

Snap Inc.

The Spectacles Opportunity



CENTRAL QUESTION

What is Snap's position in the wearables and augmented reality space?

Question: What is Snap's position in the wearables and augmented reality space?

Snap may have started as a photo disappearing app in 2011, but the company now has the potential to reinvent how people use the camera. Now a public company, Snap must quell Wall Street's demands while also competing against established social media giants for revenue. The market expects nothing short of flawless execution from 6-year-old Snap Inc.

Despite short-term stress, Snap's position is envious. Its core product, Snapchat, enjoys high engagement with a young, lucrative demographic that evades advertisers through traditional avenues like television. More importantly, despite competitors' willingness to copy offerings, Snapchat is unique in its offerings to both users and advertisers. Snapchat's competitive advantage is not only its high quantity of engagement but also the quality of engagement afforded by the camera. Still, this immediate ad revenue only scratches the surface of the opportunity.

Snap's company-defining opportunity likely exists at

the convergence of wearables and augmented reality (AR). It's clear the wearables and AR markets are gaining momentum as evidenced by the growth in wearable offerings and AR development kits released recently. As the market and tech mature over the years, Snap is strategically positioned to bring AR spectacles to the mass consumer market.

With the release of seemingly unambitious Spectacles, Snap has ingeniously dipped into wearables without upsetting consumers. Spectacles offer little beyond Snapchat's core usage. However, as Snapchat begins to introduce and become associated with AR, the gradual convergence of Snapchat's AR offerings onto Spectacles will open up the possibility of mainstream adoption.

Snap's product development shows it is swiftly striving towards a wearables and AR future. If Snap can succeed at bringing AR spectacles to the mass market, it may truly reinvent the camera – establishing itself in the decades to come.

Snap Today

Snap Overview

Snap Inc. is a public technology and social media company behind Snapchat and Spectacles. The company sells ad products generating \$182 million in revenue from its 173 million users.

CONSUMER PRODUCTS



Snapchat

Snapchat is a camera app that lets users communicate with friends and discover content from publishers.



Spectacles

Spectacles is the company's first hardware product and lets users record snaps seamlessly with a click

AD PRODUCTS



Snap Ads

Full screen ads with audio



Filters

Location-based snap filters



Lenses

Interactive, shareable Lenses

KEY EXECUTIVES



Evan Spiegel

Evan is one of the founders and Chief Executive Officer of Snap. He has led Snapchat from inception at Stanford to its 2017 IPO.



Bobby Murphy

Bobby is one of the founders and Chief Technology Officer of Snap. A Stanford alum, he oversees product, engineering and research at Snap.



Imran Khan

Imran is the Chief Strategy Officer of Snap. Before, he was Global Head of Investment Banking at Credit Suisse and lead the Alibaba IPO.



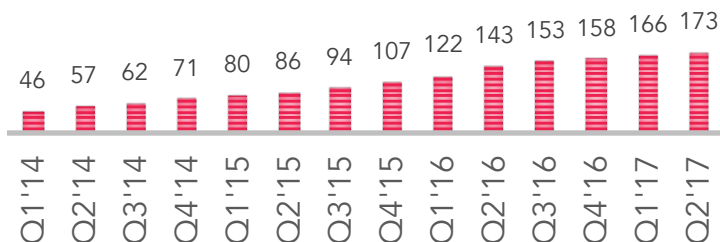
Michael Lynton

Michael is the Chairman of Snap. Before Snap, he was the Chief Executive Officer of Sony Entertainment and an early investor.

