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MERGING MINDS

How Facebook Bought Its Way to Global Domination

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I N D E X

Whatsapp Overview
Facebook Overview
M&A Rationale
Risk Analysis and Mitigation



WHATSAPP OVERVIEW (UP TO 2014)



Founded

January 2009 by Jan Koum and Brian Acton

Industry

Mobile Messaging, Technology

Business Model (Initial)

Free for first year, then \$0.99 annual subscription

Subscription Fee

\$0.99 annual

User Growth (by 2014)

500 million active users

Key Features

- Ad-Free Platform
- Cross-Platform Compatibility
- End-to-End Encryption (foundation laid)

Financial Performance (2014)

Modest revenue from subscriptions

Key Developments Leading to 2014

- Rapid user growth (500 million by 2014)
- Acquisition by Facebook (\$19 billion)

STRATEGIC IMPLICATIONS OF THE ACQUISITION

- **Market Expansion:** The acquisition provided Facebook with immediate access to WhatsApp's vast and **growing user base**, particularly in markets where Facebook's growth had been slower. This would enhance Facebook's **global reach** and **strengthen its position in the mobile messaging market**.
- **Synergies and Data Integration:** Facebook could potentially **leverage WhatsApp's user data** to enhance its own **ad-targeting capabilities**, although this would need to be done carefully to avoid **privacy concerns**. The integration of WhatsApp's data with Facebook's existing data resources could allow for more **precise user profiling** and targeted advertising, driving greater ad revenue over time.

- **Competitive Defense:** Acquiring WhatsApp preemptively neutralized a potential competitor. WhatsApp's focus on privacy and its growing popularity posed a challenge to Facebook's dominance in social networking. By bringing WhatsApp under its umbrella, Facebook **mitigated the risk of a rival acquiring** it and **gaining a foothold** in the messaging space.
- **Financial Considerations:** The **\$19 billion price tag** was significant and raised questions about how Facebook would **monetize** WhatsApp without compromising its ad-free philosophy. Possible strategies could include introducing **premium features, business-oriented services, or payment systems**, though these would likely be implemented cautiously to avoid alienating WhatsApp's user base.
- **Privacy and User Experience:** A major risk associated with the acquisition was the potential for user backlash over **privacy concerns**. WhatsApp was known for its **strong commitment to user privacy**, and any perceived erosion of this principle could lead to **user attrition**. Facebook would need to maintain WhatsApp's core values while exploring ways to generate revenue, a delicate balancing act that would be critical to the success of the acquisition.



FACEBOOK OVERVIEW (UP TO 2014)

Founded: February 4, 2004, by Mark Zuckerberg, Eduardo Saverin, Andrew McCollum, Dustin Moskovitz, and Chris Hughes.

IPO Date: May 18, 2012.

Industry: Social Media, Technology.

BUSINESS MODEL

Facebook's business model revolved around generating revenue primarily through advertising. The platform allowed businesses to target ads to specific demographics based on user data, which was one of its key strengths. The more users Facebook had, the more valuable its advertising platform became.

- **Advertising Revenue:** The primary source of income. Facebook offered various ad products, including display ads, video ads, and sponsored content. It used a sophisticated algorithm to target ads based on user data, which included location, age, gender, interests, and behaviors.
- **User Growth and Engagement:** Facebook's value proposition to advertisers depended on its ability to grow its user base and keep users engaged on the platform. This led to continuous innovations and features like the News Feed, Timeline, and Messenger to maintain user interest.

- Data Monetization: Facebook collected vast amounts of data from its users, which it then used to improve ad targeting. This data-driven approach to advertising was a significant factor in the company's financial success.

FINANCIAL PERFORMANCE (2009-2013)

YEAR	REVENUE	NET INCOME	MONTHLY ACTIVE USERS (MAUS)
2009	\$ 777 million	\$ 229 million	\$ 360 million
2010	\$ 1.97 billion	\$ 606 million	\$ 608 million
2011	\$ 3.71 billion	\$ 1 billion	\$ 845 million
2012	\$ 5.09 billion	\$ 53 billion	\$ 1.06 billion
2013	\$ 7.87 billion	\$ 1.50 billion	\$ 1.23 billion

FINANCIAL PERFORMANCE (2009-2013)

