



Finance and Economics Club
IIT Guwahati



EXPLORING THE LANDMARK ACQUISITION

THE FACEBOOK-WHATSAPP

CASE STUDY

A report by Team Zodiac



OVERVIEW

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EXECUTIVE SUMMARY

OUR RECOMMENDATION

Proceed with the **Strategic, Horizontal Acquisition**

Key Supporting Arguments



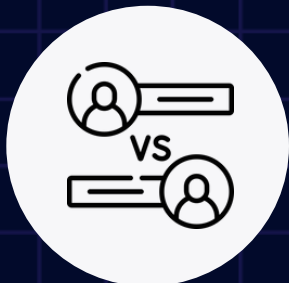
User Base Expansion:

Gained access to over **450M** active users, particularly in international markets.



Mobile-First Approach:

WhatsApp aligned with Facebook's strategy to focus on mobile.



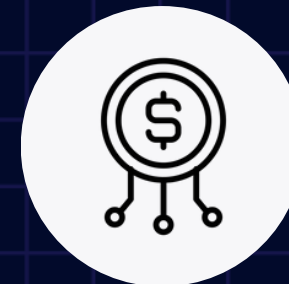
Defense Against Competitors:

Blocked rivals like Google from dominating the messaging space.



Growth Potential:

Strong in developing markets with future opportunities for monetization.



Revenue Diversification:

Potential for future revenue streams through ads and services integration.



Limited Cannibalization:

WhatsApp handled private chats, while Messenger focused on social communication, minimizing overlap.

2014: SITUATION OVERVIEW

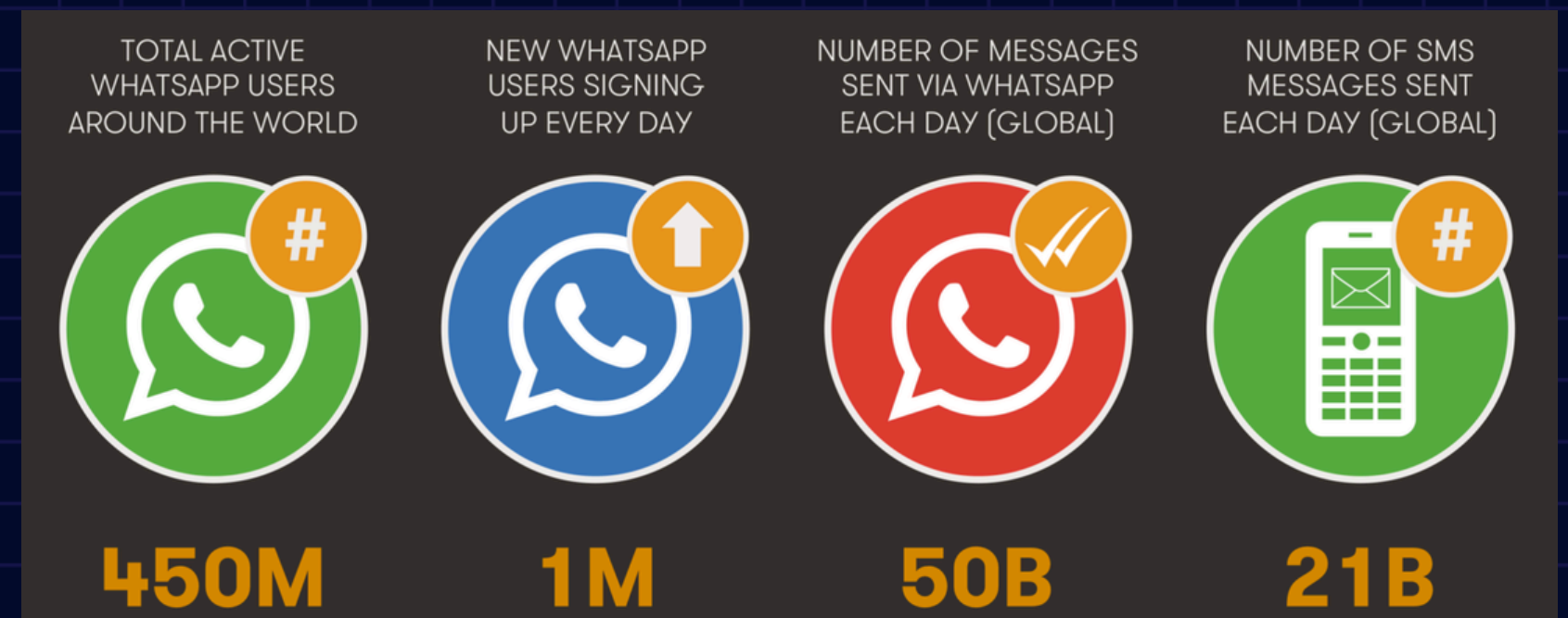
WhatsApp's strong presence in **Europe, Latin America, and Asia** complements **Facebook's** efforts to **penetrate international markets** where its presence is weaker.

Additionally, **WhatsApp's high engagement rates**, even surpassing Facebook's, are crucial in reinforcing Facebook's mobile strategy.

