompt Facebook to leverage Jio’s user base to allay some of these fears by investing in India’s growth. The alliance could create many opportunities (see Exhibit 6).

Connecting Online and Off-Line Businesses

The Jio–Facebook alliance enabled both companies to access new markets, expand their geographic reach, obtain cutting-edge technology, and complement their skills and core competencies relatively quickly. Thus, the alliance was important for both companies. JioMart, Jio’s new digital commerce platform, and WhatsApp would enable nearly 30 million small Indian *kirana* shops[[36]](#endnote-36) to engage in digital transactions with the customers in their neighbourhoods, as local vendors and small kirana businesses would be able to register on JioMart and receive orders through WhatsApp.[[37]](#endnote-37)

Through its features, WhatsApp, the new super app, facilitated many activities and transactions (including gaming and retail commerce) for 60 million small businesses across India. The model had been very successful in other Asian countries, such as China, Korea, and Japan. Apps such as WeChat, Line, and Kakao Talk also enabled gaming and retail commerce activities. WhatsApp saw an opportunity to become the marketplace of the future, especially in India, where it was reaching out to almost as many users as the Internet itself.

The only announcement thus far regarding precisely how the two entities would collaborate had said that they would do so through JioMart, Jio’s electronic retail business.[[38]](#endnote-38) WhatsApp could easily enable millions of small, family-owned stores nationwide to have a presence on JioMart. Jio could use location data to curate local businesses, and WhatsApp could enable hurdle-free connections and orders between customers and traders. In addition, RIL’s strong retail supply chain network could provide support for the kiranas.[[39]](#endnote-39) Currently, the kiranas’ biggest challenge was their supply chains, inventory management, and inability to match the deals offered by organized retailers.[[40]](#endnote-40)

Value Creation through WhatsApp

Unsurprisingly, a majority of Indian WhatsApp users lived in urban rather than rural areas. Between 2017 and 2018, WhatsApp had seen a significant (18 per cent) increase in urban users. Interestingly, WhatsApp also saw a surge in rural usage, which more than doubled by 2018 to reach a penetration level higher than that for urban penetration in 2017.[[41]](#endnote-41)

WhatsApp usage increased across all socio-economic groups. While wealthier Indians made up a higher proportion of users, the most significant increase in usage was among those classified as lower income. Between 2017 and 2018, usage increased sixfold in this income bracket and more than twofold among the middle class.[[42]](#endnote-42)

The results by age were relatively predictable. WhatsApp usage was higher among younger people; however, both WhatsApp and Jio saw an increase of roughly two-thirds. Despite a stronger percentage increase, usage among older demographics lagged behind that in other age groups. As of May 2018, three million businesses had signed up for WhatsApp Business.[[43]](#endnote-43) Businesses could contact only those people who had provided their numbers and agreed to be contacted. The goal was to improve client–customer communication for small and medium-sized businesses (SMEs). During the Covid-19 pandemic, WhatsApp Business facilitated ordering and fulfillment, and other communication with customers.[[44]](#endnote-44)

In August 2018, WhatsApp launched the WhatsApp Business application programming interface, which allowed businesses to respond to customer messages. The WhatsApp revenue model had never delivered high returns. In February 2014, before WhatsApp was acquired by Facebook, WhatsApp’s revenues were a relatively meagre $1.3 million.[[45]](#endnote-45)

INDIA’s Digital Transformation

The synergy between Jio and Facebook would help to realize Prime Minister Narendra Modi’s Digital India mission, with its two ambitious goals: ease of living and ease of doing business.[[46]](#endnote-46) The Facebook–Jio deal, with its focus on expanding hyperlocal e-commerce to Tier 2 and Tier 3 cities and even rural areas, could be a major catalyst in India’s digitization story.[[47]](#endnote-47) Jio had become the market leader with 370.1 million subscribers, followed by Vodafone Idea Limited, with 332.61 million; Bharti Airtel Limited, with 327.3 million; Bharat Sanchar Nigam Limited, with 118.21 million; Mahanagar Telephone Nigam Limited, with 3.38 million; and Reliance Communications Limited, with 0.02 million.[[48]](#endnote-48) Jio had built a massive infrastructure that had democratized digital connectivity for more than 370 million Indian citizens.