1

Growth

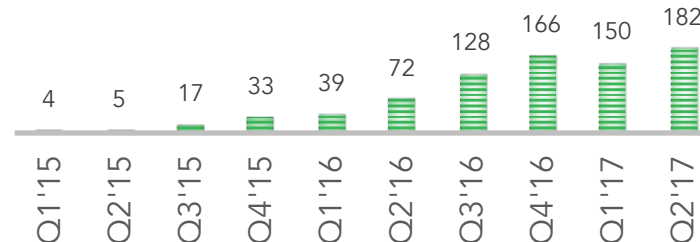
DAILY ACTIVE USERS (MILLIONS)



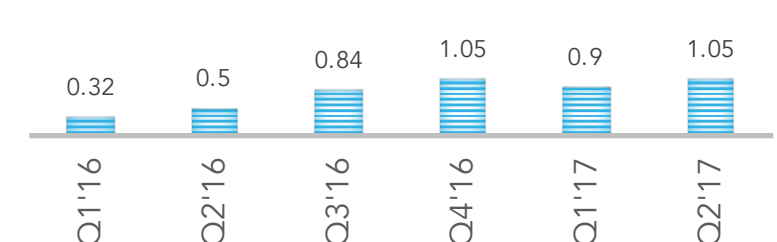
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Monetization

QUARTERLY REVENUE (MILLIONS)



AVERAGE REVENUE PER USER (DOLLARS)



SHORT TERM PRESSURES

The market judges Snap on two key metrics: Growth and Monetization.

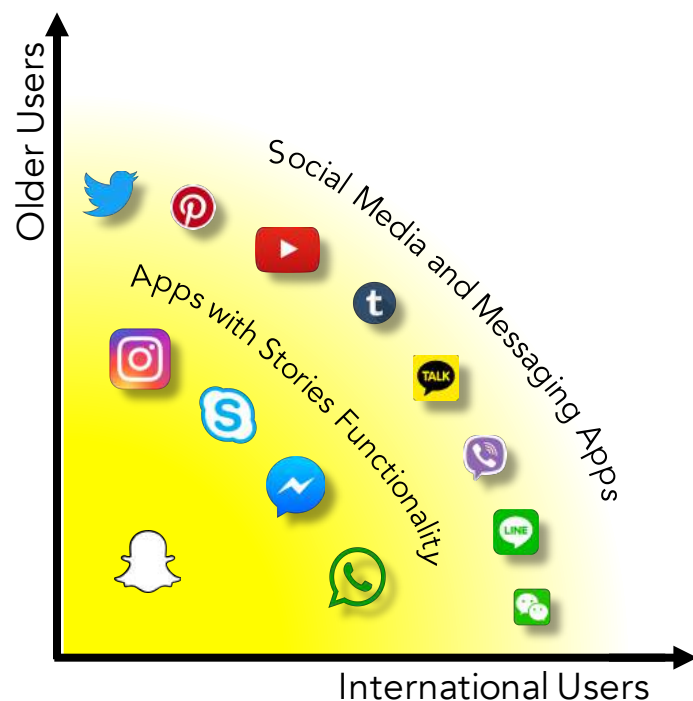
Growth: Fierce Competition

As a young social product, Snapchat needs to show strong user growth. It may have trouble with growth going forward as competitors copy and commoditize Snap's product offerings.

1

Growth

SNAPCHAT VS. COMPETITORS



! With Snapchat's current product usage—quick video communication—Facebook may have curtailed growth for both older demographics and international users.

QUALIFYING THE THREAT

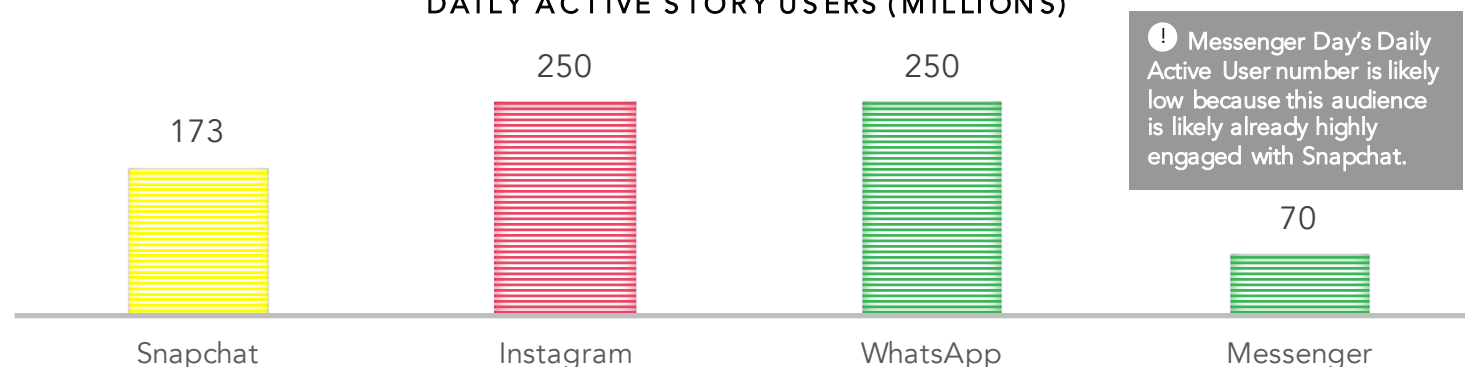
Instagram Winning with Older Demographic. Since adding stories, Instagram users over 25 spend over 24 minutes daily on the platform, compared to Snapchat's 20 minutes daily for users above 25.

