



Snap: Adapt, Shape or Die

Duke University

EGRMGMT 542-02

Competitive Strategy - Team 3

Dhivya Babu Gomathy

Irene Don

Sana Khazielakha

Chuting Li

Gaurav Mor

Sudeep Sawant

Date of Submission: September 14, 2022

Index

S.No.	Title	Page No.
1	Executive Summary	1
2	Introduction	1
3	Strategic Opportunities	2
4	Challenges	2
5	STEEP Shifts	3
6	Competitive moves resulting from these shifts	5
7	Strategic Analysis Palette	6
8	Recommendations	7
9	Conclusion	8
10	Appendix	9
11	References	10

Executive Summary

Our team was hired by Mr. Ramtin to examine Snap Inc.'s current scenario and strategies to suggest if GCI should invest in Snap Inc. or not. Our team has explained the case and has put a perspective on the case with the help of an introduction to Snap Inc., from its inception as Picaboo till it becoming Snap Inc. and laying off 20% of its workforce recently. Snap also decided to shut down Zenly. Our team then mentions the strategic opportunities Snap Inc. has in the current market and the challenges it might face when trying to capitalize on the opportunities.

Our team next conducted a STEEP analysis for Snap to get a better understanding of the current position for it and how it can affect Snap in the future. The team then connects this analysis to the competitive shifts in the market, mentioning; -

1. Community Growth to enhance community engagement.
2. Revenue Growth through low funnel direct response advertising.
3. Invest in long-term AR business.

Then the team conducted an analysis on Snap on Strategy Palette made by Mr. Martin Reeves where it talks about Snap from its inception as a visionary to it being in the adaptive palette, heading into the renewal palette for the future to becoming an organization in the shaping palette. This analysis then leads to the recommendations our team has for Snap for the future to increase its top line more organically.

The team has finally concluded to not invest in Snap Inc. as of now, unless it shows any growth in its top line, without cutting down on its costs. If Snap follows the recommendations our team has made and shows better results in its top line, only then would we suggest GCI invest in Snap.

Introduction:

In today's world social media, it is important to survive and get to know about the world, instantly. While Facebook was the king of social media back during the web 2.0 internet boom, Reggie Brown of Stanford reached out to his friends (Evan Spiegel and Bobby Murphy) with a unique idea that is a part of every phone today. He wanted to create something that would empower people to express themselves, live in the moment, learn about the world, and have fun together.

Launched as 'Picaboo' in July 2011, Snapchat had a meteoric growth and gained public approval that reflected in their daily active users that increased to 50 million in about 3 years. Snapchat's concept was simple and attractive, and claimed to be 'the easiest and fastest way to communicate the full range of human emotions with your friends without pressure to be popular, pretty or perfect.' The most unique feature about Snapchat was its camera that had AR (Augmented Reality) technology to support virtual communications, self-expression, and storytelling.

11 years since its launch, Snapchat (now Snap) has experienced many difficulties and now it is facing a tough competition from other social media platforms like Meta, TikTok and BeReal.