Facebook had built a strong distribution network in India, with more than 400 million users on WhatsApp, more than 280 million on Facebook, and more than 88 million on Instagram.[[49]](#endnote-49) Access to this network could allow small kiranas to use digital technology to grow their businesses and create new employment opportunities.[[50]](#endnote-50) These opportunities could be extended to other key stakeholders in the Digital India mission, such as *kisans* (agricultural workers), SMEs, educational institutions, and health care providers. The investment in Jio was Facebook’s third in India since it had acquired Meesho, a social commerce app, and Little Eye, a start-up that built analytical tools for mobile app developers. According to Facebook’s press release on the Jio deal, this acquisition represented the company’s investment in India’s future—a claim that was helped by the perception of Jio as a symbol of the Swadeshi or Make in India digital initiative.[[51]](#endnote-51) The deal would give Facebook access to the data Jio had gathered from its smartphone subscribers and could also bring about a power app that combined Jio’s and Facebook’s services.

The Indian e-commerce sector was expected to grow from $30 billion in 2018 to $200 billion by 2028.[[52]](#endnote-52) While Amazon.com Inc. and Flipkart (owned by Walmart Inc.) currently controlled more than 60 per cent of India’s e-commerce market, according to market intelligence firm S&P Global,[[53]](#endnote-53) Jio and Facebook had an edge regarding data acquisition. The deal that had paired local commerce with social media had also created one of India’s biggest data platforms, which would be difficult for other e-commerce players to match quickly. RIL was also negotiating the acquisition of Future Group, the pioneering organized-retail group with a presence in cities. Its stores included Big Bazaar, FBB, Food Bazaar, Food Hall, HomeTown, Brand Factory, and Planet Sports.[[54]](#endnote-54) Future Group had recorded more than 600 million customer visits in a year to its 2,000 retail stores, which occupied more than 2.2 million square metres of space in more than 400 cities and towns. The conclusion of the deal would further strengthen RIL’s position in retail.[[55]](#endnote-55)

Future Initiatives

Jio’s launch had been influenced by the dream of India’s digital *sarvodaya*—an inclusive digital rise that would improve the quality of life for every Indian and propel the country to the position of the world’s leading digital society. Jio provided a range of digital services in its ecosystem: free 4G voice calling, free SMS, Jio Drive cloud storage, JioChat, JioMoney, and OTT apps such as JioTV, JioCinema, JioSaavn, JioSecurity, JioHealthHub, and JioMart. Jio also offered JioFiber Internet and a set-top box, JioSTB. Future projects included smart-home IoT services for smart televisions, speakers, cameras, gas leak sensors, and door locks—devices and services that were connected to the Jio ecosystem through JioFiber (see Exhibit 7). The Jio Smart Car, a small on-board diagnostics device, worked like a JioFi hotspot for 10 devices if plugged into a car’s port; it could capture all the information about a car, including fuel and brake fluid levels, battery life, and mileage. The Jio Car Connect app recognized drivers’ patterns and use of features such as locks, headlights, power windows, and remote location trackers, and a “fencing” option could track speeds and distances and even provide an alert if the car went beyond a specific area.

Facebook was investing heavily in small businesses, and India’s position as a hub for small and medium businesses was ideal for the company’s social networking plan.[[56]](#endnote-56) Facebook could leverage Jio’s diverse communications network division to reach these businesses and to provide online access to enable them to expand their portfolios.