WhatsApp's International Popularity. WhatsApp is the top messaging app in over 109 countries. By providing the stories functionality, these international users have less reason to ever try Snapchat.

Product Positioning. Snapchat's product offering overlaps with numerous product uses: social media, messaging, and other user-content consumption platforms. Snap has to compete with them all.

Saturation of Competitors. As the digital communication and social network markets mature, older and international users have options beyond Snapchat based on their country and needs.

DAILY ACTIVE STORY USERS (MILLIONS)



Monetization: Television + Digital

Snap is positioning itself to compete in the television and digital advertising markets. If Snap wants to win in these markets, it will have to mature quickly to compete against established competitors.

2

Monetization

TELEVISION ADVERTISING

Media Ad Spend (% of Total) - Television

2014	2015	2016	2017
39.1%	37.7%	38.6%	35.8%

PROS

Discover Success Snap's Discover product has shown high usage with shows like Stay Tuned amassing 29 million views with 60% of the audience being younger than 25—a highly lucrative demographic.

Crowd Surf Content Snap's crowd surf feature will help in creating TV-like crowd sourced content at scale.

Scripted Shows After success with partnered shows like Second Chances, Snap is moving into original content, which will help the company create a competitive advantage.

CONS

Not Primary Product Usage Despite success with products like Discover, it is unlikely that users will primarily associate Snapchat with content consumptions instead of communication.

Lack of Older Reach Snap lacks access to an older demographic that traditional television has access to. For some advertisers, Snap's demographic may not be scaled enough yet.

Expensive Production The type of content Snap is trying to create is costly to produce at scale.

DIGITAL ADVERTISING

Media Ad Spend (% of Total) - Digital

2014	2015	2016	2017
28.3%	32.6%	35.8%	38.4%

PROS

Snap Maps Through Snap's acquisition of Zenly, leading to Snap Maps, and through its acquisition of Placed, Snap will be in an ideal position to offer engaging, geo-fenced and potentially social ad products with detailed analytics to show results.

High Engagement The nature of Snap's ad products makes them highly engaging and inherently social, something advertisers value.

Measurement Partners Snap is working towards adding measurement partners to validate ROI to advertisers.

CONS

Lack of Detailed User Profile Snap does not have access to detailed information about users, their interests, and their relationships like Facebook. This can be a problem for advertisers who want to run highly targeted campaigns. With this route, Snap becomes a Facebook competitor that may never be able to achieve the same level of effectiveness.

Immature Ad Platform While Snap is heavily investing in its ads platform, it has a long way to go to successfully compete with established firms.

SNAP'S GREATEST ASSET

Despite tough competitors, because of Snapchat's focus on expression, it is the most natural communication app for a young, hard-to-reach but valuable demographic.

Expression Over Consumption

Because of how users interact with the product, Snap is uniquely positioned to iteratively alter the camera from a documentation tool to a communication tool.