Snapchat's timeline

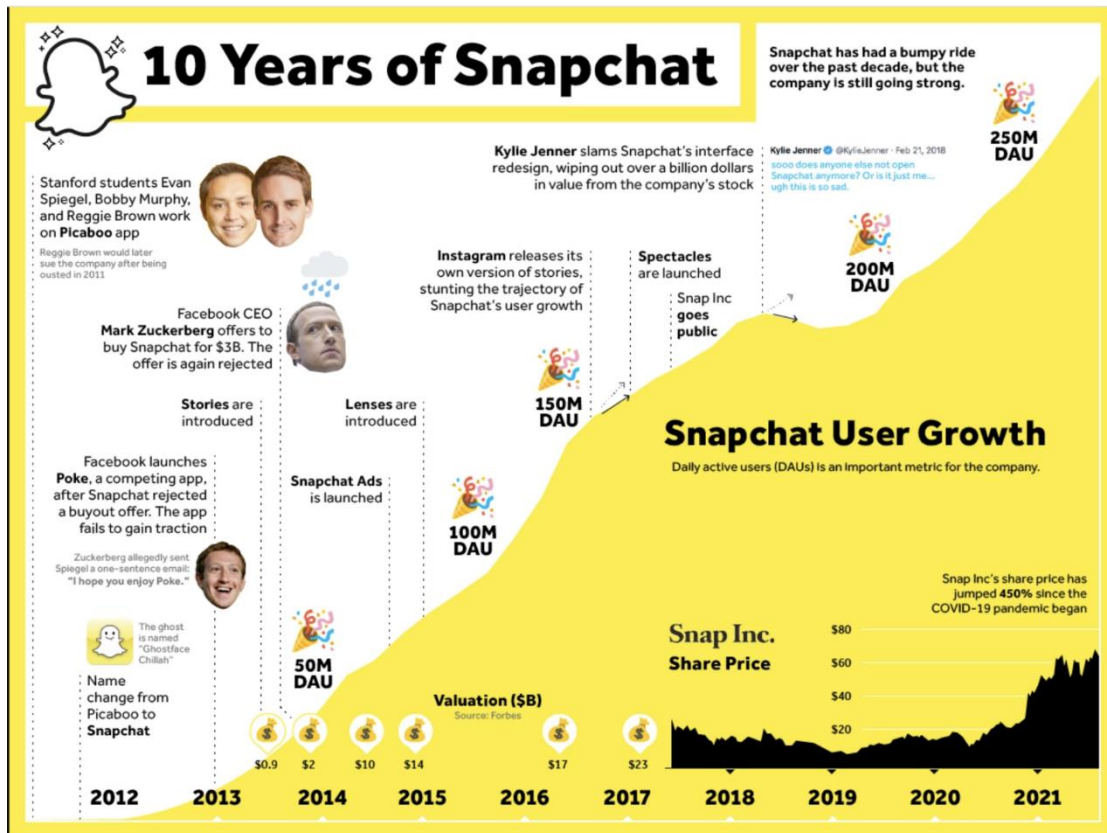


Fig1.- Snap Inc. Timeline

Strategic opportunities

Snapchat caters to the younger demography of society. In 2011, its objective was to portray real human feelings and to be the simplest and fastest means of communication. To achieve this, Snap updated its camera using Augmented Reality to focus on visual communication, self-expression, and narrative. It made 1% of its revenue with the visionary idea of AR spectacles.

Despite sustained user growth, Snapchat experienced saturation in revenue generation. To respond to the market environment, it re-strategized its goal in 2022 and took drastic measures such as dismissing 20% of its workers, shutting down the app Zenly, and reducing its cost structure.

Evan Spiegel, Snap's CEO, recommended many strategic changes to counteract the company's continued losses and get it back on its feet.

Snapchat's primary goal is to usher in the next major platform shift: mobile to wearables via Augmented Reality. They plan to lead this transformation by producing technically complex concepts and growing a platform that is tough to reproduce. It also intends to establish an AR enterprise business to market its technologies to other firms. Next year, the business hopes to make 10% of its overall ad income from AR-based advertising and add 1 billion monthly users to its AR product, Lenses.

Snapchat Plus, a premium membership model, was developed to give the firm other revenue opportunities. It gained 1 million users in just six weeks. For \$3.99 per month, customers get early and exclusive access

to features. The key product that the firm pushed out for its paying consumers was Snapchat for PC. This plan's long-term goal is to generate \$350 million in income and 4 million subscribers by the end of 2022.

Snap intends to increase its penetration in at least one significant new country or demographic and onboard more 30- to 40-year-olds to meet its user growth target.

It plans to direct more users to Snapchat's Map and Spotlight tabs to engage better with their community, become more difficult to imitate, be more resilient to competition, and boost their monetization potential overall.