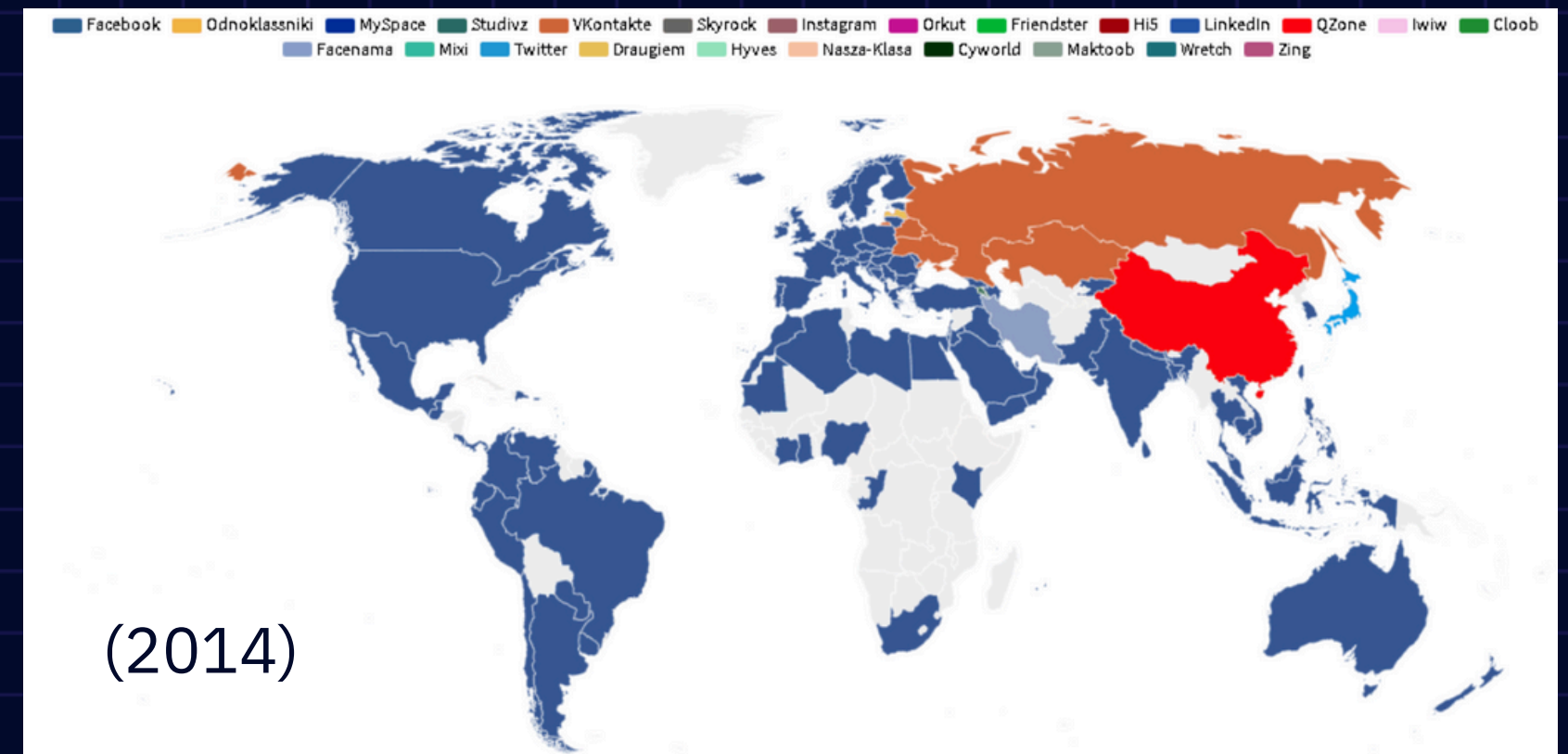
Facebook was a global leader in social media, with over **1.23 billion monthly active users by the end of 2013**.

The acquisition allows Facebook to **diversify its offerings and solidify its dominance** in mobile communication without disrupting WhatsApp's ad-free, subscription-based revenue model

WHATSAPP IN NUMBERS



WORLD MAP OF SOCIAL NETWORKS



FIVE NUMBERS THAT MOTIVATED THE ACQUISITION

Motivation for the deal

Acquiring WhatsApp can help Facebook tap into its rapidly growing **user base**, **which is expected to reach 1 billion**, and strengthen **its mobile communication** strategy. The acquisition offers synergies like **cross-platform integration** and leveraging WhatsApp's **dominance in mobile messaging** to enhance Facebook's mobile presence.



450

Million active users, reaching that milestone faster than any other company.



32

Employees managed the app, with each developer serving over 14 million active users



14

Million users by February 2014.



\$1

WhatsApp charges just \$1 per year, with the first year free, avoiding marketing gimmicks.



0

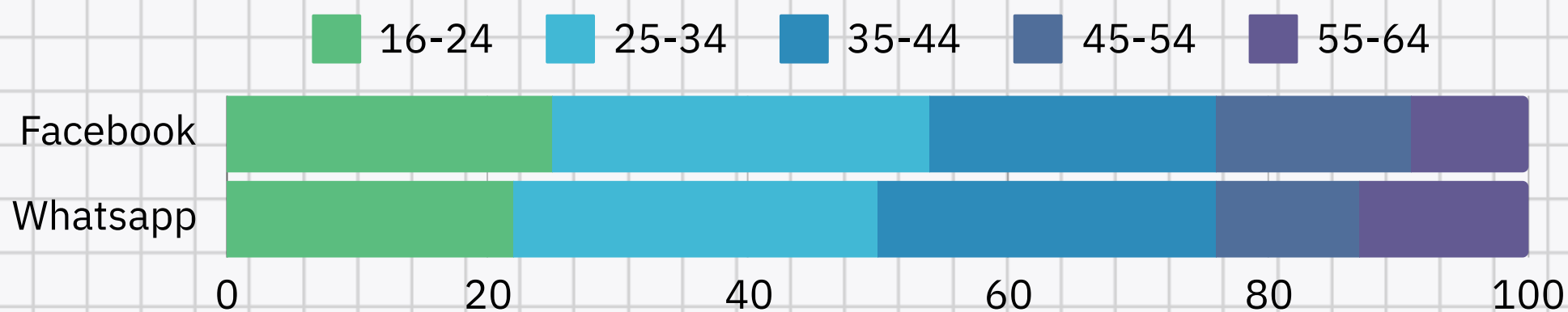
The company invested nothing in marketing, relying entirely on word-of-mouth for growth.

2014: INDUSTRY OVERVIEW

- The tech and social media landscape is marked by the **rapid shift from desktop to mobile internet usage**.
- Messaging apps like **WhatsApp, WeChat, and Line** are **experiencing explosive growth** as users favor instant communication over traditional social media.
- Mobile social media usage is surging, with **77% of users accessing platforms via mobile devices**.
- To **maintain its dominance** amid rising competition, Facebook should expand its services to mobile and acquire fast-growing companies like WhatsApp.