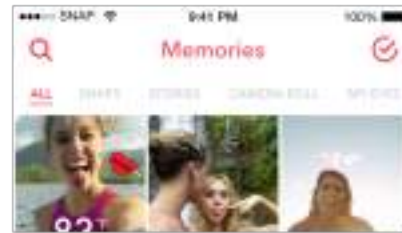
EXPRESSION



Camera First Unlike other platforms, when users open Snapchat, the first thing they see is the camera – prompting the user to create.

Filters, Lens and Bitmoji By adding innovative and engaging features, Snap has shifted the focus from curation to creation.

Disappear by Default Snaps and stories disappear in 24 hours. This allows users to be more expressive in what they share knowing it will disappear eventually.



Memories Snap's Memories product bridges the gap between communication and documentation – meeting the use case for when a moment needs to be saved.

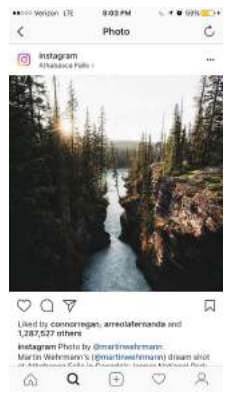


CONSUMPTION

Insta Clout By publicly displaying followers and following counts, users feel inclined to manage their ratio of followers to who they are following.

Curated Identities Since everything users share on Instagram is permanent, the bar to share is much higher and difficult to meet.

Consumption Behavior Instagram's core offering lends well for influencers to broadcast. This leads to an experience of mostly consumption over communication.

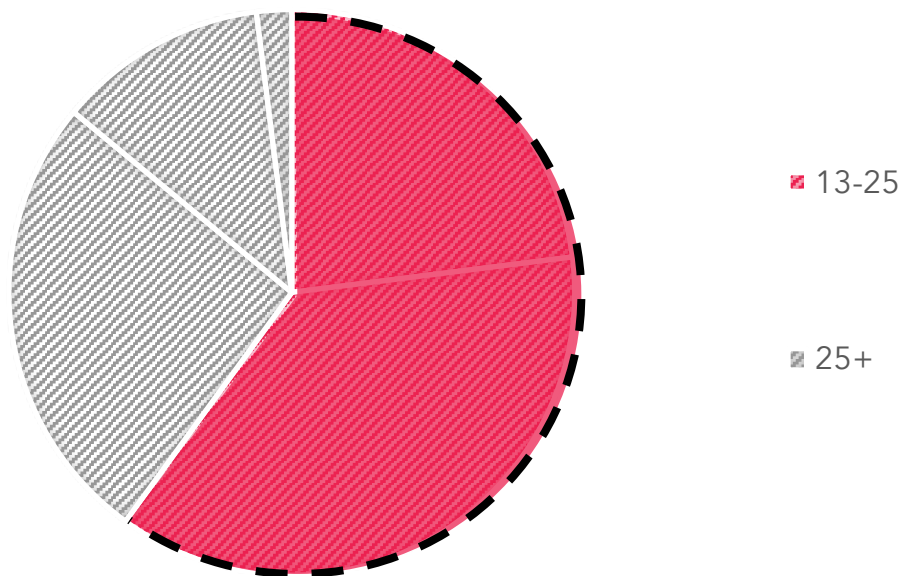


Snapchat's greatest asset is that it has engineered a reputation for being the go-to visual communication app of a generation of 173 million young people—something no competitor can easily copy.