- **2012 IPO:** Facebook went public on May 18, 2012, with an initial offering price of \$38 per share. The IPO was highly anticipated but faced significant challenges, including technical glitches and concerns over the company's ability to monetize its mobile platform.
- **Mobile Transition:** As users increasingly accessed Facebook via mobile devices, the company made a concerted effort to improve its mobile app and introduce mobile advertising. By 2013, mobile advertising accounted for over 50% of Facebook's total ad revenue.
- **Acquisitions:**
 - **Instagram (2012):** Facebook acquired Instagram for approximately \$1 billion in cash and stock. This acquisition was strategic, as Instagram was a rapidly growing social network that appealed to a younger demographic.
 - **Oculus VR (2014):** Before acquiring WhatsApp, Facebook acquired Oculus VR, a virtual reality company, for \$2 billion. This indicated Facebook's interest in expanding beyond social media into new technologies.
- **Focus on Innovation:** Facebook constantly rolled out new features to keep users engaged. The introduction of the News Feed, Timeline, and Open Graph were significant innovations that kept the platform relevant and engaging.



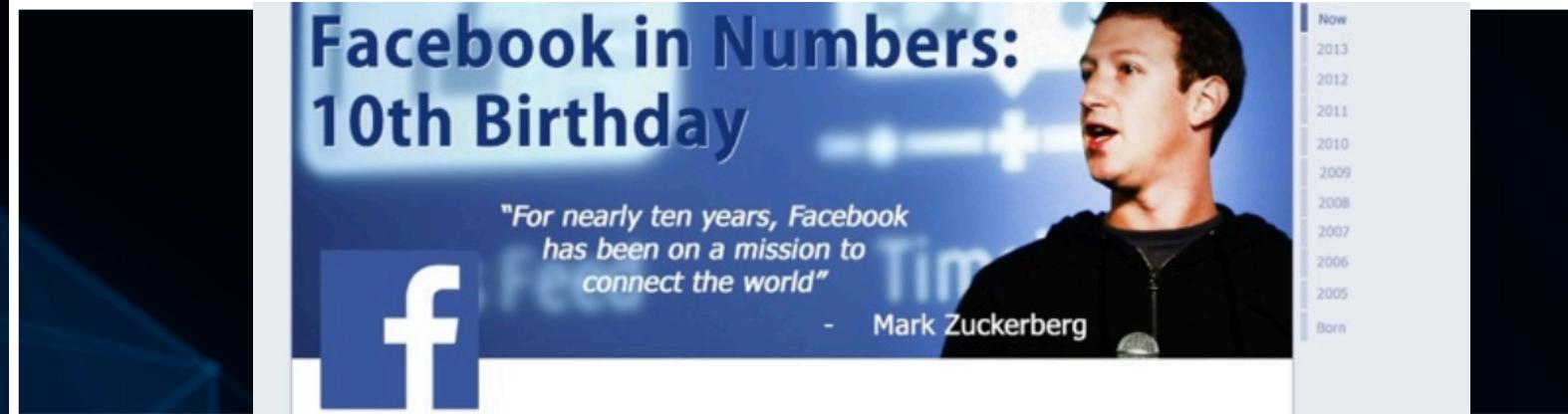
M&A RATIONALE



META	WHATSAPP
<p>Growth Opportunities: WhatsApp's large and growing user base, particularly in emerging markets, would give Meta immediate access to new users and boost engagement in regions where Facebook's penetration was weaker.</p>	<p>Scalability: Meta's vast resources and technical infrastructure would allow WhatsApp to grow faster and expand its service offerings to a wider global audience.</p>
<p>Monetization Potential: WhatsApp's ad-free model presented an opportunity for Meta to explore new revenue streams, such as targeted advertising, subscription fees, or business messaging services.</p>	<p>Global Reach: Meta's global presence and marketing expertise would help WhatsApp reach new markets and significantly increase its user base.</p>
<p>Strategic Defense: Acquiring WhatsApp helped Meta defend its position in the messaging space against competitors like Google and Tencent.</p>	<p>Sustainability: Meta's financial backing would allow WhatsApp to invest in innovation, explore new revenue models, and ensure its long-term financial sustainability.</p>

META

Penetrating Untapped Markets: WhatsApp's ability to function on low-bandwidth connections made it ideal for emerging markets with limited internet access. By acquiring WhatsApp, Meta could leverage its user base to expand its Internet.org initiative and bring affordable internet access to more people.