Challenges

Snapchat faces several challenges, making its long-term viability in the market difficult. They are as follows:

- TikTok is a rival with a bold concept that is rapidly affecting Snap's ad revenue. Several social media users are abandoning Snap in preference of TikTok.
- BeReal is an innovative competitor focusing on redefining the social space by delivering a "new and unique way to discover who your friends really are in their daily life."
- Meta had an unclouded vision for Facebook and Instagram, which resulted in immense popularity, profitability, and user growth.
- The US (United States) Government is closely scrutinizing social media giants by introducing a new bill to "rein in tech companies' malicious advertising algorithms," which could hold platforms like Snapchat accountable for making personalized recommendations to users that result in physical and emotional harm.
- Apple has suspended the digital ad industry by adopting new iPhone privacy rules that limit Meta, Snap, and Pinterest's ability to target and measure Ads on their applications. This resulted in a significant decrease in Snapchat's ad sales revenue and increased competition from TikTok.
- Drop in Ad revenue. Mike Proulx, a research director at analysis firm Forrester, said: "While the platform's user base remains strong, Snap's ad-centric model is no longer a safe bet and is especially volatile heading into a period of economic headwinds where marketers are sure to pull back their ad spend."
- Other concerns include an increase in inflation, a 45x increase in the fed funds rate, supply chain shortages, labor disruptions, and the impact of The Ukraine war.

Societal, Technological, Economic, Environmental and Political (STEEP) shifts:

The STEEP analysis helps get a detailed overview on what external factors have an impact on the organization. It can be used to determine current trends and help predict what might happen in the future. The following external factors give us a summary on how Snapchat is affected by societal, technological, economic, environmental, and political shifts.

Societal:

Snap's revenue has fallen due to the impact of the war in Ukraine. In the days following Russia's invasion of Ukraine in late February, many advertisers paused their ad campaigns. While most advertisers resumed their campaigns, many remained concerned about inflation and continuing geopolitical risk. Snap has also stopped advertising in Russia, Ukraine, and Belarus. Ads from Russian state-owned entities will no longer

be accepted. As it stands, all of Snap's revenue comes from advertising products like Snap Ads and Augmented Reality Ads, but a difficult macroeconomic environment has negatively impacted the success of the business.

Economic:

Concerns over the sector have grown since Snap Inc. slashed its forecast in May, warning that a weaker economic outlook was weighing on its ad business. That sparked a selloff of more than 40%, its biggest one-day drop ever, and the stock is now down almost 70% in 2022 (Refer Appendix- Fig (a)). While the industry has benefited from the long-term tailwind of ad spending shifting to digital from print and broadcast, the growth in publicity budgets is likely to take a hit as business gets tougher. Supply-chain disruptions and inflation could continue to hurt advertising demand. A weakened macroeconomy would result in advertisers pulling back, and advertisers are the primary source of Snapchat's Revenue.

Technological:

Platform policy changes is another cause of concern for Snapchat. The recent iOS privacy changes continue to affect the company. After iOS users were given the option of opting out of tracking outside of the app, most users opted not to hand over more personal data to the apps they use. This has disrupted at least some of the activity seen with Snap's advertising partners making it harder for advertisers to target users and this may cause them to pull back ad spending. Indeed, management said on the most recent Snap call that advertisers' budgets and bids have been trending lower. Snap cited Snapchat+, Spotlight and Snap Map as new revenue sources in the medium term — in the long term, Snap's plan is to become a leader in augmented reality.

Environmental:

Snapchat has announced that it will aim to remove more carbon than it is emitting by 2030 because the latest science has made clear that more needs to be done to avoid climate change's worst impacts. The science behind carbon removal is constantly evolving, and Snapchat acknowledges that it may need to revise its targets over time, as systems and situations evolve to become net negative. In 2021, Snap reduced their direct carbon emissions from operations and grid-supplied electricity by over 50% from their 2019 baseline. Their absolute indirect carbon emissions increased but their revenues grew by 140% and they were able to reduce their indirect emissions indexed to revenue by 44% from the 2019 baseline. Both reductions put Snap ahead of meeting their 2025 science-based reduction targets.