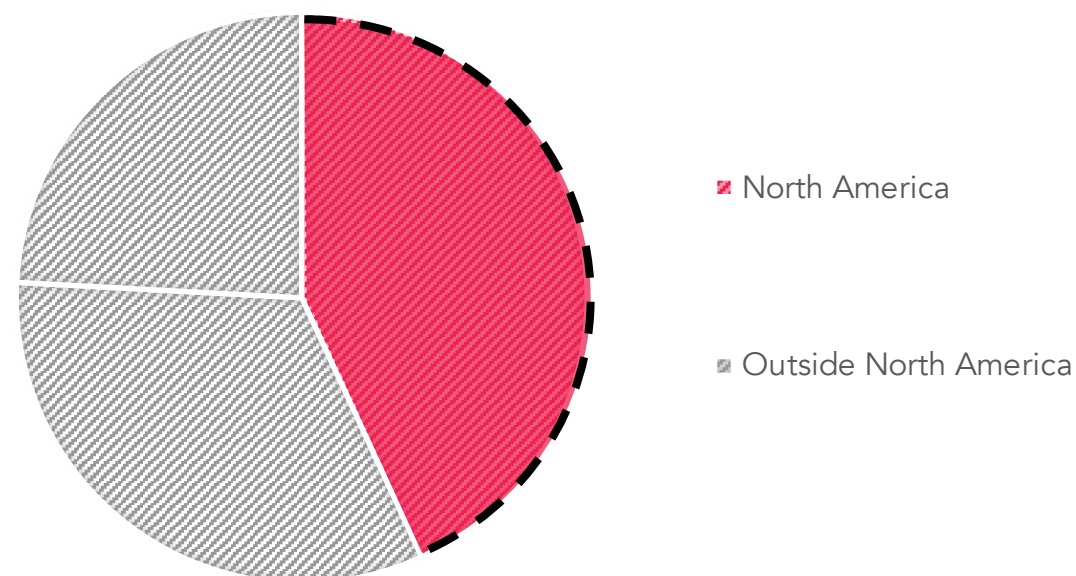
Snap's Core Strengths

Snapchat has high engagement from a young North American demographic—a valuable bloc to advertisers who are unable to engage this segment elsewhere, both on television and digitally.

SNAPCHAT AGE BREAKDOWN



SNAPCHAT GEOGRAPHIC BREAKDOWN



\$44B dollars of purchasing power for Generation Z

42 minutes per day users under 25 spend on Snapchat

20 number of times per day users under 25 check Snapchat

Wearables

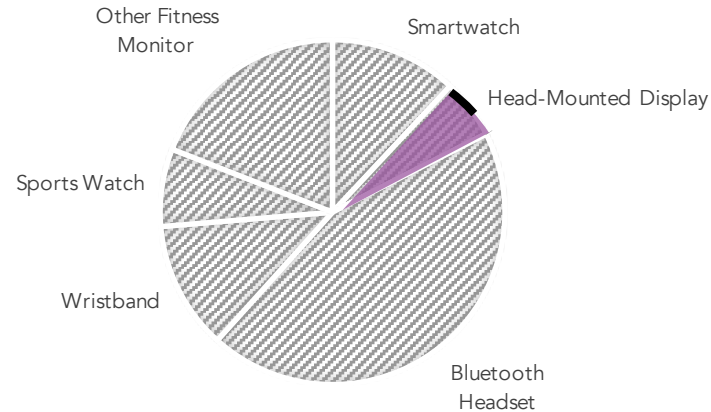
WEARABLES MARKET

The wearables market is expected to reach over 500 million units sold by 2021.

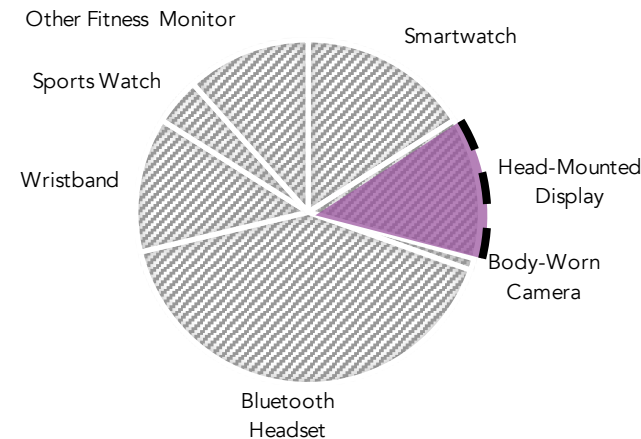
Wearables Market Overview

Gartner estimates that by 2021, 67 million units of Head-Mounted Display will be sold, an over 300% increase from today's numbers. Spectacles falls into the Head-Mounted Display category.

