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Facebook business model and the acquisition of WhatsApp

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Introduction

The aim of the following text is to describe the business model adopted by the corporation Facebook, and to deal with the analysis of the acquisition of WhatsApp.

Section 1 will contain a description of WhatsApp's acquisition, compared with other previous cases. In section 2.1 a definition of business model will be provided, alongside with a brief presentation of the business models adopted by Whatsapp 2.1 and Facebook 2.2. In section 3 the grounds of the acquisition of Whatsapp will be explained.

Facebook Inc. refers to a group of companies, among which we can list WhatsApp, Instagram and Oculus VR. The use of the word "Facebook" will then refer just to the social network, rather than the whole group.

1 The acquisition of WhatsApp

On the 19th February 2014 Mark Zuckerberg, Facebooks founder and CEO, announced the acquisition of Whatsapp for a total amount equal to \$ 19 billion [2]:

- \$ 4 billion paid in cash,
- \$ 12 billion in stocks and
- an addition \$ 3 billion in restricted stock units granted to WhatsApps employees and founders.

Looking at other famous acquisitions in the past years, for example Motorola being acquired by Google or Skypes acquisition by Microsoft (which costed respectively \$ 12.5 and \$ 8.5 billion), none of them reached such a high sum, that is more than the double of the 2013 gross incomes of Facebook, as it is shown in figure 1

This is not the first case of a big acquisition operated by Facebook Inc.: in 2012 the company paid \$ 1 billion to purchase Instagram, the photo-sharing service, while on 25th March 2014 it bought Oculus VR, a virtual reality technology. Any way, a complete list of all the acquisitions is available on the on-line encyclopedia Wikipedia. After reading the list, it can be noticed that Facebook Inc. is currently buying a lot of high-tech companies with different functionalities and operating in different business areas: the company is therefore probably aiming to consolidate its position in the on-line services industry, to improve its capacity to offer a world-wide communication tool and, at the same time, to diversify its sources of revenues and business.

2 Business model

According to Investopedia a business model is:

The plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs.

But the same web page gives another more informal definition : "it (the business model) merely describes the way in which a company makes money".

In this paper I'll adopt the informal definition.



Figure 1: This picture show the official revenues of Facebook [1] in million dollars: each bin represent a quarter of the indicated year.

2.1 WhatsApp's business model

The two co-founders of WhatsApp, Jan Koum and Brian Acton, based their application on two main features:

1. on the rejection of advisories, as it's claimed in WhatsApp's web site [3]:

At every company that sells ads, a significant portion of their engineering team spends their day tuning data mining, writing better code to collect all your personal data, upgrading the servers that hold all the data and making sure it's all being logged and collated and sliced and packaged and shipped out... And at the end of the day the result of it all is a slightly different advertising banner in your browser or on your mobile screen.

Remember, when advertising is involved you the user are the product.

The rejection of incorporating advertising is due to the fact that both the co-founders worked for 20 years for Yahoo!, whose revenues are largely based on this kind of services.

2. The respect for the privacy of the users: a critical issue, since Jan Koum grew up during the 1980s in URSS and experimented a lack of this right, since KGB was monitoring peoples private conversations.

Hence, WhatsApps revenue come from a yearly fee, which amounts to \$ 0.99 in the US and € 0.89 in Europe.

2.2 Facebook's business model

The main source of revenues of Facebook is an user-specific advertising service, as it is shown in figure (1).

It can be noticed that the average click-through rate (CTR), an index that measures the success of a web ad, is relatively low. Other on-line companies, such as Google, have a higher CTR. However, this can be explained observing the difference between the services provided by the two companies: the former's mission is to offer a communication tool, while the latter's aim is to offer information to users that make requests. Additionally, a lot of customers use ad-blockers and the younger users are perfectly able to ignore ads, because they are grown surrounded by advertising and technology ¹.

Facebook created in March 2012 its application center, that gives the users the possibility to play games on Facebook. These pastimes became an important source of revenue, because there are a lot of players that buy Facebook's Credits. To give an idea of the geographical spread of the customers, Facebook's Credits payments occur in 15 different real-world currencies, including Euros, Hong Kong Dollars, Turkish Lira, and Venezuelan Bolivars [4].

The 1st February 2012 Facebook, Inc. became a listed company, gaining the possibility to acquire other companies using its own stocks, as it is shown in the acquirement of WhatsApp: indeed \$ 15 billion were payed with stocks. Facebook, Inc.'s stock today is worth much more than just a couple of years go: at the beginning, it was traded at an average price of \$28, while the price today is around \$ 60 (it more than doubled). Twitter Inc., one of the main Facebook's competitors, has its stock currently traded at a price of \$ 28.

3 The significance of WhatsApp Acquisition in Facebook business model

Facebook, Inc. acquired WhatsApp and other companies in order to reinforce its dominance in offering a world-wide communication tool.

With this acquirement Facebook, Inc. intends to increase the number of Daily Active Users (DAU) and the monthly ones (MAU).

WhatsApp became so important, because in only 4 years has gained

- 500 million MAU, fast the double of Twitter, Inc., that counts around 255 million MAU
- 70 % of the users of WhatsApp are daily active [2] (more than Facebook with 62 % [1]).

Another characteristic that renders WhatsApp unique is the ratio between developers and users, as it is shown in table (1). With only 32 engineers WhatsApp supports more than 450 million user that means that there is a developer for 14 million users.

Facebook invests in the acquisition of other companies in order to maintain its economical power and follow the market trends, because there are many examples of IT-companies, that lost their value with the changing of the market's (and users') trend, such as MySpace, that was bought for \$ 580 million dollars in July 2005 and was sold for \$ 35 million in 2011 ².

¹see this article

²http://mediadecoder.blogs.nytimes.com/2011/06/29/news-corp-sells-myspace-to-specific-media-for-35-million/?_php=true&_type=blogs&_r=0

Company	Nr. of Employeers	Nr. of Developer	Nr. of MAU	Ratio
WhatsApp	55	32	450 Million	14 Million
Twitter	3000	1500	255 Million	170 Thousand
comparison	1.8 %	2.1 %	176.5 %	8235.3 %

Table 1: This table show the number of employeers and number of developer of the two companies according to their official web sites. The comparison is obtained by calculate the per cent value of the WhatsApp's data with these of Twitter, Inc.

The peculiarity of Facebook, Inc. acquisitions is, that they are usually not real merges, such in the example of WhatsApp, the company maintains its independency, as it is claimed in their official blog:

WhatsApp will remain autonomous and operate independently.

4 Conclusion

After 10 years Facebook has gained more than 1 billion MAU and it became the second most visited web site after Google, according to Alexa.

Facebook, Inc. has acquired and will acquire companies around the entire globe, in order to maintain its relevance and dominance in communication.

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