User Age
Groups
Aligned



Past Deals

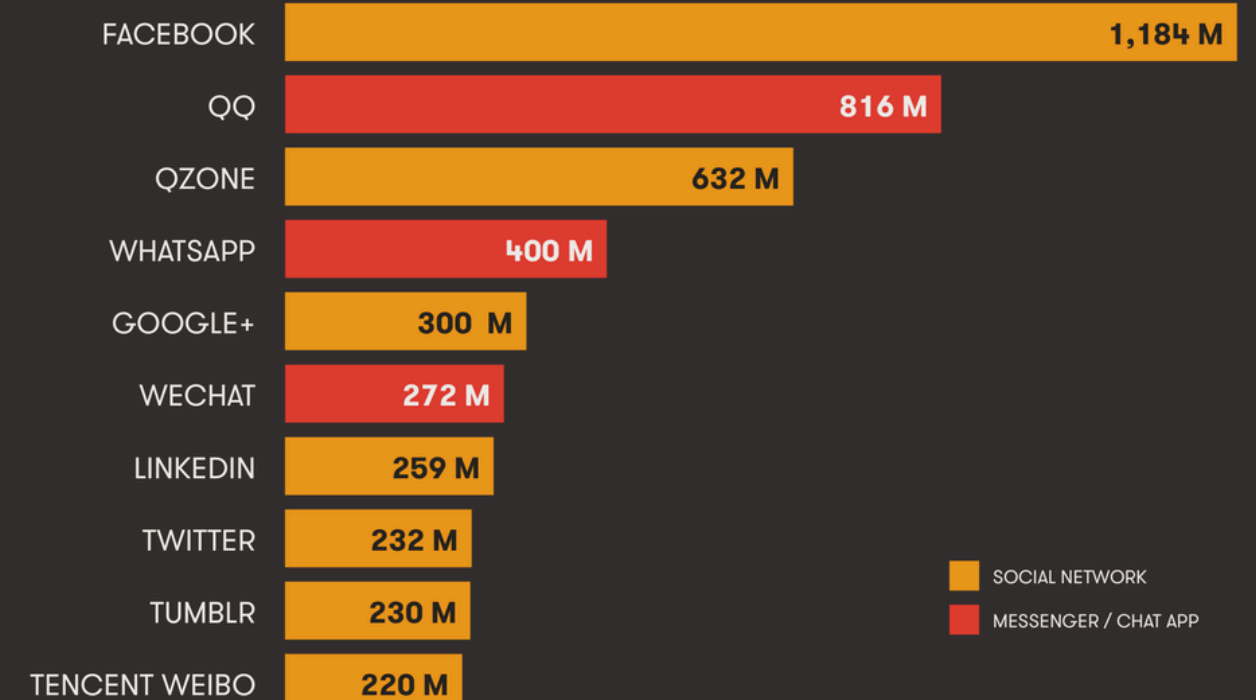
- In 2011, **Microsoft bought Skype** for \$8.56 billion to strengthen their position in **free instant messaging**, and **voice- and video-chat** markets.
- In 2012, **Facebook bought Instagram**, iPhone application of the year in 2011 for 1 billion dollars.

Social Media Landscape 2014



JAN
2014

ACTIVE USERS BY SOCIAL PLATFORM

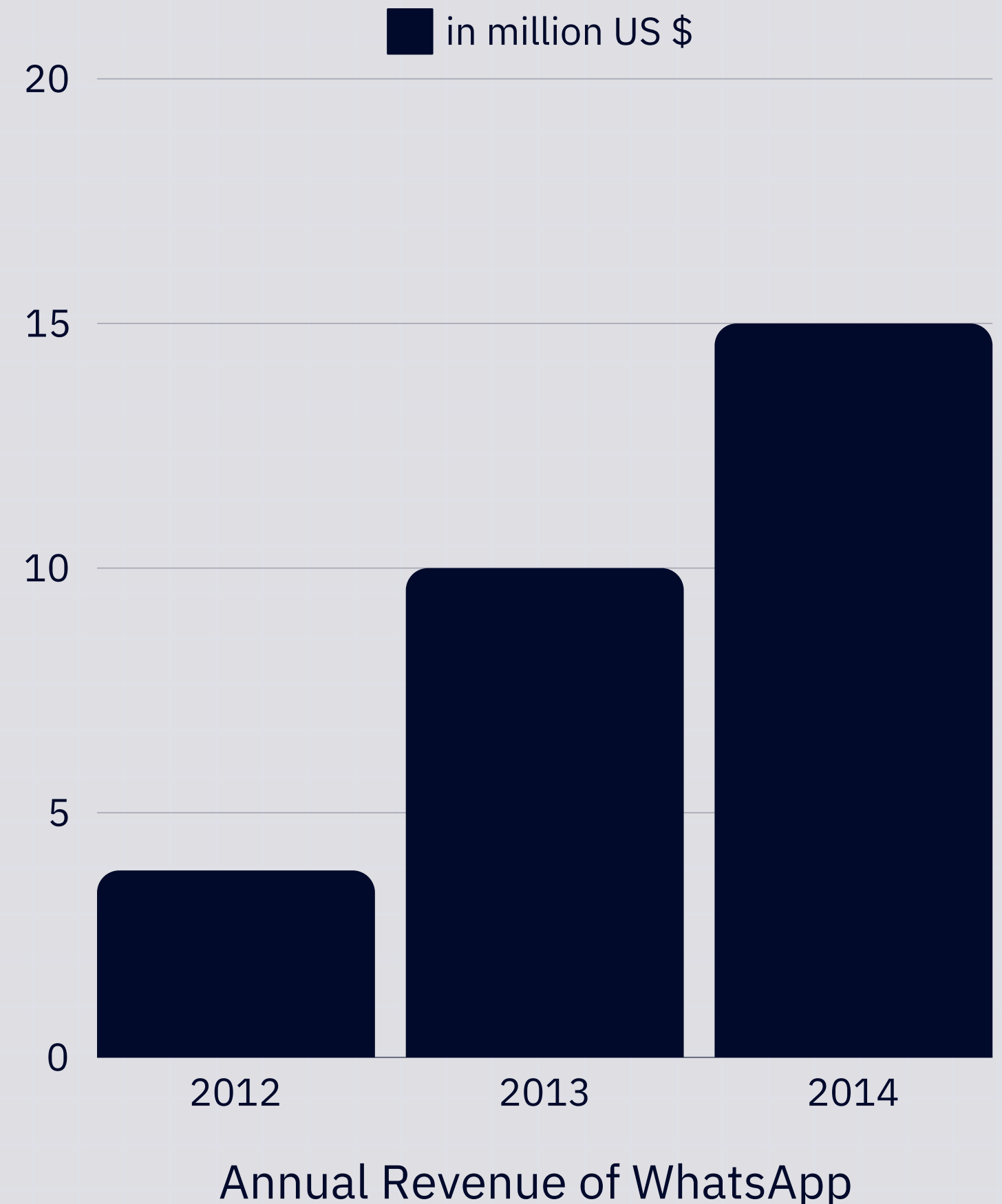


VALUATION ANALYSIS OF WHATSAPP

Valuing fast-growing companies can be more accurate by comparing similar transactions. Comparable acquisitions for WhatsApp include Instagram, Snapchat, and Tumblr.