2016 WEARABLES MARKET



2021 WEARABLES MARKET FORECAST



2016-2021 UPLIFT

89.8%

Overall Market

317.5%

Head-Mounted Displays



SMARTWATCHES

81 Million Units By 2021, smartwatches will account for 81 million units - 16% of the wearables market. Unsurprisingly, Apple will be a major player in the space along with traditional watch manufacturers that offer competitive smart watches.



BLUETOOTH HEADSETS

206 Million Units With Apple ditching the headphone jack, the shift to wireless headphones has started and will only accelerate over the next half decade as other providers follow. Bluetooth Headsets will represent almost half the wearables market.



HEAD-MOUNTED DISPLAYS

67 Million Units Even if Head-Mounted Displays do not achieve mainstream adoption by 2021, they represent 67 million units sold. Success with HMD will be a function of technological advances aligning with finding consumer use cases.

Wearables Market Competitive Analysis

There are a variety of providers across different wearables, ranging from large, established companies trying to carve their market, to new entrants, trying to become commercially viable.




1

Wearables Market Segments by Body Location



2

Top Wearable Providers

Company	Q2'17 Units	Market Share
 Xiaomi	3.7M	17.1%
 fitbit	3.4M	15.7%
 Apple	2.8M	13.0%
Others	11.7M	54.2%

Augmented Reality

AUGMENTED REALITY MARKET

The augmented reality market is expected to reach almost \$50 billion by 2021.

Mainstream Augmented Reality

Augmented Reality is gaining momentum as efforts are underway from a technical and consumer standpoint. While this is a competitive space, Snap is a clear winner from a consumer perspective.

AUGMENTED REALITY SHIPMENTS (MILLIONS)



AUGMENTED REALITY REVENUE (BILLIONS)



MAJOR SOFTWARE DEVELOPMENT KITS RELEASED



AR Studio
April 2017



ARKit
June 2017



ARCore
August 2017

MAJOR CONSUMER ADOPTION ATTEMPTS



Pokémon Go
July 2016



Snap World Lens
July 2017



Bitmoji Avatars
Sept 2017

Augmented Reality Barriers

Despite promising signs, there are still barriers to achieving mass commercialization of augmented reality. These challenges span both required technological advances and adoption issues.

Technology

Hardware Aesthetics + Sizing

Producers of AR headsets currently have to make strategic decisions around tradeoffs between functionality and hardware size.

Motion Tracking + Image Rendering

Currently, AR technology is limited in its ability to attach and interact with objects in the environment. Likewise, image rendering has latency.

Field of View

Currently, the field of view on AR devices is limited, severely bottlenecking the potential of a fully immersive platform.

Battery Life

As eventual cellular replacements, AR devices need to be able to provide the battery life of current cellular devices.

Adoption

Use Case

For adoption to occur, AR must meet specific use cases that gives users a reason to try and purchase AR devices.

Privacy + Legal Issues

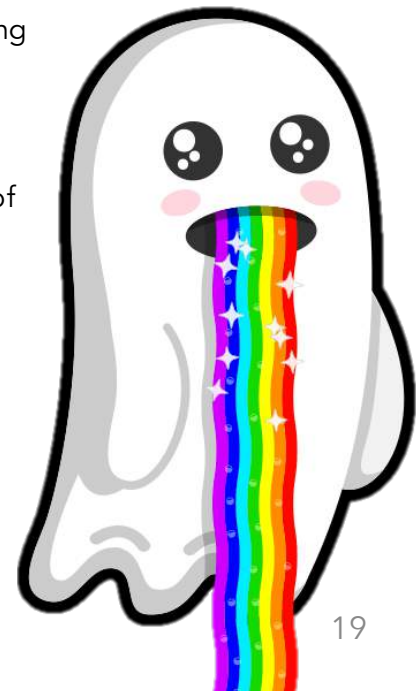
As with the emergence of technologies, privacy and legal issues surrounding data and security need to be mitigated.

Lack of Content + Apps

For AR to succeed, there needs to be a significant increase in the amount of content and ecosystem of apps available on AR platforms.

Wearables Stigma

For the mass consumer, there is a stigma against wearing AR wearables in everyday life as it is not common or normalized yet.






























