Case Study No. 1

Pinterest: A Picture is Worth a Thousand Words

Like all successful e-commerce companies, Pinterest taps into a simple truth. In Pinterest's case, the simple truth is that people love to collect things, and show off their collections to others. Founded in 2009 by Ben Silbermann, Evan Sharp, and Paul Sciarra and launched in March 2010, Pinterest allows you to create virtual scrapbooks of images, video, and other content that you "pin" (save) to a virtual bulletin board or pin board. Categories range from Animals to Videos, with Food & Drink, DIY & Crafts, Home Décor, and Women's Fashion among the most popular. Find something that you particularly like? In addition to "liking" and perhaps commenting on it, you can re-pin it to your own board or follow a link back to the original source. Find someone whose taste you admire or who shares your passions? You can follow one or more of that pinner's boards to keep track of everything she or he pins. As of October 2016, there were over 50 billion pins on Pinterest on more than 1 billion different boards.

Pinterest originally positioned itself as a social network. However, it has changed its tune and now describes itself as a visual search tool for discovering and saving creative ideas (and potential purchases), with less emphasis on sharing with friends. Search has become the core part of its mission. It views Google, rather than Facebook, Twitter, or Instagram, as its primary competition.

In October 2016, Pinterest has over 150 million monthly active members worldwide. About 75% of those members are women, but men are its fastest growing demographic. Pinterest is one of the "stickiest" sites on the Web, with women spending over 1.5 hours (96 minutes) per session, and men about 1.25 hours (75 minutes). According to a survey by the Pew Research Center, the percentage of online adults in the United States who use Pinterest has more than doubled since 2012.

Over the past five years, investors such as well-known Silicon Valley venture capital firms Andreessen Horowitz and Bessemer Venture Partners, hedge fund Valiant Capital Partners, and Japanese e-commerce company Rakuten have poured over $1.3 billion in venture capital into Pinterest, with its latest round of funding in May 2015 valuing the company at $11 billion, more than double its 2014 valuation. Like Facebook, Twitter, and many other startup companies, Pinterest focused initially on refining its product and building its user base, but not surprisingly, its investors began to push it to begin generating revenue. Pinterest's first step was to offer business accounts that provided additional resources for brands. In 2013, it introduced Rich Pins, which allowed companies to embed information, such as current pricing and availability, as well as a direct link to a product page. In 2014, Pinterest took the official leap into the advertising arena, launching a beta version of ads it called Promoted Pins that appear in search results and category feeds. Around the same time, Pinterest also introduced a search engine, called Guided Search, which suggests related terms to refine a search. Guided Search is based on user metadata, such as board titles, captions, and comments related to pins, to create different categories and subcategories. In January 2015, Pinterest further enhanced Guided Search by allowing users to personalize search results based on gender.

In the last two years, Pinterest has gotten serious about monetization. In January 2015, it rolled out Promoted Pins to all its U.S.-based partners and in April 2016, began offering them to advertisers in the United Kingdom, with additional English-speaking countries expected to be added later in the year. In May 2015, it added Cinematic Pins, a made-for-mobile format. Cinematic Pins display a short animation when the user scrolls down through the ad, and only play a full-length version when the user clicks on the ad, providing more user control over the experience. Pinterest also introduced new ad-targeting and pricing options. Advertisers can target users by interests, life stage, or "persona" such as Millennial, prospective parent, or foodie. In June 2016, it added three additional ad targeting options: custom list targeting (similar to Facebook's Custom Audiences); visitor targeting, which allows advertisers to retarget a customer who has visited the advertiser's website; and lookalike targeting, which enables advertisers to target consumers who share traits or behaviors with the advertiser's existing customers. Ads can be purchased on a pay-per-view, pay-per-click, cost-per-engagement (CPE), or cost-per-action (CPA) model. Using the CPE model, advertisers only pay when a user engages with a pin, such as through re-pinning, and with the CPA model, only when the user clicks through to a website and makes a purchase or downloads an app. As of 2016, there are more than 1 million businesses on Pinterest, and over 10,000 different advertisers. During 2016, Pinterest plans to broaden its focus from retail and packaged goods to financial services, travel, automotive, and fast food restaurants.

Search advertising is the next frontier for Pinterest. Pinterest search differs from other types of search because it is visual and typically happens at the early stages of a person's decision process. Users currently conduct

over 2 billion keyword and 130 million visual searches per month on Pinterest. In July 2016, Pinterest began offering its search inventory to advertisers for the first time and is reportedly working on the infrastructure for keyword-based buying. Pinterest believes search advertising revenue can become a significant part of its business, and that it can challenge Google in the mobile search arena. It is making significant investments in search technology, such as deep-learning assisted visual search, which will build on its existing visual search tool that allows users to search within images on Pinterest. In August 2016, it began updating its visual search tools to work on videos and also began rolling out a fully integrated native video player similar to that offered by Facebook, along with video ads.