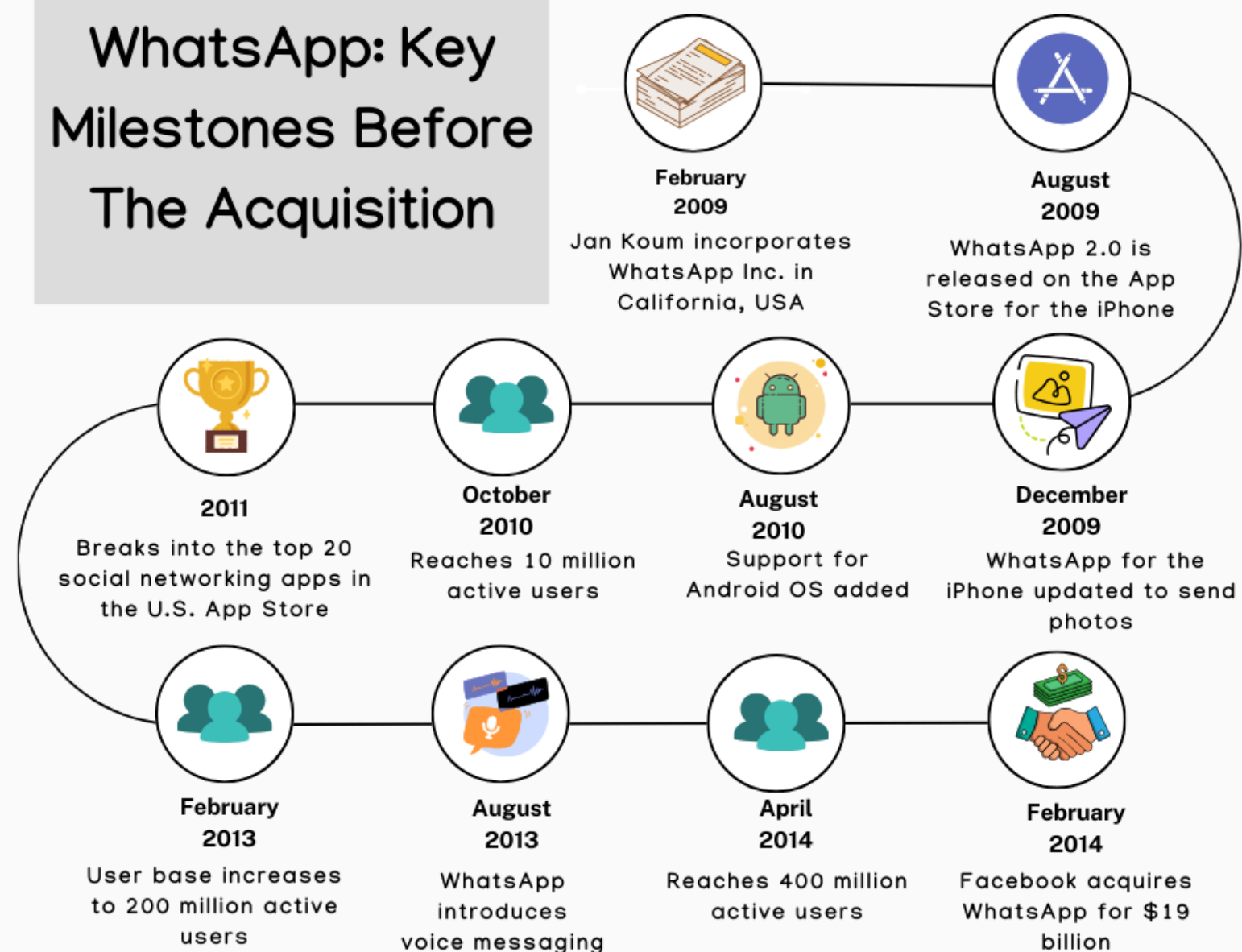
- Facebook acquired Instagram for **\$1B in April 2012** and recently offered **\$3B for Snapchat**. Yahoo paid **\$1.1B for Tumblr last year**.
- WhatsApp's valuation is **significantly higher** due to its scale and engagement:
 - Snapchat: 25-50M users, 400M photos shared daily.
 - Instagram: 55M photos shared daily, no non-photo messages.
 - Tumblr: 76B posts in its history, 1.17B total pageviews weekly.
 - WhatsApp: 500M images and 50B messages shared daily.

This comparison highlights why WhatsApp's valuation is on a different scale.



STRATEGIC BENEFITS OF THE ACQUISITION

WhatsApp: Key Milestones Before The Acquisition



Enhanced Mobile Connectivity

Acquiring WhatsApp boosted Facebook's global mobile connectivity, aligning with its goal to lead in mobile communication.



Replacement of SMS

WhatsApp replaced SMS in many regions, providing a more advanced and cost-effective messaging alternative.



Rapid User Growth

WhatsApp's rapid growth—reaching 419 million users in four years and adding 1 million daily—significantly expanded Facebook's user base.



Increased User Engagement

With 70% of users active daily and sending around 1,200 messages per month, WhatsApp's high engagement outpaced even Facebook's own metrics.



Mobile Communication Advancement

Integrating WhatsApp enhanced Facebook's mobile communication capabilities and competitive position.



Valuable Data Source

Merging WhatsApp's data with Facebook's offered deeper insights into user behavior, refining advertising strategies.



Potential for Monetization

WhatsApp's engaged user base opened substantial mobile advertising revenue opportunities for Facebook.

POTENTIAL FUTURE DEVELOPMENTS

(2014 PERSPECTIVE)

Enhancing Mobile Messaging Features

- **Advanced Tools:** Expand on WhatsApp's encryption, calls, and multimedia capabilities with new communication tools.
- **New Formats:** Introduce innovations like AR filters for video calls and advanced media sharing.

Leveraging Data for Insights

- **Behavioral Insights:** Use WhatsApp data to understand user behavior and trends.
- **Enhanced Targeting:** Improve ad targeting by integrating WhatsApp data with Facebook's algorithms.

Expanding Global Reach

- **Localized Innovations:** Customize features for regional markets where WhatsApp is popular.
- **Partnership Opportunities:** Forge strategic alliances with international telecoms and businesses to co-create region-specific features.

