

Facebook Acquires GIPHY, Data Credits and Critical Suppliers, SDK Insights

11-14 minutes

Good morning,

Just a heads up that I did end up making last Thursday's [Daily Update](#) about media versus tech free to anyone. I am glad that it appeared to resonate.

In addition, a quick update about [Dithering](#):

- First, we now have a monthly option for Stratechery Annual subscribers, so you don't need to commit for a year. My sincere apologies for not making this happen before launch; it wasn't obvious how to do so, but I should have figured it out sooner.
- Second, Stratechery subscribers can now sample a couple of episodes of Dithering for free: just add the feed from the [podcast management page](#). We'll add a new free one every month or so.

On to the update:

Facebook Acquires GIPHY

From [Axios](#):

Facebook has agreed to buy GIPHY, the popular platform of sharable animated images, Axios has learned from multiple sources. The total deal value is around \$400 million. A source close to the situation says that the two companies first began talking prior to the pandemic, although that was more about a partnership than an acquisition. GIPHY is expected to retain its own branding, with its primary integration to come via Facebook's Instagram platform.

New York-based GIPHY had raised around \$150 million in VC funding since its 2013 inception, from firms like Betaworks (which incubated the company), Lerer Hippeau, IVP, DFJ Growth, GGV Capital, and Lightspeed Venture Partners. Its most recent private valuation was around \$600 million.

The conventional wisdom about this deal has quickly coalesced around this being a blatant play by Facebook for user data. Sarah Frier wrote at [Bloomberg](#):

A few months ago, the team at the money-losing GIF search engine, GIPHY, reached out to Facebook Inc. Might the social networking company be interested in an investment? Already, about half of GIPHY's activity came through Facebook and its family of apps, which lets users accent their posts and messages with short, animated clips of crying Michael Jordans, popcorn-eating Jon Stewarts and tea-sipping Kermits. While looking at GIPHY, Facebook executives realized that they shouldn't just make an investment — by buying the company outright, they could get something else they value: data.

GIPHY provides the same search service to many of Facebook's competitors, Apple Inc.'s iMessage, Twitter, Signal, TikTok and others. The company has a view of the health of those platforms and how often people use them, which is exactly the kind of insight Facebook values most, and has sought in the past. After GIPHY joins Facebook, the company will maintain those integrations, and will keep getting data from GIF searches and posts around the internet.

Owen Williams expounded on this point on [Medium](#):

What might not be obvious, however, is that each search and GIF you send with GIPHY is also a "beacon" that allows the company to track how and where the image is being shared, as well as the sentiment the image expresses. GIPHY wraps each of its animated GIFs in a special format that helps the image load faster, and also embeds a tiny piece of Javascript that lets the company know where the image is being loaded, as well as a tracking identifier that helps follow your browsing across the web.

When embedded into third-party apps, GIPHY can track each keystroke that's searched using GIPHY tools. Developers who install GIPHY tools into their apps are required to give the service access to the device's tracking ID. Such access allows GIPHY (and now, Facebook) to better match the identity of a user across the apps they use on their phone.

So I guess that's it then.

Data Credits and Critical Suppliers

I'm not going to go full contrarian on this one: I am sure that data is a very important consideration for Facebook, and it's a reminder that there are real advantages to having Facebook's business model. I wrote in a Daily Update [last year](#):

To the extent your business model can leverage data — i.e. if you are a Data Factory — the more leeway management has to pursue opportunities with long-term upsides.

Android is a useful example: the primary goal of Android was defensive — to ensure that Google always had access to the end user on mobile. Part of maintaining that access, though, was not simply to keep Google's traffic acquisition costs in line (remember, Google reportedly pays Apple \$9 billion to be the default search engine on the iPhone), but also to get data from customers — and there is far more data on mobile than there is on the desktop. That meant that even if Android never made a cent — and it certainly did and does, directly through the Play Store, and indirectly via search — the project would still have been justifiable.

If you look at all of the circumstances of this acquisition, I actually think this perspective on data makes more sense: it is less that Facebook is pursuing the next amazing data generator and more that GIPHY's data makes a more pragmatically driven acquisition palatable.

Start with the price: from Facebook's perspective, \$400 million just isn't that much. Or, to put it another way, if GIPHY were the sort of incredible data play that it is being presented as, one has to wonder why Facebook wasn't willing to pay, say \$700 million a year ago — I'm pretty sure GIPHY would have jumped at the offer.

Instead, though, GIPHY is selling for \$200 million less than its last valuation, which suggests a company that was increasingly desperate for either fresh fundraising or an acquisition.