Political:

A bill called the "Justice Against Malicious Algorithms Act" (JAMA Act, H.R (Human Resources). 5596) is being introduced by Rep. Frank Pallone and other House Democrats. The JAMA Act would remove Section 230 of the U.S (United States) (United States). Communications Decency Act. The bill would make online services liable if they served a user with content from another user that the first user later claims harmed them. The bill targets malicious algorithms but does not apply to search features or algorithms that do not rely on personalization. Personalised recommendation algorithms serve to help Snap improve customer experience and target the best customers for advertisements. The app needs to know different users' interests to create relevant ads. This new bill will further impact the gains made through ads for Snapchat.

Facing the internal and external challenges and opportunities, Snap is doing all they can do to survive while the macroeconomic environment is becoming harsh and uncertain. Moving forward, Snap is restructuring and refocusing the business to increase focus on their three strategic priorities: community growth, revenue growth, and augmented reality.

Competitive/Complementary moves resulting from these shifts

Facing the challenges from Ukraine-Russia war, energy crisis, persistently high inflation, and strong competitors, Snap experienced a steeply declining stock price this year, 90% from its all-time high of \$83.34 in September of 2021. However, Snap co-founder and CEO Evan Spiegel still believed the company was far from reaching its full potential and saw enormous opportunities in its long-term business.

On August 31, 2022, Evan sent a note to the company employees and released a statement that Snap would be refocusing the business. Snap is restructuring the business to increase focus on their three strategic priorities: community growth, revenue growth, and augmented reality.

Community Growth – community engagement

In an internal memo sent to employees on September 6th and obtained by The Verge, Spiegel said the company aims to grow Snapchat's user base by 30 percent to 450 million by the end of next year. Snapchat entered 2022 with a goal including 400 million daily users. According to Snap's financial results for Q2, DAUs were 347 million in Q2 2022, an increase of 54 million. Snap has not achieved the goal yet but was successful in its goal to grow "trust." "Trust" in the social platform business means to "protect our community from harm, safeguard privacy, promote health and wellbeing." So, what is Snap doing to build trust? Users feel there are three factors that most affect trust – Security (whether a platform protects user privacy and data), Legitimacy (whether a platform shows deceptive content), and Community (whether a platform provides a safe environment). Therefore, it is very reasonable for Snap to include community engagement in one of its three priorities. Furthermore, "trust" is not just about the branding image or marketing tactics. It is very impactful on users' decision to engage with ads or sponsored content on a social platform, which is the primary revenue source in Snap strategic plan. Therefore, Snap's priority #1 – to accelerate community growth and build user engagement, is setting the founder stone for its future revenue and long-term business success.

Revenue Growth – low-funnel direct response advertising

"We are evolving our business and strategy to reaccelerate revenue growth, including innovating on our products, investing heavily in our direct response advertising business, and cultivating new sources of revenue to help diversify our topline growth," said Evan Spiegel, CEO. Snap aims to increase revenue to \$6 billion (about \$18 per person in the US) in 2023, \$350 million of that revenue to come from the paid subscription. However, financial results for Q2 do not reflect their goal. Snap was once missed in its selfie drones, Pixy, earlier this year. Pixy was introduced as a new way for Snapchat users to capture photos from unique angles. As the company's struggles continue with physical products, its core ad business is also getting pummeled. Therefore, Snap is now giving up on its Pixy drone after just four months and getting back to focus on its core business – Leverage AR to generate more revenue in advertisements.

At the same time, given the increasing cost of capital during covid, Snap has also decided to discontinue or reduce investment in projects that do not directly contribute to the three priorities. As a result, Snap is laying off 20% of its workforce in hopes of reducing costs. The layoffs will affect certain departments including hardware and developer products, according to a report by the Verge. The team working on ways for developers to build mini apps and games inside Snapchat will be severely impacted. Zenly, the social mapping app Snap bought in 2017 and has since run separately, will also see deep cuts. Another team that will see layoffs is Snap's hardware division, which is responsible for its AR Spectacles glasses and the Pixy camera drone. The company's ad sales organization is also losing key executives with Jeremi Gorman, Snap's chief business officer and a deep connection to advertisers, departing to run ads for Netflix.