Blockchain and CryptocurrencY

The Facebook and Jio alliance would also provide a basis for blockchain and cryptocurrency infrastructure and applications in India. In August 2019, Jio announced that it had installed one of India’s largest blockchain networks, with tens of thousands of nodes. At that time, Ambani stated that blockchain technology would engender trust and deliver unprecedented security, automation, and efficiency for almost any type of transaction.[[57]](#endnote-57) While Jio was building a blockchain network with thousands of nodes, Facebook was working on the Calibra project, which aimed to provide service for 1.7 billion unbanked people around the world. It was hoped that blockchain technology would have a promising future in India.[[58]](#endnote-58)

5G NETWORKS

Facebook had previously partnered with a telecom provider in Japan, taking advantage of that country’s 5G networks to provide AR and VR products. It also ran the Telecom Infra Project, which aimed to create open-source telecom equipment to promote the development of affordable telecom infrastructure in under-connected areas. A strategic partnership with India’s largest telecom operator would also be key to Facebook’s future plans, particularly those relating to VR and IoT, whose success would depend on 5G access. Jio had reportedly developed its own end-to-end 5G technology and had sought the TRAI’s approval for 5G trials. This investment in Jio’s platforms could give Facebook access to the 5G technology and telecom infrastructure it needed while insulating it from the accompanying regulatory scrutiny and compliance.[[59]](#endnote-59)

THE FUTURE for JIO and Facebook

Jio’s management wanted to advance their strategic alliance to gain access to Facebook’s customer bases and deeply integrated ecosystems. This partnership could upend India’s e-commerce market. Jio had its own messaging apps, movies, and health care, which it had not been able to monetize. Joining the country’s most widely used communication platform could boost its hopes of becoming a retail giant and speed up India’s transition to digital commerce. Jio, in partnership with Facebook, could be very competitive because it had more insights into consumers. The increasing pace of global business and the demands and sophistication of customers had resulted in dramatic changes in the competitive landscape. Markets had been changing so quickly that it was very difficult for a single company to have all the necessary resources, including information, and to maintain the current technology and competencies needed for entry and success. Non-technology companies, such as RIL, had moved into digital services and were willing to form partnerships with new-age companies to benefit their businesses. Fewer conventional companies had made this transition as successfully as Jio had in petrochemicals, refining, retail, and, most recently, digital services. Jio had entered into strategic alliances to capture windows of opportunity in favourable markets. How could Jio ensure a co-operative and complementary partnership (despite their differences with Facebook) in order to succeed and set a precedent for future international alliances?

EXHIBIT 1: RELIANCE industries limited FINANCIALS (₹ BILLIONS)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **FY 2019** | **FY 2018** | **FY 2017** | **FY 2016** | **FY 2015** |
| **Revenue** | 6,116.45 | 5,828.45 | 5,810.20 | 4,082.65 | 3,301.80 |
| **Gross Profit** | 1,915.03 | 1,744.73 | 1,475.02 | 1,022.71 | 7,42.69 |

Note: ₹ = INR = Indian rupee; FY = fiscal year.

Source: Company data.

EXHIBIT 2: FACEBOOK FINANCIALS (us$ BILLIONS)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **FY 2019** | **FY 2018** | **FY 2017** | **FY 2016** | **FY 2015** |
| **Revenue** | 70.697 | 55.838 | 40.653 | 27.638 | 17.928 |
| **Gross Profit** | 57.927 | 46.483 | 35.199 | 23.849 | 15.061 |

Note: FY = fiscal year.

Source: Finance, Yahoo. 2019. Income StatementExpand All. December 30. Accessed May 27, 2020. https://finance.yahoo.com/quote/FB/financials/?guccounter=1&guce\_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce\_referrer\_sig=AQAAAF6jJLS\_kfwQc-1Cl76Ip7Bb2UE5-GQvT7rkErVTMF3AOrH2wSyuD110wiWXc8bdADjqR8moreuY2dZyJ1IFisVhGfRue\_swj-eAzmD9Nm1xSuL0FrbLCBlE0NOvh5-.