Integration with Facebook's Ecosystem

- **Unified Communication:** Merge WhatsApp with Messenger and Instagram for a seamless cross-platform experience.
- **Cross-Platform Features:** Develop features like shared media libraries and unified notifications.

Strengthening Security and Privacy

- **New Security Features:** Develop advanced security and privacy features for WhatsApp.
- **Trust Building:** Use WhatsApp's security credentials to enhance Facebook's overall privacy reputation.

Improving User Experience

- **Enhanced UI/UX:** Apply WhatsApp's user-friendly design to improve Facebook's other products.
- **Personalization:** Use WhatsApp data to tailor experiences across Facebook's platforms.

Monetization through Advertising

- **In-App Ads:** Introduce targeted ads using user data.
- **Advertising Innovations:** Explore new ad formats and integrate them with Facebook's ad network.

Innovative Monetization Strategies

- **Business Solutions:** Create tools for businesses, such as customer service bots and advanced analytics.
- **Subscription Services:** Offer premium or ad-free options.
- **E-Commerce Integration:** Enable in-app purchases and transactions.

1. # USERS 450 MN (# OF ACTIVE USERS PER MONTH AS PER WHATSAPP BLOG POST)

2. WACC OF 10%

THE USER GROWTH RATE % INDICATES THE ESTIMATED CONVERSION RATE OF FREE USAGE TO PAID USAGE PER YEAR I.E. 200% IMPLIES THAT IN THE YEAR 2, TWICE THE NUMBER OF PEOPLE WILL BE WILLING TO PAY FOR THE SERVICE COMPARED TO YEAR 1, AND SO ON. ADDITIONALLY, I'VE ASSUMED THAT IN YEAR ONE ONLY 15% OF THE USERS MAY HAVE DECIDED TO PAY FOR THE SERVICE AT THE END OF THE FREE YEAR (I.E. IN YEAR 2).

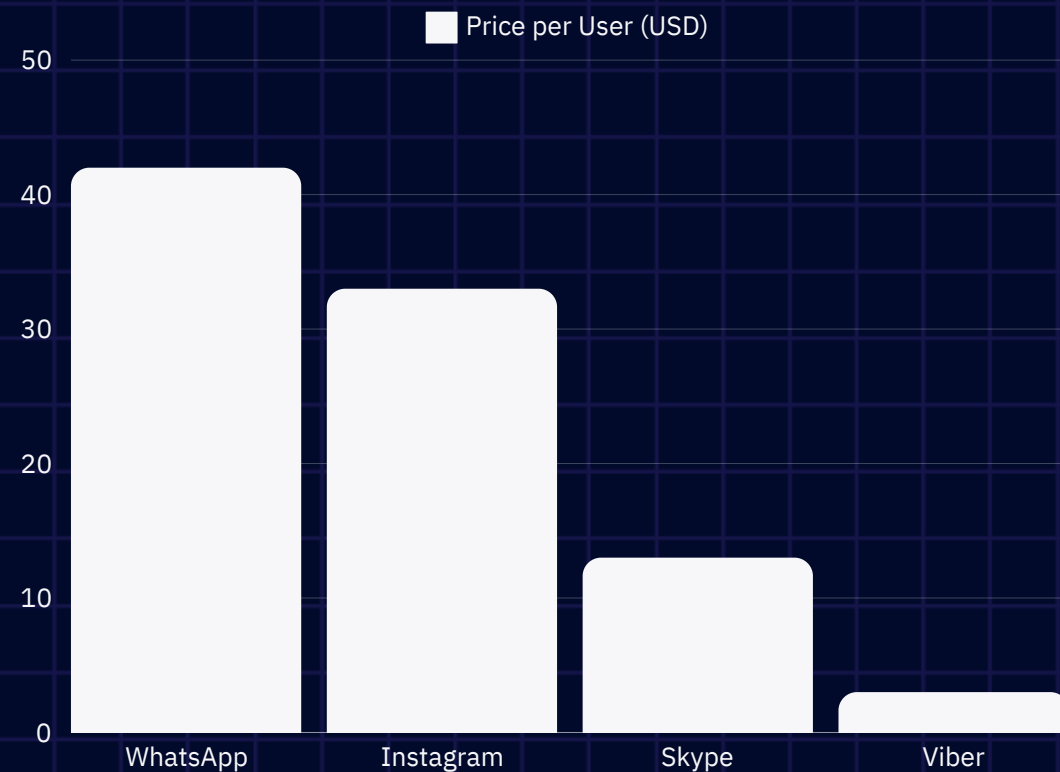
HERE'S THE A PIC OF THE EXCEL BASED CALCULATIONS.
\$2.3 BILLION IS OUR ESTIMATED VALUATION OF
 WHATSAPP

[illegible]

