

## DATA RESPONSE

### Snapchat

In late Autumn 2013 two 23-year-old Californians were each offered \$750 million in cash by Facebook's Mark Zuckerberg. And they turned it down. Evan Spiegel and Bobby Murphy launched Snapchat in July 2011. Now Facebook wanted to buy the business for \$3,000 million. The founders had each retained a 25 per cent stake in the business, hence the \$750m figure.

Snapchat began late one night at Stanford University when Reggie Brown stepped into fellow-student Spiegel's room groaning about a photo he regretted sending. He then said something like 'I wish there was an app to send disappearing photos'. Spiegel saw the potential, calling Brown's remark 'a million dollar idea'. This conversation is now part of a billion dollar lawsuit, as Brown claims his share of the Snapchat goldmine.

Spiegel developed the app as part of a University project. When he presented it, the feedback was, roughly, who wants a disappearing photo? And when it debuted (under the brand name Picaboo) in the Apple App Store on 13 July 2011, no one noticed. Luckily, a bust-up over the share split in August 2011 made Spiegel and Murphy cut Brown out – including the Picaboo name that Brown had put forward. The new name was Snapchat. User uptake remained painfully slow until high school students in California started using it at school – as Facebook had been banned. Then the take-off was spectacular, as shown in Table 1.3

**Table 1.3** Growth of Snapchat

	Snapchat users/usage	Snapchat funding
<b>August 2011</b>	127	
<b>October 2011</b>	1,000	
<b>December 2011</b>	2,250	
<b>January 2012</b>	20,000	
<b>April 2012</b>	100,000	\$485,000
<b>February 2013</b>	60,000,000	\$13,500,000
<b>November 2013</b>	400,000,000	\$50,000,000
<b>June 2014</b>	1,000,000,000	

Having turned \$3 billion down in 2013, it was perhaps a relief to the founders that Chinese web giant Alibaba talked in August 2014 about an investment that would value Snapchat at \$10 billion. This would be an amazing valuation as Snapchat had, at that time, never generated a dollar of revenue. But Snapchat's huge appeal came from demography. Facebook users were now an average of nearly 40 years old, whereas Snapchat's core market was 12–24 year olds, with an average age below 18. Facebook might be the present but Snapchat looked like the future.

The other huge issue for Spiegel and Murphy was Brown's huge lawsuit, demanding his fair share of the company. A similar thing happened with Facebook, making it easy to forecast that lawyers will get rich arguing this case – but it will probably be settled out of court for a very large sum.

### Questions

1. Why do you think that the Snapchat business exists? Explain your answer.
2. With no income, Snapchat's cash flow was dependent entirely on capital investment from outside sources. Analyse the effect this may have on Spiegel and Murphy's ability to run the business.
3. From your own knowledge of Snapchat, do you think the business could ever generate advertising or other revenue to make it worth billions of dollars? Justify your answer.