

# WhatsApp



## Case Study

# WhatsApp

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- Simple, secure, reliable messages and free phone calls.
  - <https://www.whatsapp.com/>
- WhatsApp Messenger is a proprietary, cross-platform, encrypted instant messaging client for smartphones. It uses the Internet to send text messages, documents, PDF files, GIF images, video, user location and audio messages to other users using standard cellular mobile numbers.
- As of February 2016, WhatsApp had a user base of one billion, making it the most popular messaging application.
- WhatsApp Inc., based in Mountain View, California, was acquired by Facebook Inc. on February 19, 2014, for approximately US\$19.3 billion.
  - <https://en.wikipedia.org/wiki/WhatsApp>

# Remember what are some of the new venture issues?

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- Opportunity Recognition
- Building a Team
- Search for a viable Business Model
- Acquiring necessary resources
- Growing the Business
- Harvesting the fruits of the labor.

# Opportunity Recognition

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- Jan Koum and Brian Acton –both former Facebook employees.
- Recognized that building apps for the iPhone was going to be very big.
- Felt that messaging, although with several competitors already in the space, could be a huge opportunity.

# Team Building

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- Jan Koum and Brian Acton –both former Facebook employees teamed up in 2009
  - with Koum focusing more on the technical development and
  - Acton on the resource development.
- Recruited Igor Solomenikov, a Russian iPhone app developer to help create the app's front end.
- Other founders came in when they took investments.
  - Notably Jim Goetz of Sequoia Venture Capital

## Raising the Capital (Resources)

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- Began with some of their own capital
- Raised a **friends and family** round which brought in five friends from their Yahoo days.
- Koum and Acton retained 60% of the venture.
  - That is unusually large for a new venture
- By 2011 the app was in Apples top ten
- **Venture Capital** Investors clamored to invest, but they only accepted \$8 million from Sequoia after they promised not to force advertising models on WhatsApp.
- In 2013 they took another \$50 million from Sequoia.
  - The valued the company at \$1.5 billion (a Unicorn)
- **Acquired** by Facebook in February 2014 for \$19-22 billion.

# Searching for a Viable Business Model

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- They did not want an advertising model.
- They charged for their service. This is an unusual model for new ventures.
- They did not collect personal information about users in the way that Facebook and Google do to target ads to users.
- “No ads, no games, no gimmicks.”
- “Next person to call me an entrepreneur is getting punched in the face by my bodyguard. Seriously.”
- “People starting companies for quick sale are a disgrace to the Valley”
  - Jan Koum
  - Selling a (counter) culture.

# Growing the Business

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- In a December 2013 blog post, WhatsApp claimed that 400 million active users use the service each month.
- As of April 22, 2014, WhatsApp had over 500 million monthly active users, 700 million photos and 100 million videos were being shared daily, and the messaging system was handling more than 10 billion messages each day.
- On August 24, 2014, Koum announced on his Twitter account that WhatsApp had over 600 million active users worldwide. At that point WhatsApp was adding about 25 million new users every month, or 833,000 active users per day.
- With 65 million active users representing 10% of the total worldwide users, India has the largest number of consumers.
  - <https://en.wikipedia.org/wiki/WhatsApp>

# Harvesting the Business

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- Remember the quote: ““People starting companies for quick sale are a disgrace to the Valley”
- Sold the company to Facebook in February 2014 for \$19-22 Billion.
- “Mark Zuckerberg just explained how close Messenger and WhatsApp are to making money;”
  - Alex Heath; Business Insider; November 2, 2016
  - <http://finance.yahoo.com/news/mark-zuckerberg-just-explained-close-231734770.html>
  - “WhatsApp, which Facebook acquired for \$22 billion in 2014, is still in the first stage. The app is starting to show early signs of revenue potential through a recent update to its privacy policy that linked WhatsApp and Facebook accounts for the first time, but it has yet to introduce any chat bots for businesses like Messenger.
  - Zuckerberg said that “we’re going to really start working on the next phase next year” for WhatsApp

# Questions:

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- What was their exit strategy and do you think it was consistent with the quote Koum made about quick sales?
- What were some of the key characteristics that you think they had that allowed them to succeed?
- Do you think that the original philosophy and business model will continue now that Facebook owns WhatsApp?