

Free research paper about whatsapp acquisition: fighting off competition rather t...

[Business](#), [Marketing](#)



Facebook acquired the mobile messaging service WhatsApp, a rapidly growing mobile messaging company for close to \$19 billion. Facebook's CEO Mack Zuckerberg stated that the mission of the acquisition was to "make the world more open and connected" (Malik 1). This they aim to do by building services that would enable the sharing of any type of content with any group of people they want. Zuckerberg further stated that WhatsApp would enable them achieve their goal through the continued developing of a service that people around the world would continue loving to use. This move would bring Facebook closer to its goal of service diversification through mobile applications. The acquisition of WhatsApp has raised many questions in the business world. Nobody outside the owners of Facebook and WhatsApp clearly understands the strategy behind the acquisition. Some people concur with the Facebook owners that the move is an expansion and diversification business strategy, while others are of the view that it is a move to eliminate the competition that WhatsApp was bringing to the market.

WhatsApp is a software platform providing instant messaging and the sharing of photos and video images using android enabled mobile phones. WhatsApp is the fastest growing social site especially among the younger generations who are of the habit of texting. It has been able to penetrate some countries like China where social media platforms like Facebook have been restricted. The owners of the WhatsApp wanted to reach the lower income earners who could not afford to pay for data services but have an access to the internet. It is for this sole reason that the platform has seen a significant rise in the emerging markets of South America and Africa. Over

the years, it has attracted many users giving them a platform to communicate cheaply and instantly. Many of the internet lovers and users have been complaining of spending a lot of money to send data messages and the services being slow. WhatsApp entry to the market made sending of messages and other data cheaper and instant. This made the app a global force in messaging winning the appeal of many. The threat that this new application brought could not be ignored by other social media players including Google and Facebook (Hill 7).

Facebook's purchase of WhatsApp, which is the biggest to date, provides an insight of how the world's most dominant social media platform is planning to stay relevant and on top of its game (Tsukayama 1). Recent statistics have shown the numbers of active Facebook users going down due to the entry of the instant messaging services. The amazing growth of WhatsApp was clearly a threat to Facebook's fragile entry to the mobile market. It is evidently clear that Facebook purchased Whats-App out of fear and desire to eliminate competition, rather than the reasons for expansion. Facebook acquisition of WhatsApp is based on the desire to create a larger global footprint.

There is a market in the mobile telecommunications industry ready for services and products that would save consumers from the high costs of communication. The telecommunication market is not fully monopolized and anyone with a legal business can join it. Regulations within the sector are easy to comply with. As a result of these favorable conditions within the telecommunications sector, many players have joined the industry to provide network services that help customers to send text messages, videos and

pictures. These companies have brought into play a fierce competition within the industry that has seen the smaller companies fading away or being acquired with more dominant companies (Bid/Ask 1). Messaging in particular, has become the main front when it comes to this competition and has become a battleground for most of the companies.

Until now, Facebook was experiencing a huge exodus especially among the younger generations. Facebook was losing its revenues to other companies including Viber, WhatsApp and Twitter. These companies have been registering huge increases the number of active users and subscribers. This loss of the consumer base has seen a drop in Facebook's stock price that has led to many buyers avoiding the stock (Bauerlein 29). Facebook's share price has remained relatively low in the stock market. As part of its strategy, Facebook has been forced to acquire companies that pose a huge threat to its existence such as Instagram and WhatsApp (Hamel 7). The recent acquisition of WhatsApp clearly shows Facebook's desperate measures of trying to retain its market share and further eliminate competition (Aeker 10).

The battle of mobile market domination is believed to be fought on four fronts that include messaging, payments, operating systems and maps. The messaging platforms together with their peripherals (pictures, videos and games) are the new entrants into social networks. The investment in WhatsApp may make little financial sense for a couple of years, but WhatsApp is viewed as a strategic asset. It has been noted that Facebook has a form for overpaying for strategic assets. In 2012, Facebook acquired Instagram, the photo-sharing site that had no revenues. The price used to

acquire WhatsApp is irrelevant in the sense that this move was aimed at placing Facebook at the heart of smartphone communications. This would be denying its rivals the access to most innovative sector within the social media (Tsukayama 1).