Many analysts also believe that Pinterest will become a significant factor in the social e-commerce arena. In June 2015, Pinterest launched Buyable Pins, which allow users to directly purchase products by clicking a blue Buy It button within the pin, for its iPhone and iPad apps. Buyable Pins for Android devices were rolled out in November 2015, and in June 2016 finally reached the desktop. According to Pinterest, 10 million unique items are available for sale, from merchants both large (such as Macy's, Nordstrom, Neiman Marcus, Bloomingdale's, and Wayfair) and small. Pinterest says its data shows that Buyable Pins are generating a significant percentage of brand-new customers for merchants. Pinterest is significantly ahead of other social networks such as Facebook, Instagram, and Twitter in terms of the percentage of users who use it to find or shop for products: 55% for Pinterest versus just 12% for Facebook and Instagram and 9% for Twitter. To further enhance its lead, in 2016, it announced a number of other e-commerce-related initiatives, including Shopping with Pinterest, a shopping cart that links to a user's account, is visible on all devices, can hold multiple items, and allows for checkout on any device.

The fact that Pinterest launched Buyable Pins on its iOS mobile platform rather than the desktop is just one indication of how important the mobile platform is to Pinterest. Pinterest provides apps for iPhone, iPad, Android, and Windows Phone, as well as a mobile version of its website using HTML5. Pinterest Mobile runs inside the smartphone's browser rather than as a stand-alone program. Mobile has been a huge success for Pinterest, with 80% of its traffic coming from mobile devices in 2016. Pinterest releases new versions of its mobile apps on a regular basis, and in April 2016 launched a nearly completely written iOS app that allows the home page to load much more quickly, scales to the different number of iOS screens more efficiently, and is readable in all 31 languages in which Pinterest is available. According to Pinterest co-founder Evan Sharp, the smartphone is the platform Pinterest focuses on when it develops new features and products.

International expansion continues to be a major area of focus. Pinterest introduced its first localized site, for the United Kingdom in May 2013, and it is now available in 31 different languages. Pinterest is aiming to make its platform feel more regional, focusing specifically on the United Kingdom, France, Germany, Japan, and Brazil. In 2016, for the first time, more than 50% of its monthly active users are located outside of the United States. Looking to the future, Pinterest believes that international expansion will provide it with the greatest growth opportunities.

Despite all the good news for Pinterest, there are some issues lurking just behind the scenes that may cloud its future, such as the issue of copyright infringement. The basis of Pinterest's business model involves users potentially violating others' copyrights by posting images without permission and/or attribution. Although Pinterest's Terms of Service puts the onus on its users to avoid doing so, the site knowingly facilitates such actions by, for example, providing a Pin It tool embedded in the user's browser toolbar. Much content on the site reportedly violates its Terms of Service. Pinterest has provided an opt-out code to enable other sites to bar its content from being shared on Pinterest, but some question why they should have to take action when Pinterest is creating the problem. Another thing Pinterest has done to try to ameliorate the problem is to automatically add citations (attribution) to content coming from certain specified sources, such as Flickr, YouTube, Vimeo, Etsy, Kickstarter, and SlideShare, among others. In 2013, it entered into an agreement with Getty Images in which it agreed to provide attribution for Getty content and pay Getty a fee. Pinterest says it complies with the Digital Millennium Copyright Act, which requires sites to remove images that violate copyright, but this too requires the copyright holder to be proactive and take action to demand the images be removed. Christopher Boffoli, a well-known photographer, filed a federal lawsuit against Pinterest in late 2014 alleging that Pinterest users used his photographs without his permission and that Pinterest failed to take adequate measures to remove them. In September 2015, Boffoli agreed to dismiss the case, presumably as part of a confidential settlement with Pinterest, leaving the legal issues raised unresolved.

Pinterest is also not immune to the spam and scams that plague many e-commerce initiatives. Security analysts believe Pinterest will have to adapt its systems to deal with scammers and warn users to be wary of requests to

pin content before viewing it and to be suspicious of "free" offers, surveys, and links with questionable titles. Pinterest has acknowledged the problem and has promised to improve its technology. In 2015, for instance, Pinterest migrated its website to the HTTPS protocol, which provides more security than the more common HTTP protocol typically used to access web pages. Pinterest also employs a system known as Stingray that enables it to quickly react to spam and other types of malicious behavior, and has created a program that pays a bounty to white hat hackers who discover security issues.

At the moment, however, the future looks very bright for Pinterest as it reportedly gears up for an initial public offering in the near future. Although it may encounter some growing pains in the process of implementing its new business model, it has the potential to generate significant revenue based on advertising and social e-commerce.

Case Study Questions

1. **Why does Pinterest view Google as its primary competitor?**
2. **Why does Pinterest focus on the smartphone platform when it develops new features and products?**
3. **Why is copyright infringement a potential issue for Pinterest?**