ESTIMATED RETURNS IN YEARS

RISKS AND CHALLENGES: FACEBOOK'S ACQUISITION OF WHATSAPP

VALUATION RISKS

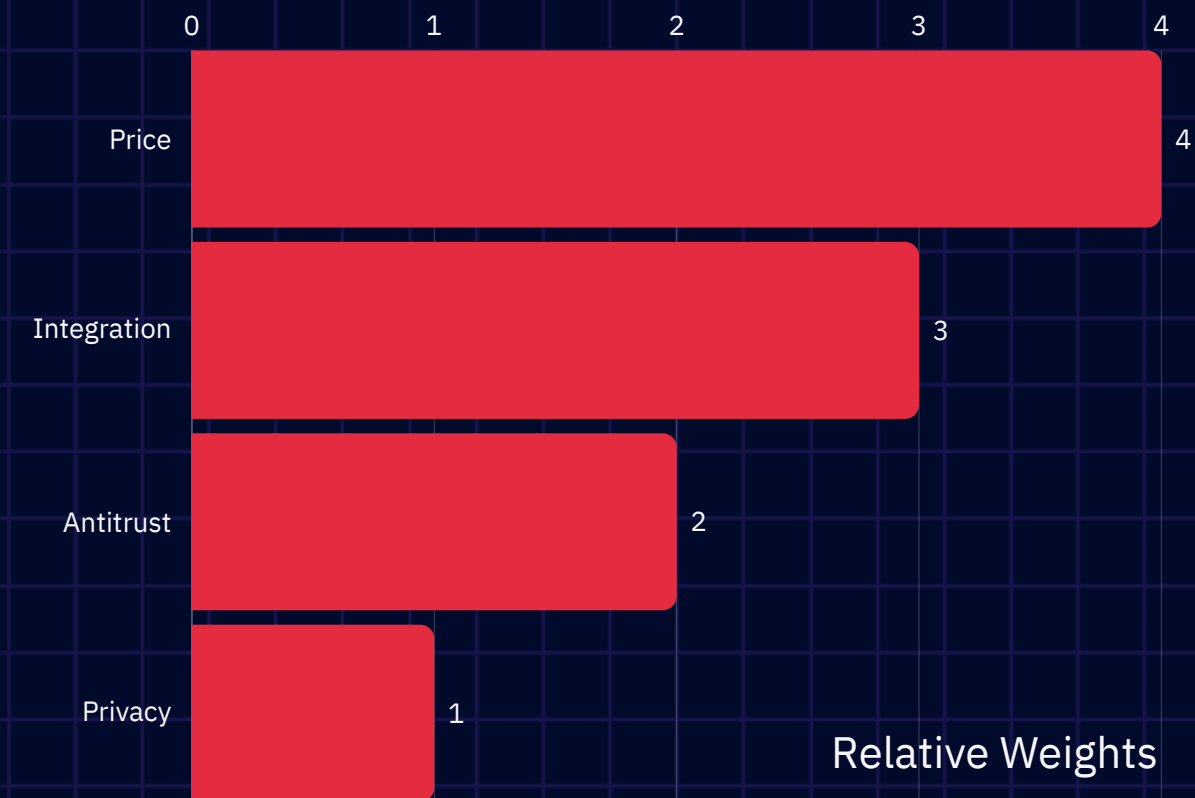


Percentage difference between WhatsApp and the average of the others: **157.14%**

The **price per user for WhatsApp** was **157.14% higher** than the average of the other three companies (Instagram, Skype, and Viber)

INVESTOR REACTIONS

Investor Concerns Regarding Facebook-WhatsApp Acquisition (2014)

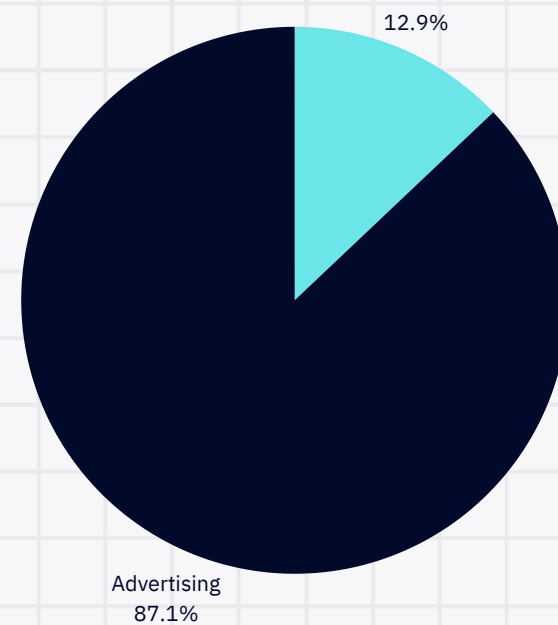


Investor Shock and Concern

- **\$19 Billion Price Tag:** Steep cost for a revenue-less company
- **Uncertain Profitability:** No clear monetization strategy
- **Integration Challenges:** Merging two massive platforms

MONETIZATION RISKS

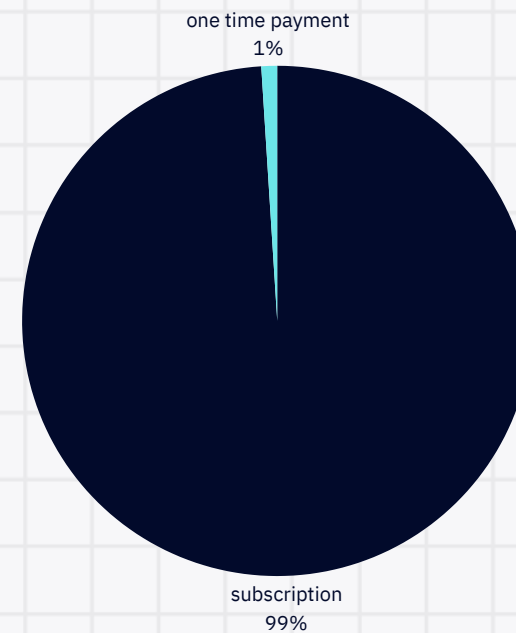
Facebook Revenue Streams



Facebook ARPU (2013): Global: ~\$5.85

(Facebook's ARPU was higher due to advertising.)

Whtasapp Revenue Streams



WhatsApp estimated ARPU: Global: ~\$0.99

(WhatsApp's ARPU was lower and uniform, based on subscriptions.)



**WHATSAPP'S LOW-ARPU MODEL
RISKED USER REVOLT AND
MONETIZATION HURDLES IF ADOPTING
FACEBOOK'S AD STRATEGY.**

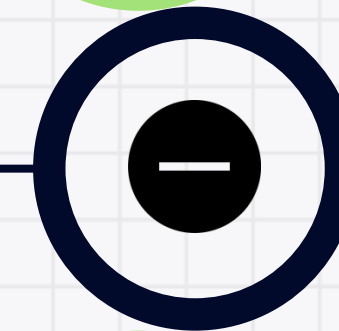
REGULATORY RISKS

Net Neutrality:

Potential for differential data treatment.



Content Moderation:
Increased responsibility.



Consumer Protection:
Misleading practices, fair competition.



Privacy: Data sharing, consent, transparency.



Antitrust:
Market dominance, barriers to entry.

CONCLUSION

In conclusion, while the acquisition of **WhatsApp** by **Meta** holds great potential to expand **Meta's** global influence and diversify its product offerings, the long-term success of this decision will depend on how Meta manages these challenges. If **Meta** can maintain **WhatsApp's user trust** while also finding innovative ways to integrate it into its broader ecosystem, this acquisition could indeed be a powerful strategic move.