Future Wearables Company

SNAP'S SWEET SPOT

As Wearables and Augmented Reality mature, Snap is strategically positioned to become the mass consumer AR Wearable.

Snap's Extension Opportunity

Snap's brand, seen as playful and fun by consumers, has the opportunity to slowly move into the wearables space while avoiding failures of past wearables given Snap's brand and product usage.

	Core Consumer-Facing Products	Wearables + AR Product Extensions	Extension Key Analysis
	 Snapchat App	 Spectacles  Drones	Snap's greatest success is building a product through which users are comfortable sharing video with friends. Spectacles only slightly extends the experience of Snapchat by making it more convenient to record. Once users adopt a seemingly simple and familiar product, Snap has the potential to greatly add to the Snap experience—including even using drones.
	 Web App  Facebook App  Messaging Products	 Oculus Rift	Facebook is focused on virtual reality through its acquisition of Oculus Rift. Since virtual reality is limited to mostly gaming now, Facebook likely sees Oculus as a decade long bet. Moreover, integrating Facebook's social graph into Oculus will likely be challenging effort. Meanwhile, Facebook is focused on limiting Snap's engagement to stop it from gaining a foothold.
 Apple	 MacBooks  iPhone  App Store	 Apple Watch  AirPods	Apple is not a direct competitor yet but is a major player in the augmented reality space, especially as it releases its ARKit. Apple's initial wearables bets are its Apple Watch and AirPods. Apple's legacy as the creator of the iPhone may potentially hold it back from imagining a world without smartphones. Given its position, Apple has the most to lose with wearables.
 Microsoft	 Windows  Microsoft Office  Windows Phone	 Hololens  Minecraft	Microsoft is not positioned to be a competitor in the consumer wearables space for the near future as it focuses on the enterprise market. The company's strategy is to build devices that collectively empower its Windows operating system. Meanwhile, its acquisition of Minecraft is a long bet on building the platform-of-choice for the developer community.
	 Google Search  YouTube  Gmail	 Google Glasses  Pixel Buds	Google was one of the first to venture into wearables with Google Glasses. Unlike Spectacles, Google Glasses never met clear use cases and was seen as expensive, invasive to non-users and poorly designed eventually shifting it to the enterprise market. While Google is making bets in both augmented reality and wearables, the company is known for software—not hardware.

Spectacular Success

Due to low sales, Snap may not be given enough credit for its ability to avoid the pitfalls of past AR wearable technology like Google Glasses—Spectacles has already succeeded on many fronts.



Spectacles

Over 150,000 Sold

Clear, Singular Focus

Spectacles, unlike Google Glasses, has a singular focus: take snap with the click of a button.

Affordable Price Point

Spectacles are competitively priced at the average cost of a pair of branded sun glasses.

Clear When Being Recorded

When Spectacles are recording, a small light lets those around the user know—easing privacy concerns.

Fashionable Design Spectacles look like a pair of typical sun glasses, giving them a wide, fashionable appeal.



Google Glasses

Likely under 100,000 Sold

Lack of Focus Google Glass lacked a clear product usage. When and how often did someone need these glasses?

Too Expensive Google Glass retailed at \$1500 when it was first released.

Privacy Concerns When Glass came out, non-users complained that they could not tell when they were being recorded and felt uncomfortable.