EXHIBIT 3: COMPANIES ACQUIRED BY FACEBOOK Inc.

|  |  |
| --- | --- |
| **Acquisition** | **Details** |
| **WhatsApp** | **Type of Business:** Mobile messenger service  **Acquisition Cost:** $19.0 billion  **Acquisition Date:** February 19, 2014  **User Base at Acquisition:** 500 million monthly users growing by one million per day.  WhatsApp, an internationally available messenger and calling service, was launched in 2009 as a low-cost alternative to standard text messaging services. Throughout much of its history, WhatsApp allowed users to send messages and make calls directly to other users free of cost, regardless of location or usage patterns. Users could also share photographs, videos, and documents on the platform. Facebook bought WhatsApp when the smaller company boasted more than 400 million active monthly users, which made it a fast-growing potential rival.  The price paid by Facebook, the highest-ever acquisition price for a private company, was based on WhatsApp’s growth potential. WhatsApp had been one of the world’s top apps. Since 2018, it had surpassed Facebook Messenger to become the most popular over-the-top app, after Facebook and YouTube.  Regarding monthly active users, WhatsApp was second only to Facebook. When WhatsApp was acquired by Facebook, it was an independent company that had recently been valued at $1.5 billion. The revenue generated by WhatsApp was unclear. By [some estimates](https://www.investopedia.com/articles/personal-finance/040915/how-whatsapp-makes-money.asp), it could be as high as $5 billion in 2020. |
| **Instagram** | **Type of Business:** Photo- and video-sharing app  **Acquisition Cost:** $1 billion  **Acquisition Date:** April 9, 2012  **User Base at Acquisition:** 30 million  Instagram, a photo- and video-sharing social networking platform, was launched in 2010. Users could upload, edit, and tag photos and videos. Even though it had been receiving significant attention from venture capital firms and other investors, the company had remained independent until it was acquired by Facebook for $1 billion in 2012. [Some estimates](https://www.investopedia.com/articles/personal-finance/030915/how-instagram-makes-money.asp) were that Instagram generated more advertising revenue than its parent company.  When it acquired Instagram, Facebook opted to develop the Instagram app independently from its main platform, and Instagram remained a separate platform. The purchase price for Instagram, which at that time was generating no revenue, reflected Facebook’s strategic decision to pay a premium for young companies. |
| **Oculus VR** | **Type of Business:** Virtual reality (VR) technology company  **Acquisition Cost:** $2 billion  **Acquisition Date:** March 25, 2014  Just weeks after announcing its acquisition of WhatsApp, Facebook followed up by buying VR hardware and software company Oculus VR. Founded in 2012, the company was best known for Oculus Rift, a VR headset that was designed for video gaming. Since Facebook’s acquisition of Oculus VR in 2014, the subsidiary had made multiple acquisitions of its own. Perhaps the most prominent was the 2015 acquisition of Surreal Vision, a company specializing in 3D scene mapping reconstruction.  At the time Facebook acquired Oculus VR, the company had produced only a prototype of its popular headset product. Facebook’s acquisition gave it an instant presence in the VR market at a time when developers were showing growing interest in VR. |

EXHIBIT 3 (CONTINUED)

|  |  |
| --- | --- |
| **Onavo** | **Type of Business:** Mobile web analytics company  **Acquisition Cost:** $100–$200 million (estimated)  **Acquisition Date:** October 2013  Founded in 2010, Israeli company Onavo performed web analytics on mobile apps to determine customer usage. Facebook acquired Onavo in October 2013 for an undisclosed amount that some analysts estimated at $100–$200 million. At the time of acquisition, it was an independent company. Although Onavo was not one of Facebook’s largest acquisitions, its technology might have influenced Facebook to make crucial early decisions about acquiring other apps and companies. Onavo was occasionally classified as spyware, and this criticism forced Facebook to pull it from the app stores for iOS and Android devices. |
| **Beluga** | **Type of Business:** Messaging services  **Acquisition Cost:** Undisclosed  **Acquisition Date:** March 2, 2011  Beluga, a messaging service, was acquired by Facebook one year after its founding in 2010. Facebook acquired Beluga for an undisclosed sum in the midst of the start-up’s fundraising. Through this acquisition, Facebook gained the technology that would eventually become its highly successful Messenger platform. Thus, Facebook again expanded its offerings and eliminated a potential rival. |

Note: All dollar amounts are in US dollars; app = application.