Positive Side

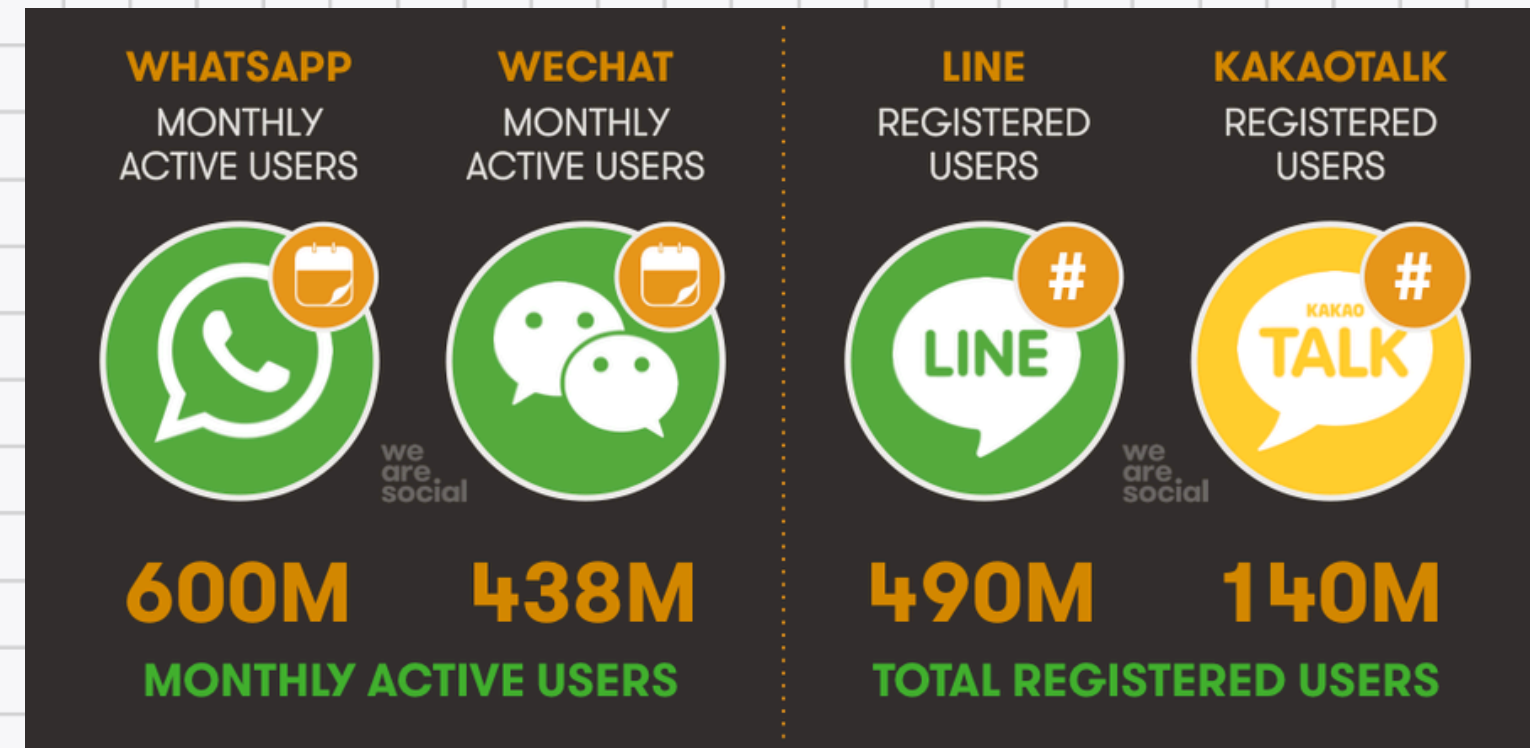
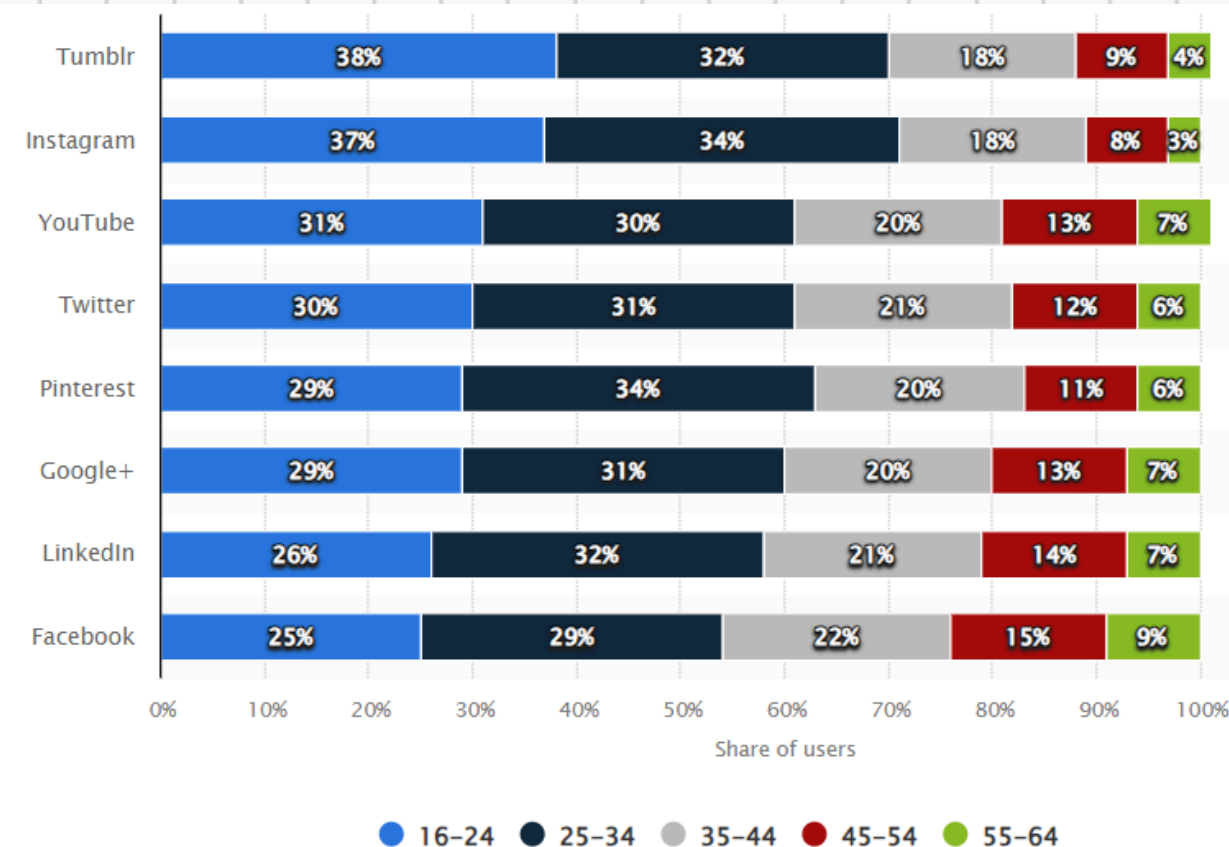
- Acquiring WhatsApp could provide Meta with a unique opportunity to **solidify its dominance in the global messaging landscape**.
- WhatsApp's massive user base, especially in international markets where Meta's presence is still growing, could **dramatically enhance Meta's reach**.
- The acquisition could bolster Meta's overall social networking ecosystem.
- WhatsApp's strong commitment to **privacy and its ad-free experience** could offer Meta a complementary product.
- This acquisition could **broaden Meta's appeal** to users who value communication without distractions.