Invest in long-term AR business

Snap's augmented reality is not just a theoretical dream, but it is already a thriving part of the Snapchat experience, enjoyed by 250 million of its users daily. According to Snap, 60% of the U.S. population and all smartphone users will be frequent AR users. Snap believes that AR is an opportunity for brands to build loyalty and enhance the consumer experience. As of Q2 2022, Snap has released the latest version of Lens Studio, Lens Cloud, Snap 3D Asset Manager, Dress Up, and added AR Shopping to the camera kit offering. Snap is creating the ecosystem to enable content creators, AR developers and businesses to explore possibilities in the AR world. Snap also partnered with Vogue and Tiffany & Co. to create a series of AR lenses. The partnership is a great marketing tactic to prove the future of Snap's AR business.

Overall, three big headwinds are hitting Snap – General ads revenue is slowing down, IOS privacy changes, and the competition from TikTok. Snap is doing all they can do to survive while the macroeconomic environment is becoming harsh and uncertain. Moving forward, will Snap's strategic priorities help it correct course and success overall?

Strategic Analysis Palette.

With Snap Inc. being in the market for 10 years now, it has gone through multiple phases when you look at it from the perspective of the framework created by Mr. Martin Reeves- The Strategy Palette. Our Team has examined and come to conclusion to include the phases of when Snap Inc. began its journey, it is current position and what position our team expects Snap Inc. wants to achieve for its future.

Inception:

On the Strategy Palette given in appendix () Snap Inc. came to the mainframe as a visionary company. After the relaunch of Picaboo as Snapchat the application snapchat became instantly famous and showed exponential growth with the features it offered. The idea of disappearing pictures and messages sent to your friends became an instant favorite amongst people who did not want their personal information available on social media for too long. With time the application caught more traction. With time Snapchat introduced the feature of Snapchat streaks, a feature where you communicate with a picture with a friend over multiple days, and it became an instant hit amongst young adults with everyone wanting to highlight streaks with their friends. This visionary approach along with the fun and engaging filters on Snap Camera app attracted more people to it.

Present:

As the competitors started growing Snap. Inc had to become more adaptive to stay relevant to the market trends. Instagram, Facebook, and WhatsApp all the apps owned by Meta Platforms provided users with the feature of stories, a feature which displays pictures or videos that disappear in 24 hours. Instagram also gave the users the ability to use augmented reality filters just like Snapchat. Other competitors like TikTok and BeReal have started gaining even more traction in the current age with the better algorithm to reach a wider audience and an authentic filter less world to pull people away from the shenanigans of the phony social media. Russia- Ukraine war also acted as fuel to the flame and led to the top line for Snap Inc. getting even smaller.

To be able to compete with its competitors Snap Inc. released their own TikTok competitor, Spotlight. About 2 weeks ago Snap Inc. in a bid to increase its top line by cutting down costs caused by its workforce by laying off 20% of it. Snap also shut down its popular app Zenly. All these steps have been taken to be

adaptive to how the market has been acting and to make sure that Snap Inc. stays relevant and does not become the next Kodak.

Aspirations:

The biggest source of revenue for Snap Inc. is advertisements and it is trying to make a shift for the users into augmented reality. Snap Inc. wants the creation of advertisement more accessible and easier to use for everyone regardless of the users having prior experience in it. This step is being taken to make sure that Snap Inc. gets a competitive advantage in the augmented reality space with its Advertisements before metaverse, a platform by Meta Platforms which is an immersive virtual reality world in the Web 3.0 space becomes mainstream. The Spectacles/AR app allows the creators to create their own interactive filters which can be used as a revolutionary way to advertise the products or the company on its platform.