Source: Compiled by the case authors based on data from Ellen Simon, “How Instagram Makes Money,” Investopedia, June 29, 2019, accessed July 1 2020, www.investopedia.com/articles/personal-finance/030915/how-instagram-makes-money.asp; Nathan Eiff, “5 Companies Owned By Facebook,” Investopedia, April 1, 2020, accessed May 27, 2020, www.investopedia.com/articles/personal-finance/051815/top-11-companies-owned-facebook.asp; “Facebook Buys Stake in Four-Year-Old Indian Start-Up Meesho; Here’s Why,” *Business Today*, June 14, 2019, accessed May 17, 2020. www.businesstoday.in/technology/news/facebook-buys-stake-in-four-year-old-indian-start-up-meesho-here-why/story/356022.html.

EXHIBIT 4: Reliance Jio Infocomm Limited’s Alliances

|  |  |
| --- | --- |
| **Alliance** | **Details** |
| **Facebook** | Facebook, which was headquartered in Menlo Park, California, acquired a 9.9 per cent stake in Reliance Jio for ₹435.74 billion. The deal, which was announced in April, gave Mark Zuckerberg’s social media giant a firm foothold in India. The deal valued Jio at ₹46,200 trillion ($65.95 billion) and was Facebook’s biggest since its 2014 purchase of WhatsApp for $22 billion. Jio, in return, was able to significantly reduce the RIL conglomerate’s debt. |
| **Silver Lake Partners** | Less than two weeks later, private equity giant Silver Lake Partners bought a 1 per cent stake in Jio for ₹56.5575 billion. The deal with the US firm valued Jio at ₹51,500 trillion, a 12.5 per cent premium over the value indicated by the social media network. |
| **Vista Equity Partners** | US-based private equity firm Vista Equity Partners (Vista), the world’s largest tech-focused firm, acquired a 2.32 per cent stake in Jio for ₹113.67 billion. This investment gave Jio Platforms an equity value of ₹49,100 trillion and an enterprise value of ₹51,500 trillion. Vista’s investment was at a 12.5 per cent premium over the deal with Facebook. The deal indicated Jio’s status as a next-generation software and platform company. |
| **General Atlantic** | On May 17, Reliance Jio sold a 1.34 per cent stake to New York–based General Atlantic, a private equity firm, for ₹65.9838 billion. The deal was General Atlantic’s largest investment in Asia. “This investment values Jio Platforms at an equity value of ₹49,100,000 trillion and an enterprise value of ₹51,600,000 trillion. General Atlantic’s investment will translate into a 1.34 per cent equity stake in Jio Platforms on a fully diluted basis,” the company said in a statement. General Atlantic was a leading global growth equity firm with a 40-year record of investing in the technology, consumer, financial services, and health care sectors. |
| **KKR and Co. Inc.** | Reliance Industries Limited announced on May 22, 2020, that KKR would invest ₹113.67 billion in Jio Platforms. With this transaction, Jio Platforms achieved an equity value of ₹4.91 trillion and an enterprise value of ₹5.16 trillion. This was KKR and Co. Inc.’s biggest investment in Asia and translated into a 2.32 per cent equity stake in Jio Platforms on a fully diluted basis. |

Note: All dollar amounts are in US dollars. ₹ = INR = Indian rupee.