Negative Side

- The acquisition is not without risks.
- A major challenge is integrating **WhatsApp's privacy-centric ethos with Meta's data-driven business model**.
- There is potential for backlash from users and regulators, particularly concerning data privacy or commercialization of WhatsApp's platform.
- **Monetizing WhatsApp without compromising its core values** could be a complex balancing act.

Appendix

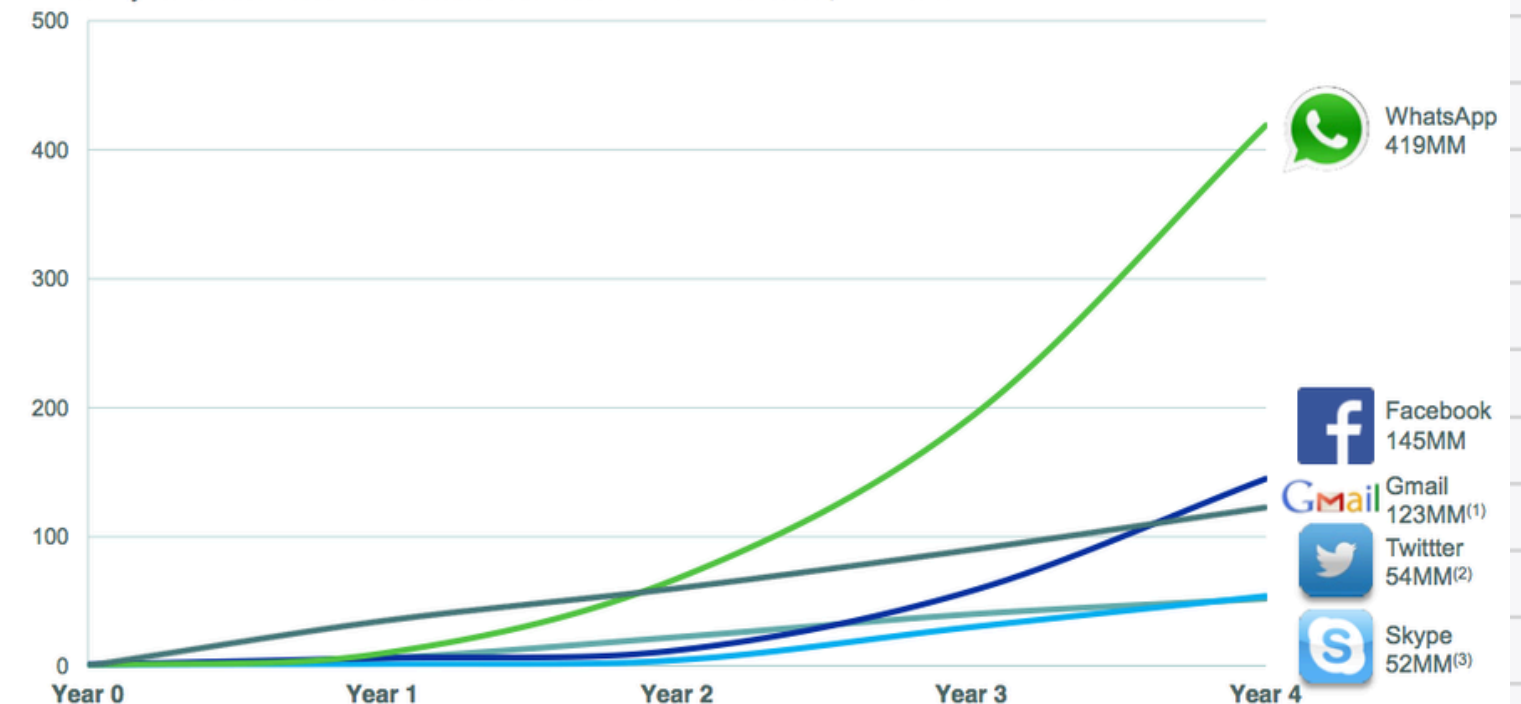
WhatsApp Key Statistics



WhatsApp Extraordinary Growth in Users

First Four Years Growth after Launch

Monthly Active User Accounts of Selected Services that are 4+Years Old, in Millions





Resource Page

- <https://www.forbes.com/sites/parmyolson/2014/10/06/facebook-closes-19-billion-whatsapp-deal/>
- <https://archive.nytimes.com/dealbook.nytimes.com/2014/10/16/in-facebooks-deals-for-whatsapp-and-oculus-lessons-on-stock-vs-cash/>
- <https://www.investopedia.com/articles/investing/032515/whatsapp-best-facebook-purchase-ever.asp>
- <https://www.linkedin.com/pulse/facebook-acquisition-whatsapp-case-study-peter-kovac/>
- <https://medium.com/@varnigam/why-facebook-acquired-whatsapp-91769b3f02b4>
- <https://timesofindia.indiatimes.com/itslideshowviewall/30740473.cms>
- <https://eprajournals.com/IJMR/article/12822>
- <https://www.theguardian.com/technology/2014/feb/19/facebook-buys-whatsapp-16bn-deal>
- <https://about.fb.com/news/2014/02/facebook-to-acquire-whatsapp/>
- [\(https://marketrealist.com/2014/02/story-behind-whatsapps-growth-market-share/](https://marketrealist.com/2014/02/story-behind-whatsapps-growth-market-share/)
- <https://marketrealist.com/2014/02/story-behind-whatsapps-growth-market-share/>
- <https://datareportal.com/reports/digital-2014-global-social-media-users-pass-2-billion-m>
- <https://investor.fb.com/investor-news/press-release-details/2014/Facebook-to-Acquire-WhatsApp/default.aspx>

Thank you!

Feel free to reach out to us
if you have any questions.



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