On the strategy palette, Snap Inc. wants to shift into the Shaping but is in the Renewal phase and accepts that it needs a visionary idea which can also adapt to the current market trends. The harsh environment where the competitors are currently better positioned and/or have been noticing much better growth than Snap Inc. has led to it focusing on a new strategy for the future and refocus the business towards the online advertisements with its Augmented reality technology. Its platform Spectacle is easier to use and more accessible to create for creators and for organizations that want to create ads.

Rather than staying stagnant and becoming a classical company by continuing in its ways, Snap Inc. is looking towards renewal for the future to become a shaping market and transform from being in an Egosystem, which is a classical approach, to being in an Ecosystem and provide value to its players and maximize its top line by renewing.

Recommendations

Snap is a one-trick pony - ad-based communication company — take a picture/short video, share it, and make it disappear. 60% of snapchat users are under the age of 25. 78% of all Americans 18-24 old use the platform in some capacity¹

Intent – to engage more people on the app for a longer time. Presently it is moving towards niche day by day.

1. **Classical palette** - To focus on the core business and capture untapped markets in Africa and Latin America. Rebranding and recalibration according to these markets if necessary. (Refer Appendix- *Fig (b)*)
 2. **Adaptive palette-**
 - a. Snap could focus on Spotlight and attract creators and advertisements and it could become a marketplace. With TikTok banned in India a vacuum was created which is presently filled by Instagram, MX taka tak etc. Snap failed to dominate the space earlier but now it could become a major player there and expand the reach of spotlight to untapped markets as well (like Latin America and Africa)
 - b. **Experimentative** – Snapchat+ was launched and with an existing userbase, snapchat could be a better version of Onlyfans. It would be a smoother transition with lower user acquisition cost. The promoters of Onlyfans wanted to move away from explicit videos in October 2021, hence
-

there is a general distrust regarding the platform and creators would be willing to move other Snapchat+. Additionally, Snap+ could provide financial services as well like a Snap checking account and debit card which would receive direct payments from fans.

3. Visionary Palette –

- a. They started as visionaries, as they were responsible for the casualization of social media, but they lost their way and lost their novelty. Snapchat needs to cater to a broader demographics as its millennial customers who were the first adapters from 2015 have moved away from the platform and Snapchat must retain them.
 - b. Snapchat maps – Further the heatmaps could be the next important thing for them as they inform the user about the most happening place around them. This would work for a broader age demographic based on their interests and preferences.
 - c. With Meta, Apple and Microsoft working within the AR, VR (Virtual Reality) and metaverse space, the context is right for Snapchat to invest in R&D in AR and VR. They are going to be the next important thing, so Snap should place itself to become triumph on the other side of the transition.
 - d. Snap could serve the B2B space by designing special AR tools for business and manufacturing applications and trainings. Currently space is dominated.
4. Snap must move in the space of NFT (nonfungible tokens) of pictures and audio and video files. It will provide the novelty factor and verification of ownership of digital intellectual property.

Conclusion

From the analysis above, it can be concluded that GCI should not go ahead with the funding for Snap. Snap has not been showing any improvement in their revenue or the MAUs which makes it a risky move to invest in them. Their main competitors, Meta (Facebook and Instagram), TikTok and BeReal are growing rapidly when compared to Snap. Meta has invested in their AR technology and is progressing towards their goal. In the same way, TikTok has gained 1 billion monthly active users and its revenue is growing exponentially (11 billion in 2022).

Snap has multiple domains for user retention; AR in their camera filters, stories and location and in-chat gaming. It has tried to compete against Tiktok through Spotlight and has Spectacle lense to focus on the AR market. But approximately 99% of Snapchat's revenue comes through advertisements. If Snap decides to shift its entire MO to AR technology, then it would be in direct competition with Meta that is well established through its users and revenue. If Snap were to follow the recommendations stated above, then it would make sense to fund Snap. However, in the current situation, it would not be advisable for GCI to invest in Snap.