WHATSAPP

Strategic Positioning: As part of Meta, WhatsApp could focus on its core mission of providing private messaging services while Meta handled the broader strategic issues.

User Privacy and Experience: By operating within Meta's ecosystem, WhatsApp could benefit from Meta's expertise in data protection and security, while still maintaining its commitment to user privacy.



PROJECTED EXPANSION IN USER BASE

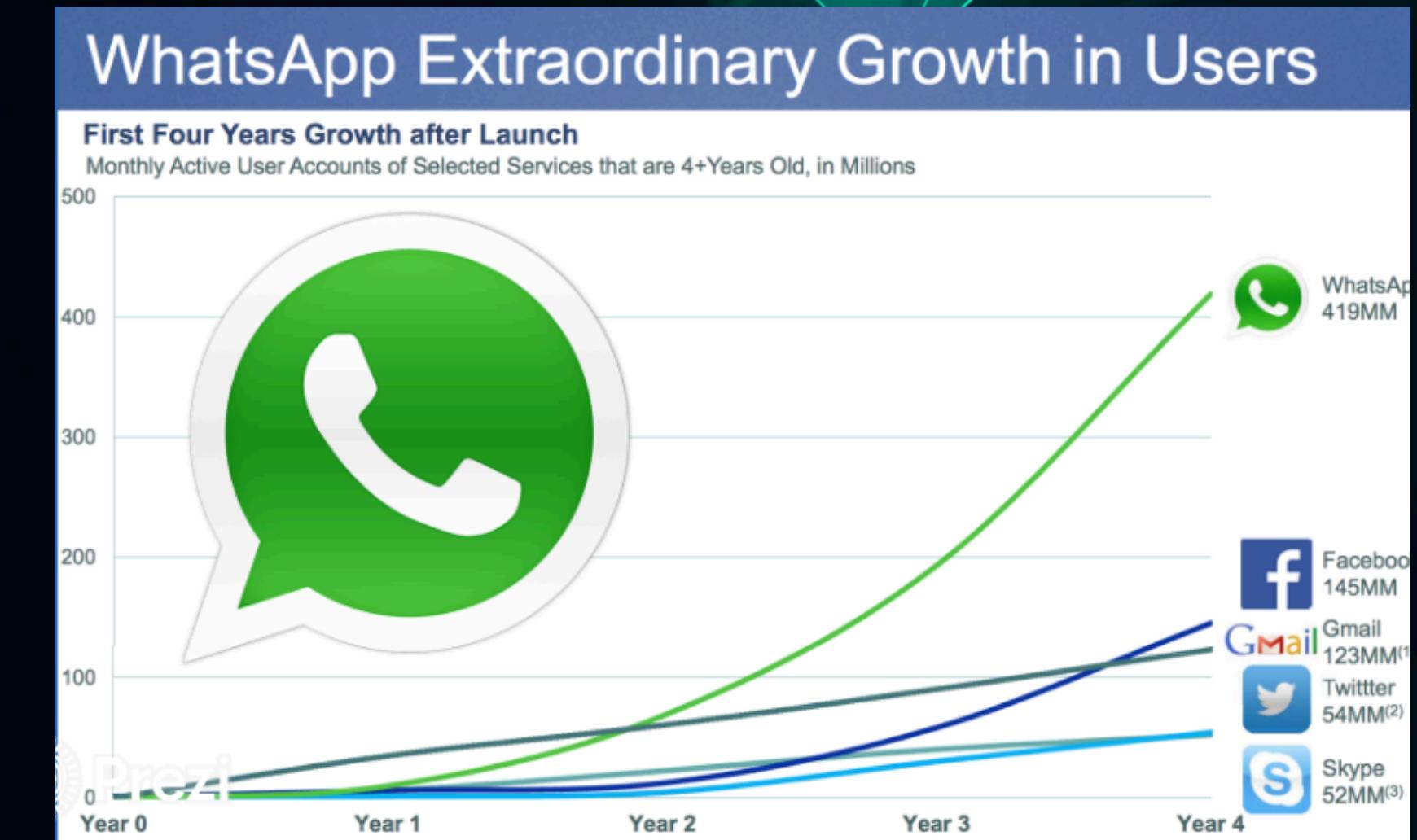
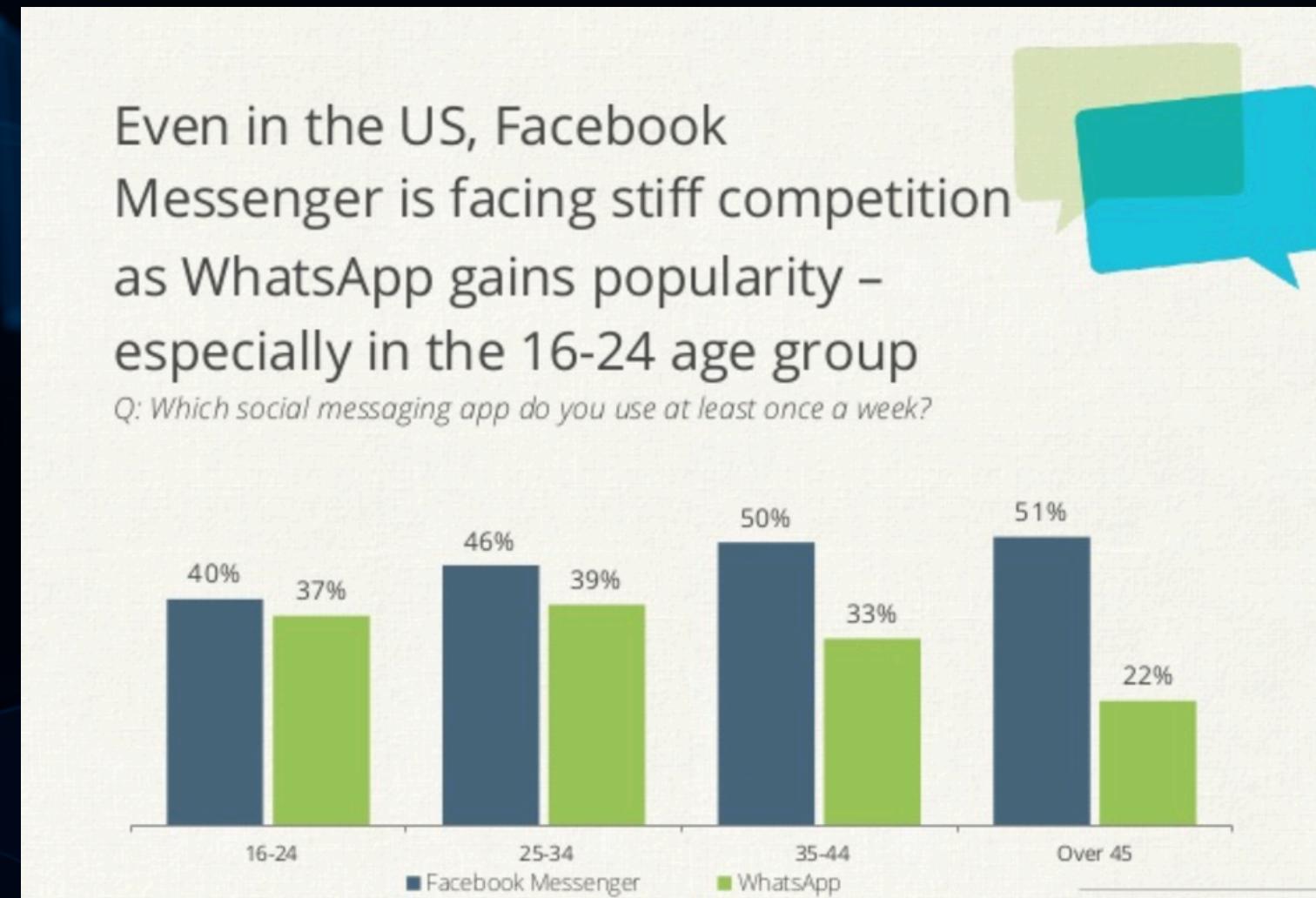
Region	2014 User Base Estimate (WhatsApp + Facebook)	Expected year on year growth Rate (2014-2016)	Projected User Base by 2016
Global	1.73	Accelerated Growth	1.8
Asia-Pacific	NaN	40-50%	800.0
Latin America	NaN	30-40%	400.0
Europe	NaN	15-20%	450.0
North America	1.23	10-15%	500.0
Africa	NaN	50-60%	200.0

KEY DRIVERS OF GROWTH

- Increased smartphone penetration in developing countries.
- Synergy between Facebook and WhatsApp allowing user data to enhance targeted advertising and cross-promotion between platforms.
- Expansion of internet connectivity in regions like Africa and Asia.

