

Alibaba investment puts Snapchat valuation in stratosphere

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It started as a classroom project at Stanford University. The idea: An app for sending photos that would disappear seconds later.

Vanishing photos? Classmates scoffed.

On Wednesday, four years later, a source close to the deal said Snapchat Inc. had pulled in a \$200 million investment from Chinese technology superpower Alibaba Group Holding Ltd. That sum reportedly raises the startup's market value to \$15 billion, the highest of its Southern California peers.

The vote of confidence from Alibaba validates how Snapchat's unique mix of social media features has turned its relatively tiny force of 200 workers into an inescapable force in media, advertising and smartphone economics. And it underlines how quickly a [company](#) can rise from small beginnings to global stature in today's breathless culture of apps.

Late last year, Snapchat began generating revenue by selling ad space to big-spending companies such as game publisher Electronic Arts, cellphone carrier T-Mobile and retail chain Macy's. Though profits probably are far off, the relationships with big advertisers has burnished the company's image as an essential social media player.

The fast-forward success has not been without challenge. Snapchat has "had some growing pains in their short journey, but they're already there among the most important digital content distribution platforms," said

Brandon Quartararo, vice president of the investment bank Digital Capital Advisors.

Those troubles have included a jilted co-founder filing a breach of contract lawsuit that was later settled privately; uncouth emails from Spiegel's college fraternity days spilled online; his sensitive business emails leaked after Sony Pictures Entertainment was hacked last November; and a data breach that led to privacy concerns.

The company also withstood criticism after it turned down a takeover offer from Facebook in 2013 for \$3 billion, a sum that seemed absurd at the time.

But Snapchat maintained its standing, regularly sitting among the top 10 most downloaded apps in dozens of countries.

Alibaba's investment could prove valuable, not only financially but strategically. The company, already a behemoth in China, aims to become a bigger player in the U.S. in both online shopping and content creation.

"As an e-commerce site, you want to have access to places where people live their online lives," Quartararo said. "You want to become a place where you go not just to buy a roll of tissue papers and groceries."

That's why Alibaba has invested in mobile search engine Quixey and mobile game maker Kabam Inc., among 10 previous investments in the U.S. totaling more than \$1 billion, according to the tracking firm CB Insights.

For Snapchat, the link with a company that runs online shopping services hints at new potential sources of revenue.

Snapchat first hit Apple's App Store in July 2011 under the name Picaboo. Later that summer, after dropping one of three co-founders, Evan Spiegel and Bobby Murphy changed the name to Snapchat. They had been working out of Spiegel's father's house. But Spiegel returned to Stanford University and Murphy to a job in San Francisco.

Snapchat took off among college students that semester. The disappearing element - along with a warning if someone screen-grabs a photo - made it a perfect app for sending scandalous photos to lovers and others, though its use has broadened.

In class, Spiegel would steal looks at Snapchat's server logs to see how fast it was taking off. During one class, he saw one photo sent every five minutes, but by the end of the same class, it was one per second. Soon, he dropped out and waves of investors began pouring in, including the wife of Michael Lynton, chief executive of Sony Entertainment.

By late 2012, Snapchat saw more than 200 "Snaps" sent per second and began a fundraising effort that would raise more than \$10 million in venture capital. By summer 2013, an additional \$80 million flowed into the company's bank account as some 4,000 Snaps moved every second. It has raised at least \$500 million more since then.

New features have kept users engaged, including the ability to organize posts chronologically into "stories" that disappear after 24 hours instead of a few seconds. Users may also share content publicly now, and Snapchat staffers organize them based on major events (the Grammys) or locations (UCLA).

The new features have given Snapchat the simplicity of Instagram, the draw of watching YouTube videos and the feel of a town square with observations on daily life, much like Twitter.

Cable news giant CNN has several employees dedicated to creating and posting content to Snapchat, and is adding more, said Samantha Barry, the network's senior director of strategy.

"People are actively clicking on CNN on Snapchat to see the content we have curated for them," she said. "And they are staying from top to bottom and spend longer and longer," she said.

CNN and other media organizations have put ads in between their Snapchat content, fetching sky-high payments from advertisers that are split with the startup.

The funniest and cutest individual video makers have also become stars of the app. They draw millions of views on individual posts and get paid tens of thousands of dollars from advertisers for integrating product mentions.

But analysts say Snapchat must broaden its audience beyond teenagers and young adults if it wants to live a decade like Facebook and YouTube.

"If I start using Snapchat, my wife is going to wonder what's going on with my marriage," Mark Kapczynski, who runs consulting firm Kontrol Media, said half-jokingly. "Snapchat has to evolve into a trusted platform for a broader set of advertisers who appeal to an older demographic."

Of course, Snapchat could stick to its roots and add more services directed at millennials.

Snapchat has expressed an interest in startups developing technology that recognizes the content of an image, according to sources involved in the discussions. Such technology paired with an [online shopping](#)

marketplace like Alibaba could become a new form of advertising and selling products.

"If they started to look and get more creative that way, they could really claim a piece of the big e-commerce pipeline," Kapczynski said.

Snapchat declined to comment for this article.

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