That, by extension, gives a different perspective on Facebook's thinking. First, keep in mind that Facebook platforms already account for 50% of GIPHY usage. Second, the other major GIF platform, Tenor, was [acquired by Google two years ago](#). If GIPHY were to go out of business or, as would be more likely, scooped up by another company — maybe even Google — then Facebook would be out a supplier for a major category of social interactions. That doesn't seem ideal!

What I suspect happened is that GIPHY came to Facebook as part of its search for investment, Facebook realized that it would rather buy GIPHY than have one of its competitors scoop it up, and then probably held out for a price that was less than GIPHY wanted but which was higher than other bidders would have offered — and the reason Facebook could justify the higher price was because of the potential data applications.

There are a few additional points that I think justify this reading.

First, the data that GIPHY gets, particularly from major platforms, is much less than suggested; yes, [the GIPHY SDK](#) that lets developers simply drop in GIPHY support into their apps requires developers to get the Device Advertising ID, but that is because GIPHY was trying to monetize through advertising. The [GIPHY API](#), on the other hand, which allows for a custom-built integration, has no such requirement, and [Signal explained in 2017](#) how GIPHY's service can be proxied to hide all user data. Slack has already said that [they proxy GIPHY in the same way](#), and I strongly suspect that Twitter and Apple do the same. That means that Facebook can get total usage data from these apps, but not individual user data (and as further evidence that this sort of proxying is effective, Facebook-owned WhatsApp actually uses Google's Tenor service; I highly doubt Facebook would have tolerated that to-date if Google were getting per-user data).

Second, there is a decent chance that GIPHY ends up being a bit of a headache for Facebook, in two ways. The first is the acquisition itself: there were [immediately calls from Capitol Hill](#) to look into the merger based on antitrust concerns, even though I have a very hard time fathoming what antitrust issues are potentially at play here. That, though, isn't necessarily going to stop Congress from giving Facebook a hard time.

There is also the question of GIPHY's uncertain copyright status. A huge number of GIFs, particularly the most popular ones, are from copyrighted material. It seems likely that most GIFs are covered under fair-use laws, but that has never been explicitly ruled on (on one hand, [Twitter has banned NFL GIFs](#); on the other the seemingly most pertinent court case, 2013's [SOFA v. Dodger](#), ruled that snippets from old TV shows used in a commercial play were covered by fair use). It's not known if GIPHY had cut any deals with rights holders, but if not, it seems pretty likely that said rights holders will be looking at Facebook's deep pockets with dollar signs in their eyes.

To that end, it is worth noting that there is some broadly shared value in Facebook acquiring GIPHY: the company didn't have a clear path to monetization (branded GIFs rather ruin the magic), and now the service is guaranteed to be available for the long run. And, to the extent Facebook captures data, well, they were probably capturing it anyways.

SDK Insights

Two weeks ago, from [The Verge](#):

Sometime around 6:30PM ET on May 6th, popular iOS apps from major companies like DoorDash, Spotify, TikTok, and Venmo suddenly starting crashing. The culprit didn't remain a mystery for long. Developers on Twitter and GitHub quickly discovered the cause to be an issue with the software development kit (SDK) from Facebook, which is interwoven into the operation of countless mobile apps from companies large and small. The problem, while resolved rather quickly by Facebook, illustrates the scope of the social

network's platform and how even minor issues can have major ripple effects throughout the mobile software industry.

Here's the deal with SDKs: they make development a lot easier and quicker. Does your new app need login functionality? You can create your own, along with all of the security challenges that entails, or you can just use Facebook Login, which, by the way, is easier for your users to use. Or, relevant to this article, does your app want to include an easy GIF picker? Just add the GIPHY SDK, and with only a couple of lines of code you are good to go.

This is an incomplete explanation as to why developers use SDKs, particularly Facebook's (which is often used to support mobile advertising, as well as conversion tracking). It does, though, point at the GIPHY data that probably will be the most valuable to Facebook:

- New applications are the most likely to use off-the-shelf SDKs, as opposed to building complicated yet privacy-protecting proxies.
- Social applications need to include GIF support as tablestakes.
- GIPHY is already the most popular GIF picker on the market.

What would be very valuable to Facebook is not necessarily the usage numbers of Slack or Signal or iMessage (ok, probably iMessage), but the app that no one knows about that is suddenly taking off. GIPHY could very well provide a signal about a very specific type of app that would be of particular interest to Facebook, far earlier in its existence than Facebook might detect otherwise. That, combined with securing a critical supplier of Facebook's own apps, is likely reason enough to pay \$400 million and put up with the associated headaches, even if there ends up being minimal user-specific data to be had (and if there is, well, then \$400 million ends up being a bargain from Facebook's perspective).

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