Social media is all about messaging in mobile (Yeh 1). Companies like Google and Facebook are conscious of the fact that it difficult to move from desktops to mobile with companies like WhatsApp having been the first ones there. Recent statistics have shown that Facebook has gained much ground in the mobile market and it is growing stronger and stronger. In the half quarter of 2013, more than half of Facebook's revenues were generated from mobile. The biggest worry however, is that Facebook's audience is generally old. Many teenagers are usually afraid to use the same messaging platform with their parents. The use of ads on the platform has also been irritating for most teenagers. WhatsApp saw this opportunity and exploited it to the fullest and offered easy, free messaging with no ads at all. Recent statistics have been shown WhatsApp is growing faster than most of its competitors to a point of becoming the most valuable mobile messaging platform. Two factors have been key to the growth of WhatsApp which are: messaging has become the core of social media messaging and the fact that WhatsApp technology is neutral to technology (it works on any operating system and phone). With messaging becoming a key factor in social media messaging and WhatsApp taking the lead, Facebook was forced to make a drastic move of buying out WhatsApp. This was a strategic move of warding off competition on social media messaging (Hamel 5).

It has been noted that consumers in major economies who use smart

handheld devices spend close to 20% of their time accessing Instant Messaging Service (IMS) to send texts, picture and videos to friends, relatives or colleagues (Boudreaux & Emerick 14). The IMS has become a major service on smartphones only coming close to voice calls. The numbers of users accessing the IMS service is higher than that of users participating in activities that involve sending and receiving of e-mails, browsing websites and playing games. Currently, all major ICT players are eying the IMS service which has proven a battlefield for them. The IMS users globally stand at 900 users with WhatsApp having the larger portion of 450 million active users. This is higher than those of its rivals WeChat and Skype. In the year 2011, Facebook launched its own IMS called “ Facebook Messenger” which could not match other IMS services such as WhatsApp. Facebook has continually struggled to gain traction in the messaging market hence it has been forced to collaborate with other IMS actors that are growing at faster rates. Currently, Facebook is estimated to have close to 1. 23 billion monthly active users. However, with recent trends, it is purportedly that Facebook will lose the attention of some of the users, especially the teenagers in the coming years (Tsukayama 1). As a result, Facebook has to seek out other emerging markets, more so the African and the South American Markets. In these markets, there is a lack of sufficient broadband network connections and hence most of the users opt for instant messaging services as a media of communication. IMS is faster and consumes less bandwidth. The number of Facebook’s active subscribers in these emerging markets has outrun the numbers in the Europe and the American economies. In the acquisition of WhatsApp, Facebook is gaining access to more customers in emerging

markets, a move aimed at helping Facebook to strengthen its position in the IMS market. It should be noted that WhatsApp has a relatively high market presence in these emerging markets.

On mobile devices, consumer attention is more fragmented than ever. Ben Thompson, an analyst, stated that “ attention is a zero sum game. Every minute spent on WeChat, Line, Snapchat or WhatsApp, is a minute not spent on social media platforms Facebook, Twitter and Instagram”. With a presence of 450 million users and 70% of those users being active daily, the number of minutes not spent on social media sites such as Facebook and Twitter is enormous. Also, the promise of WhatsApp reaching the 1 billion mark on active users, further complicates matters for the Facebook and Twitter. As part of its multi-application strategy that includes Instagram and Paper, Facebook is aiming at accessing more of those minutes. Through WhatsApp acquisition, Facebook focused on the need of creating a truly valuable experience to earn the attention of winning some of those minutes back.

Facebook acquisition of WhatsApp is based on the desire to create a larger global footprint (Bid/Ask 4). WhatsApp brings to the table an expanded global presence for Facebook. The insights that WhatsApp can generate enriches Facebook’s trove of customer data making for effective ads, effective brands and consumer interactions on and off Facebook. Also, a good number of active WhatsApp users are the teens and the young adult markets that have been said to be eluding Facebook. The buying of WhatsApp is generally a move to fight off the competition that WhatsApp was bringing to the industry and also winning back the lost customer base a

result of the IMS industry players.

The acquisition of would bring strategic advantages to Facebook (Halim 1). Facebook would now own the most popular mobile app at a strategic time when messaging is at the heart of social media in mobile. This acquisition would further supplement Facebook's current user base of 1.3 million users. This would particularly be so in the emerging markets where WhatsApp is very strong. Another advantage is that it would be eliminating the direct threat to its core social network, giving it adequate time to expand its internet presence. WhatsApp acquisition further keeps a valuable asset out of the hands of Facebook's main competitors that include Google, Microsoft and Apple among many others.