Source: Compiled by case authors using data from Press Trust of India, “General Atlantic Picks 1.34 per cent Stake in Reliance Jio for Rs 6,598.38 Crore,” *New Indian Express*, May 17, 2020, accessed June 3, 2020, www.newindianexpress.com/business/2020/may/17/general-atlantic-picks-134-per-cent-stake-in-reliance-jio-for-rs-659838-crore-2144545.html#:~:text=General%20Atlantic's%20investment%20will%20translate,22%20for%20Rs%2043%2C574%20 crore; “Facebook-Jio Deal: Read What Mark Zuckerberg Has to Say,” *Hindustan Times*, April 22, 2020, accessed May 2, 2020, https://tech.hindustantimes.com/tech/news/facebook-jio-deal-read-what-mark-zuckerberg-has-to-say-story-EJyBYTez FAKfIRZA6aIppO.html#:~:text=Facebook%20now%20owns%209.9%25%20stake,values%20Jio%20at%20%2465.95%20billion; Aneesh Phadnis and Ram Prasad, “Silver Lake Checks into Jio Platforms, Snaps Up 1.15% for over Rs 5,600 Cr,” *Business Standard*, May 5, 2020, accessed May 12, 2020, https://www.business-standard.com/article/companies/us-based-silver-lake-buys-1-15-stake-in-jio-platforms-for-rs-5-656-cr-120050401334\_1.html; “PE Giant Silver Lake Buys Stake in Reliance Jio for Rs 5,655.75 Crore, at Higher Valuation than Facebook Deal,” Moneycontrol.com, May 4, 2020, accessed May 17, 2020, https://www.moneycontrol.com/news/business/private-equity-firm-silver-lake-buys-stake-in-jio-platforms-5217451.html; Romita Majumdar, “Vista Equity Partners Buys 2.32% Stake in Jio for ₹11,367 Crore,” *Mint*, May 8, 2020, accessed May 20, 2020, https://www.livemint.com/companies/news/vista-equity-partners-buys-2-32-stake-in-jio-for-11-367-crore-11588960913649.html; Reliance Industries Limited and Jio Platforms Limited, “KKR to Invest ₹ 11,367 Crore in Jio Platforms,” press release, May 21, 2020, May 26, 2020, https://www.businesswire.com/news/home/20200521005812/en/KKR-to-Invest-%E2%82%B9-11367-Crore-in-Jio-Platforms.

EXHIBIT 5: FUNDS RAISED BY Reliance Jio Infocomm Limited THROUGH ALLIANCES

|  |  |  |
| --- | --- | --- |
| **Investments in Jio as of May 26, 2020** | | |
| **Company** | **Amount (₹ Billions)** | **Stake (%)** |
| Facebook Inc. | 435.74 | 9.99 |
| Silver Lake Partners | 56.56 | 1.00 |
| Vista Equity Partners | 113.67 | 2.30 |
| General Atlantic | 65.98 | 1.34 |
| KKR and Co. Inc. | 113.67 | 2.32 |
| Mubadala | 90.93 | 1.85 |
| Silver Lake Partners (additional investment) | 45.46 | 0.93 |
| Abu Dhabi Investment Authority | 56.83 | 1.16 |
| TPG Capital | 45.46 | 0.93 |
| L Catterton | 18.94 | 0.39 |
| Saudi Public Investments Fund | 113.67 | 2.32 |
| **Total** | **1,156.91** | **24.70** |

Source: Compiled by the case authors based on company data.

