

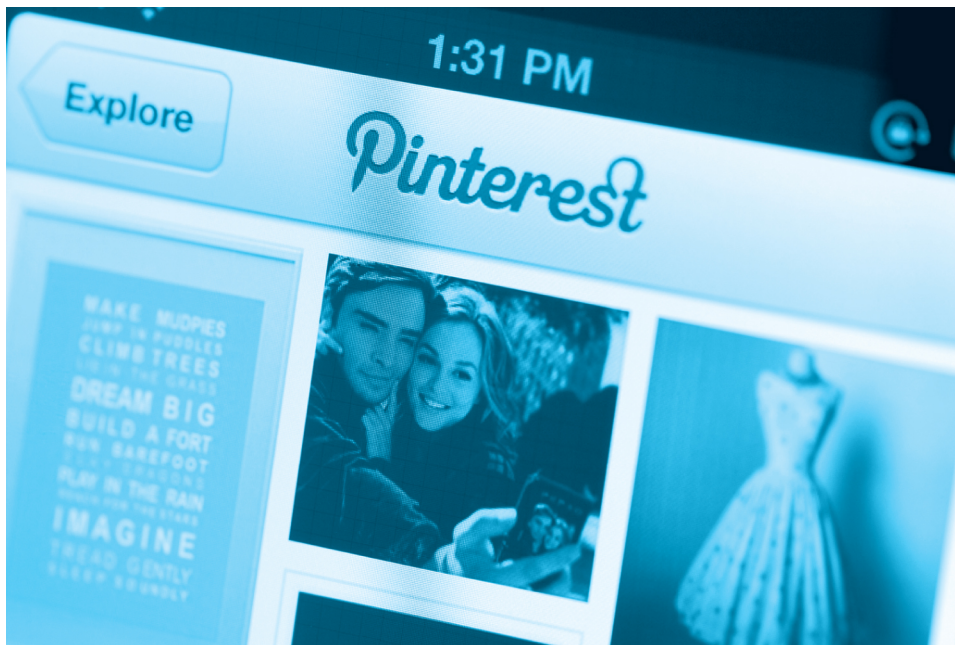
Case Study 1.1: Pinterest

9/18/2022

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. Popular categories include fashion, home décor, DIY and crafts, food and drink, and animals. Find something that you particularly like? In addition to saving 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 the end of 2019, there were 240 billion pins on Pinterest on 5 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.



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As of the end of the second quarter of 2020, Pinterest had 416 million monthly active members worldwide. More than 60% of those members are women, but men are its fastest growing demographic: according to Pinterest, the number of male users is growing at 50% year over year. Pinterest continues to grow quickly—the company grew from 100 to 200 million users 2.5 times faster than it grew from zero to 100 million users, and its growth rate in terms of active users is still over 25% a year.

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 gender, board

titles, captions, and comments related to pins, to create different categories and subcategories.

In the last several years, Pinterest has gotten serious about monetization. The company has rolled out a wide variety of advertising formats and features including various Promoted Pin formats, including video and app install pins; a variety of ad targeting options for advertisers; and Shopping Pins, which automatically convert a company's product catalog into advertisements that link directly to the point of purchase. Pinterest has also turned its sights to the search advertising market. 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. Pinterest believes search advertising revenue will drive the company to profitability and that it can challenge Google in the mobile search arena, not by outperforming Google in traditional search, but rather by outperforming it in visual search. To that end, Pinterest is making significant investments in search technology, such as artificial intelligence and its visual search engine, Lens. Lens can automatically isolate the different objects in an image stored on a user's camera and accurately identify more than 2.5 billion objects, giving users the ability to start searching for similar items on Pinterest and also links to retailers that sell those items. Lens has proven so effective that Pinterest now uses the underlying technology to power its text-based searches as well. Pinterest's CEO Ben Silbermann believes people increasingly are going to want to query the world around them as opposed to searching for phrases with just text, and Lens is a technology that makes that possible.

Thanks to its diverse array of advertising techniques and to the potential of Lens, analysts believe Pinterest is destined to become a significant factor in social e-commerce and e-commerce in general. 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. Even more appealing to advertisers is that 97% of search queries on Pinterest do not specify a particular brand. Pinterest offers plenty of opportunity for companies to win the business of undecided potential customers. Pinterest has also differentiated itself in that it is upbeat and positive at a time when Facebook and Twitter have become more combative and divisive, and Pinterest's purely visual nature makes it a more natural fit for shopping than Facebook. Pinterest searches also occur completely independently of Google, making it a threat to Google's search business.

Mobile has become an essential platform for Pinterest. Around 80% of Pinterest users access it on mobile devices. Pinterest provides apps for iPhone, iPad, and Android, 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. Pinterest releases new versions of its mobile apps on a regular basis, and in 2016 launched a nearly completely rewritten 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. In November 2019, Pinterest refreshed the look of its iOS and Android apps to make Pinterest even more visual, personalized, and search-oriented.

International expansion continues to be a major area of focus and has been the primary driver of Pinterest's rapid growth. The number of international users increased by 35% in 2019, compared to an increase of just 8% in the number of U.S. users. Pinterest introduced its first localized site, for the United Kingdom, in 2013, and has worked to make its platform feel more regional, focusing initially on the United Kingdom, France, Germany, Japan, and Brazil. In 2018, it turned its attention to India and Southeast Asia. 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 of the content on the site reportedly violates its Terms of Service. Pinterest has provided an opt-out code to enable other sites to bar their content from being shared on Pinterest, but some question why they should have to take any 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. It also has an agreement with Getty Images 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.

The behavior of influencers is another issue. A Princeton University study analyzed 2.1 million Pinterest pins and 500,000 YouTube videos and found that prominent influencers on these platforms almost never disclose their relationships with the companies whose products they promote, in violation of Federal Trade Commission (FTC) guidelines. The most well-known social media influencers have millions of followers and are in high demand from prominent brands. Typically, a brand will partner with an influencer to promote a product and the influencer will receive a commission for each item sold. In the FTC's view, disclosures of these agreements are critical for viewers to properly assess the claims of influencers regarding the products they recommend. Only 7% of Pinterest pins involving affiliate marketing relationships disclosed those relationships and many of the small number of pins with disclosures did not adhere to FTC rules. Pinterest and other social networks are

trying to automate the process of making these types of disclosures.

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. For instance, it has 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. The company went public in April in 2019, and while it has yet to turn a profit, it recorded over 1 billion in revenue in 2019, up from just 100 million in 2015. In the first quarter of 2020, revenues grew 35% compared to the same period in the prior year, despite the Covid-19 pandemic, and it saw a record level of user traffic and engagement. During that time, both the number of searches and the number of boards created also increased, by 60%, compared to the same period in the prior year. Although Pinterest had previously forecast generating over \$1.5 billion in revenue for 2020, it withdrew that estimate given the uncertainties related to the pandemic. Nonetheless, Pinterest believes it has a winning strategy to differentiate itself from other social networks and so far, appears to be executing that strategy successfully.

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?