The buying of WhatsApp does not solve the real problems facing Facebook which include the building of a bigger audience, learning its audience's needs and wants and engaging of its audience. All these problems have the underlying issue of trying to attract more advertisers. The appeal of WhatsApp is based on its policy of being ad-free, being data-free and pro-privacy (Malik 1). WhatsApp CEO further went on to clarify that " You can still count on no ads interrupting your communication". WhatsApp has a direct revenue stream. Its revenue for the year ended 2013 was estimated at \$23million. WhatsApp has 1 million users per day and recent projections have that is soon going to reach 1 billion subscribers soon. WhatsApp has the potential of being Facebook's first non-advertising source of income. WhatsApp's acquisition is much more different from the Facebook's acquisition of Instagram or the controversial Google's acquisition of YouTube.

Facebook promises to keep the service intact for the 450 million subscribers of WhatsApp, this shows that Facebook is on a path to becoming a group of social media entities rather than be a single entity (Malik, 1). With the acquisition of WhatsApp, Facebook would now be operating three independent brands under its umbrella namely Facebook, Instagram and WhatsApp. The Facebook owners had made it clear in the past that they were not looking to buy any other services. Mark Zuckerberg was quoted “ we are not planning on many of these”, after the \$ 1 billion buyout of the photo-sharing platform Instagram in the year 2012. From WhatsApp acquisition it is evidently clear that Facebook was willing to pour money into big purchases if it believes that it can produce an app that can lead in the market. It further goes on to show that it is willing to spend millions in an area that it wants to gain control. This is as a result of the intense pressure that the company is in to keep up with the growth of the younger users and retain the higher levels of engagement within its site.

Conclusion

For a very long time Facebook has been trying to develop a product that would stem the growth of mobile messaging services which is currently the core of social media in mobile. Facebook messenger tried and failed. The purchase was undoubtedly been influenced by Facebook’s defensive mindset and a desire to ensure that WhatsApp did not fall in the hands of its competitors such as Google and Microsoft. It is clear that the acquisition was a business strategy for control (Porter 4). The old saying goes “ if you cannot beat them, join them”. This is what Facebook did to have a control on the mobile messaging and also protect its interests in the social media market.

<https://assignbuster.com/free-research-paper-about-whatsapp-acquisition-fighting-off-competition-rather-than-a-business-expansion/>

Works Cited

Aaker, David A. *Developing Business Strategies*. New York: Wiley, 1984. Print.

" Bid/ask: Facebook Snaps Up Whatsapp for \$19 Billion; Rakuten Buys Viber with Its 300 Million Users." *Business Week New York*. (2014): 36-37. Print.

Boudreaux, Chris, and Susan F. Emerick. *The Most Powerful Brand on Earth: How to Transform Teams, Empower Employees, Integrate Partners and Mobilize Customers to Beat the Competition in Digital and Social Media*. , 2014. Print.

Hamel, Gary. *What Matters Now: How to Win in a World of Relentless Change, Ferocious Competition, and Unstoppable Innovation*. San Francisco, CA: Jossey-Bass, 2012. Print.

Hill, Charles W. L. *International Business: Competing in the Global Marketplace*. New York: McGraw-Hill Irwin, 2002.

Malik, Om. " The Irrational Rationality behind Facebook's \$16 Billion Acquisition of WhatsApp." *Gigaom*. N. p., n. d. Web. 16 Apr. 2014. Retrieved 16 Feb, 2014.

<http://gigaom.com/2014/02/19/the-irrational-rationality-behind-facebooks-16-billion-acquisition-of-whatsapp/>

Porter, Michael E. *On Competition*. Boston, MA: Harvard Business School Pub, 1998. Print.

Tsukayama, Hayley. " What the WhatsApp deal reveals about Facebook's Future". *Washington Post*. *The Washington Post*, 20 Feb 2014. Web.

Retrieved 16 April, 2014. <http://www.washingtonpost.com/business/technology/what-the-whatsapp-deal-reveals-about-facebooks->

<https://assignbuster.com/free-research-paper-about-whatsapp-acquisition-fighting-off-competition-rather-than-a-business-expansion/>

future/2014/02/20/8f3a4f7e-9a34-11e3-80ac-63a8ba7f7942_story.html

Yeh, Wai M. H. " An Investigation of the Relationship of Motivation, Attitudes and Environment." (2014). Print.