Appendix

Ad Stocks Struggle

Companies in the online advertising sector have underperformed so far this year



Fig (a)

Leading countries based on Snapchat audience size as of April
(in millions)

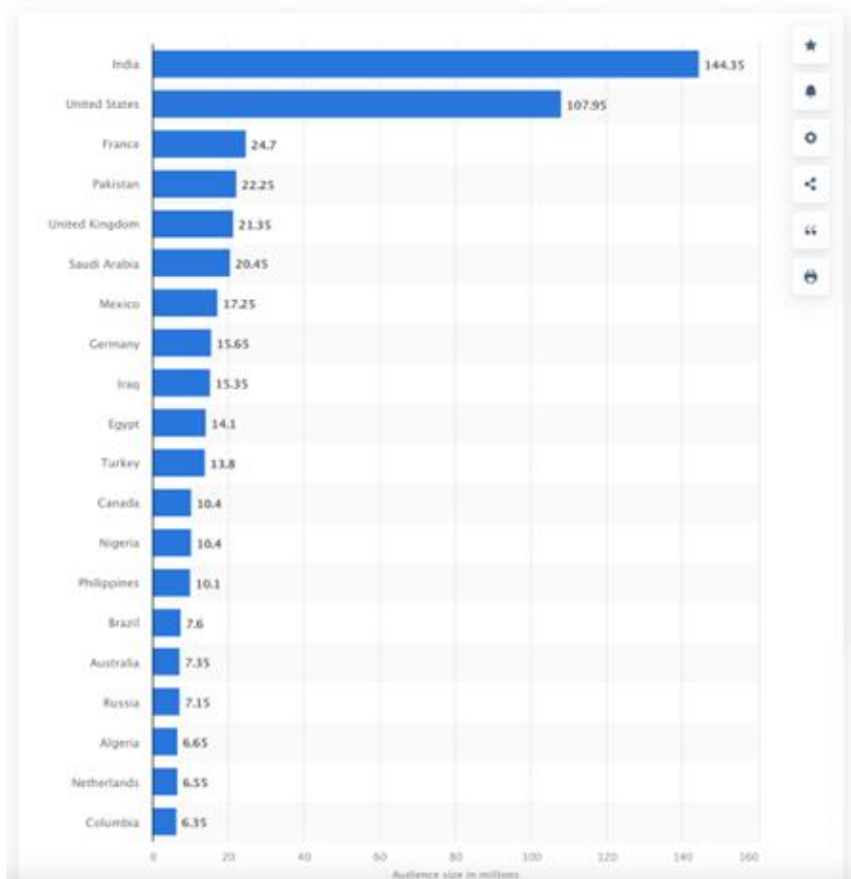


Fig (b)

References:

- <https://www.theverge.com/2022/9/7/23340157/snapchat-evan-spiegel-leaked-memo-turnaround>
- <https://www.insiderintelligence.com/content/how-user-trust-social-media-platforms-could-affect-engagement-with-ads>
- <https://www.theverge.com/2022/8/30/23329301/snap-layoffs-20-percent-employees-snapchat>
- <https://investor.snap.com/news/news-details/2022/Snap-Inc.-Announces-Second-Quarter-2022-Financial-Results/default.aspx#:~:text=Revenue%20increased%2013%25%20to%20%241%2C111,million%20in%20the%20prior%20year.>
- <https://www.visualcapitalist.com/timeline-looking-back-at-10-years-of-snapchat/>
- <https://citizen.snap.com/en-US/planet>
- <https://energycommerce.house.gov/newsroom/press-releases/ec-leaders-announce-legislation-to-reform-section-230>
- <https://www.congress.gov/bill/117th-congress/house-bill/5596/actions>
- <https://www.bloomberg.com/news/articles/2022-05-23/snap-falls-after-saying-revenue-will-come-in-below-guidance>
- <https://techcrunch.com/2022/08/31/snap-cuts-20-of-staff-amid-major-restructuring/>