EXHIBIT 6: OPPORTUNITIES CREATED THROUGH the jio–facebook deal

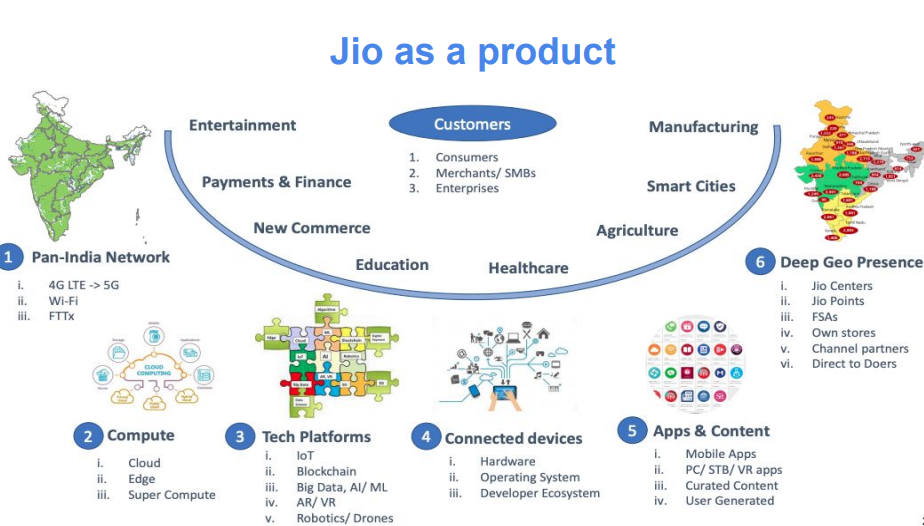
|  |  |
| --- | --- |
| **Opportunities Created** | **Details** |
| Penetrate the Unorganized Retail Sector | Bringing WhatsApp and online grocery delivery platform JioMart together allowed Facebook to connect millions of consumers with neighbourhood *kirana* stores and the other small businesses that continued to be the backbone of India’s unorganized retail sector. Industry estimates indicated that the target audience was likely to be approximately 60 million small businesses across the country. Reliance termed this business model “new commerce.” The model aimed for inclusive growth that included the kirana stores rather than perceiving them as a threat. |
| Enable Social Commerce | Facebook could facilitate a burgeoning social media marketplace in which resellers, SMBs, and micro-entrepreneurs could connect with potential customers or buyers. This was not the first time Facebook had shown an interest in this growing community. In 2019, it bought a minority stake in Meesho, one of India’s fastest-growing social commerce platforms. |
| Drive Digital Payments | The deal was also expected to help Jio and Facebook compete with digital payment financial technology players—such as Walmart-owned PhonePe, Alibaba-backed Paytm, Google Pay, and Amazon Pay—in the Indian digital payment space, which was expected to increase fivefold to reach US$1 trillion by 2023. WhatsApp Pay was launched in India on February 7, 2020. Although it had faced regulatory issues around data localization, efforts were being taken to get regulatory approval. The deal could allow WhatsApp Pay to compete with services such as Google Pay, PhonePe, and Paytm. Frost & Sullivan’s analysis indicated that WhatsApp would eventually allow consumers to pay for items bought on JioMart. |
| Expand Economic Opportunities | This partnership would expand Facebook’s economic opportunities, especially its digital advertising platform, in India. This partnership also augured well for India, where WhatsApp was the top messaging app. WhatsApp and Facebook had helped to provide Internet access to millions, and this partnership would continue to accelerate the shift toward digitization. Over the long term, this could also have a positive effect on employment, with new supply chain and delivery jobs added. |
| Leverage India’s Internet | Jio had built a future-proof infrastructure. Broadband Internet in Indian homes and small and medium-sized enterprises would be powered by 5G and pan-Indian fibre-optic cable. With this alliance, Facebook got to own a stake in India’s Internet and communications infrastructure. Regarding the Facebook–Jio Platforms deal, the two companies could leverage each other’s strengths to build a connected ecosystem comprising payments, telecom, and off-line and online commerce in a previously unseen manner. |

Note: SMB = small and medium-sized businesses.

Source: Compiled by the case authors using data from Kiran Kumar, “Five Reasons the Reliance Jio Deal Is a Win-Win for Facebook,” Frost & Sullivan, April 23, 2020, accessed May 22, 2020, https://ww2.frost.com/frost-perspectives/five-reasons-the-reliance-jio-deal-is-a-win-win-for-facebook/#:~:text=Frost%20%26%20Sullivan's%20analysis%20indicates%20that,the%

20messaging%20app%20as%20well.&text=WhatsApp%20and%20Facebook%20have%20helped,shift%2.

EXHiBIT 7: JIO’S PRESENCE IN THE INDIAN MARKET



Note: FTTx = Fiber to the x ; IoT = Internet of things; AI = Artificial intelligence ; AR = Augmented reality ; VR = Virtual reality; PC = Personal Computer; STB = Set Top Box  ; FSA = Flexible spending account.

Source: Company documents.

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