PROJECTED GLOBAL GROWTH ESTIMATE

- User Base (2016): Estimated to reach **~2.35 billion** across both platforms globally, with WhatsApp contributing significantly to emerging markets' expansion.



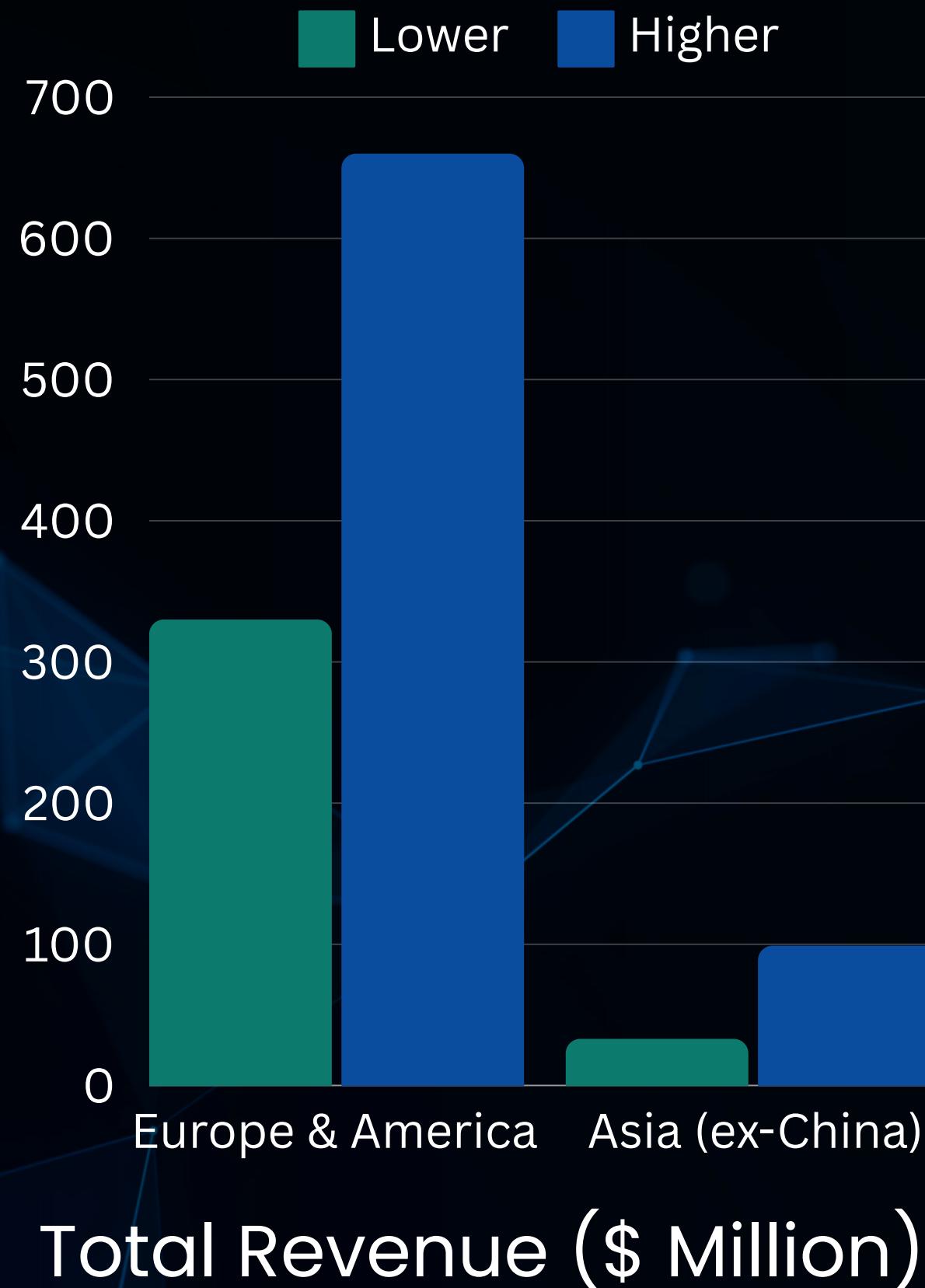
MONETIZATION POTENTIAL (2014)

1. PAYMENT INTEGRATION

THE POTENTIAL TRANSACTION VOLUME AND REVENUE FOR EUROPE & AMERICA AND ASIA (EX-CHINA) BASED ON DIFFERENT MARKET SHARE TARGETS.