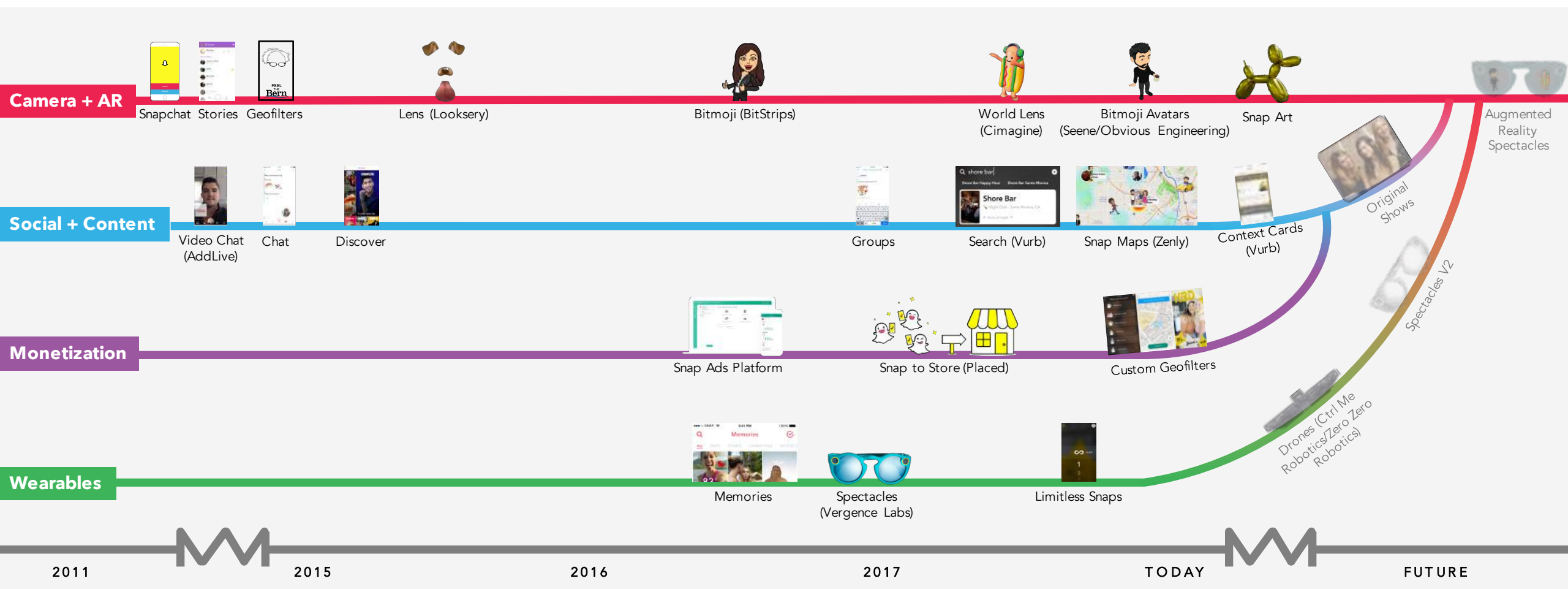
Futuristic but Unfamiliar Design Glass' futuristic design inspires a sense of awe but also a fear of an unknown future—missing the target for a mass market appeal.

PRODUCT STRATEGY

Examining Snap's product roll outs and roadmap shows a clear progression towards a Wearables + AR future.

Strategic Product Development

Snap's product strategy can be segmented into different focuses. These different products and functionalities can ultimately converge to create a company that truly redefines the camera.



Execution Risks

For long term success, Snap must be able to execute on immediate revenue goals to fund this vision. Externally, Snap has to align with consumer attitudes and demand and execute accordingly.

NYSE: SNAP

Company Culture Similar to Apple, Snap is known for a secretive culture. Executing on a secret company culture can be a liability if not done properly: proper internal communication is essential to a healthy workforce.

Talent Wars Given Snap's heavy utilization of stock grants as part of compensation packages, lackluster stock performance can be detrimental to the company's ability to bring in the required long term talent to succeed.

Wall Street Buy-in Since going public, Snap now has to meet Wall Street demands. This includes meeting growth and monetization expectations while also tactfully communicating the company's long term strategy.

Low Wearables Demand Demand for wearables has been disappointing at times compared to expectations. If consumer demand for wearables falters, this could spell disaster for all market players competing in the space.

Continued User Engagement Given the fast-paced and fickle nature of Snap's user base, Snap must continue to show high engagement against competitor engagement.

Rapid Product Development Culture Now a public company that needs to follow regulations and maintain control, Snap needs to ensure it maintains a fast and lean product development culture to compete effectively in the market.

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Faique Moqeet

Email: faiquemoqueet@gmail.com

Phone: 773.954.5739

Snapchat: fikerz

[LinkedIn](#) [GitHub](#)



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