Region	Market Size (\$ Billion)	Transaction Fee (%)	Target Share (%)	Potential Transaction Volume (\$ Billion)	Potential Revenue (\$ Million)
Europe & America (lower estimate)	600	0.5	1	6	30
Europe & America (higher estimate)	600	0.5	2	12	60
Asia (ex-China)	300	0.1	1	3	3
Asia (ex-China)	300	0.1	3	9	9

The total revenue estimates for both regions considering the lower and higher market share targets, along with the partnership boost.



2. BUSINESS MESSAGING SERVICES:

Metric	Low Estimate	High Estimate
Messages per Business per Month	1,000	1,000
Number of Businesses	100,000	100,000
Price per Message	\$0.005	\$0.02
Monthly Revenue	\$500,000	\$2,000,000
Annual Revenue	\$6,000,000	\$24,000,000

3.TARGETED ADVERTISING REVENUE POTENTIAL

Metric	Low Estimate	Low Estimate
Active WhatsApp Users	500,000,000	500,000,000
Percentage Viewing Ads	30%	30%
Average Ads Viewed Per User Per Day	2-3	2-3
Daily Ad Impressions	450,000,000	450,000,000
CPM	\$2	\$4
Daily Revenue	\$900,000	\$1,800,000
Annual Revenue	\$328,500,000	\$657,000,000

4.SUBSCRIPTION-BASED PREMIUM SERVICES REVENUE POTENTIAL

Metric	Low Estimate	Low Estimate
Total WhatsApp Users	500,000,000	500,000,000
Percentage Subscribing	1%	1%
Annual Subscription Fee	\$5	\$5
Total Subscribers	5,000,000	5,000,000
Annual Revenue	\$25,000,000	\$25,000,000

INTEGRATION OF WHATSAPP INTO META'S ECOSYSTEM: RISK ANALYSIS AND MITIGATIONS

Category	Risks	Mitigations
Strategic Risks	<ul style="list-style-type: none">Cultural Misalignment-WhatsApp's privacy focus contrasts with Meta's revenue model.Synergy Realization- Expected synergies may not materialize.	<ul style="list-style-type: none">Preserving WhatsApp's Core IdentityPhased Integration StrategySynergy Monitoring
Market Risks	<ul style="list-style-type: none">Regulatory Scrutiny-Data privacy and competition concernsCompetition-Rivals like Telegram may gain from privacy concerns	<ul style="list-style-type: none">Proactive Regulatory EngagementStrengthening Privacy FeaturesCompetitive Positioning
Integration Challenges	<ul style="list-style-type: none">Technical Integration- Potential infrastructure issuesBrand and User Experience- Risk of alienating users	<ul style="list-style-type: none">Robust Technical PlanningUser-Centric CommunicationMaintaining Brand Identity
Financial Risks	<ul style="list-style-type: none">Valuation ErrorsROI Shortfalls	<ul style="list-style-type: none">Thorough Valuation ProcessDiversified Monetization StrategiesLong-Term Financial Planning
Cultural Integration	<ul style="list-style-type: none">Cultural Clash- Risk of operational inefficienciesEmployee Retention	<ul style="list-style-type: none">Cultural Integration ProgramsRetention StrategiesCross-Cultural Leadership
Technology Integration	<ul style="list-style-type: none">Compatibility Issues-Integrating WhatsApp's technology with Meta's could present data migration risks and potential service disruptionsData Privacy and Security Risks - Merging WhatsApp's encrypted messaging with Meta's ecosystem could raise privacy concerns	<ul style="list-style-type: none">Phased IntegrationRobust Data ManagementRegular Testing



CONCLUSION

No one can predict what the next big move for Facebook may be, but daring speculations could include the purchase of Twitter or Google.

Facebook has their sights set on the future of connecting and to that end, we believe Mark Zuckerberg and his team are onto something amazing.



THANK YOU!

FOR YOUR ATTENTION

