Snapchat Business Model

Idea In Short

Snapchat is a social networking app that allows people to connect with each other, by exchanging photos or videos, and by chatting. So, the company faces big players, such as WhatsApp, Facebook, Twitter, and Instagram. But its big idea, which differs from the competitors — and that was copied a while later — is been to let the content vanish in 24 hours.

The Snapchat business model is a multisided platform totally based on a camera app for smartphones. That's precisely why the company, now called Snap Inc. describes itself as a camera company. It states, in its own site, that:

> reinventing the camera represents our greatest opportunity to improve the way people live and communicate

and that it contributes

> to human progress by empowering people to express themselves, live in the moment, learn about the world, and have fun together.

Differentiators

If you think about other social media sites, such as Instagram or Facebook business model, you may say that probably their core value proposition is to keep users' photos, like a kind of virtual album, that can be revisited by your friends and followers anytime. But Snapchat grew in the opposite way, and that's exactly how it attracted users: by offering a tool for sharing pictures and videos temporarily. And that is based on the philosophy of the app, as the company states on its site, of living the moment. The truth is:

> every moment is going, indeed, to disappear. So, people must let me fade away

This living-the-moment idea deeply matched teenagers and young adults, especially because it permitted privacy by avoiding parenting observation. Their parents could find them on Facebook or Instagram. And, the real thing is that youngsters don't want to be where their folks are. This innovative feature from the Snapchat business model was their unique advantage over its competitors — and that's the reason why they copied the platform sooner.

Ownership

Snapchat is owned by Snap Inc., which has two of its founders in control: Evan Spiegel as the CEO and Bobby Murphy as the CTO.

Mission Statement

> To empower people to express themselves, live in the moment, learn about the world, and have fun together

Business Model

Snapchat is downloaded for free, and all of its features are also free of charge. But the app is designed to drive user engagement and, thus, attract advertisers for Snap Ads and Sponsored Creative Tools. According to Snap, advertisers on Snapchat can reach an audience of 218 million users daily, who spend an average of 30 minutes on the app every day. The cost of ads fluctuates depending on the campaign (on objective and duration, for example). But the advertisers can set a specific budget, with a minimum daily spend requirement of $5. They will all be billed on CPM (cost per thousand impressions), according to the defined campaign strategy. Virtually all of Snap Inc.'s revenue is generated from the Snapchat business model's advertising. It stands for 98% of the company's $1.7 billion made in 2019. The other 2% comes from Spectacles, physical sunglasses that connect to the Snapchat app and record videos to be shared on the platform.

Customer Segments

As with any multisided platform, the Snapchat business model has more than one customer segment. In this case, they are two:

- **Users**: 218 million active users, almost 70% 13-17-year-old, fastest-growing in the U.S., India, Brazil, and France. This audience will be micro-segmented for advertisement
- **Advertisers**: The businesses that advertise on the Snapchat app. They are divided by size, interest target, geography, types, and more.

Value Propositions

There are different value propositions for each of the customer segments:

- **Users**: Snapchat is a fast means of communication, that allows users to express themselves through photos and videos (with help of its filters/editions), but also live the moment, without having to care about their looks or something, since the posts are going to disappear soon. They can also learn about other people around the world while having fun. And everything is designed for mobile
- **Advertisers**: Snapchat is probably one of the highest-penetration vehicles among 13-24-year-old. There is the possibility of reaching the audience through creative tools, so, users will interact with ads and brands without noticing, and still less feeling invaded by them. Snapchat also provides easy self-serving tools, for businesses to create their own ads. Besides, there are e-commerce tools and APIs for integrations.

Channels

The core distribution channel of the Snapchat business model is the app/website. But other channels include:

- App stores
- Social media
- Word of mouth
- Snap publishers and partners

Customer Relationships

Again, we have to divide the customer relationships among customer segments.

- **Users**: Snapchat has to show its snapchatters that the platform prioritizes their interests rather than advertisers, by ensuring a nice user experience
- **Advertisers**: Besides metrics (business will perceive value according to financials), advertisers appreciate will self-serving ad development, partner and direct support models (for the ones that prefer to have a team setting ads up), and the possibility to connect to users directly.

Revenue Streams

The biggest share of Snapchat's revenue comes from North America — almost 60%. The United States alone stood for 56% of 2020's second quarter's income. 18% comes from Europe and the last share of revenue streams are from all the rest of the world.

Finally, it is unusual that Snap Inc. grew much slower during the second quarter of 2020, in comparison to its figures from 2018 and 2019. By the end of Q2 2020, Snapchat grew only 17%, while its annual growth in 2019 was 43.1% and, in 2018, 45.3%.

Key Resources

The most significant key resources of a social network are the app/platform and its network effects. For that to keep working, other important assets encompass: content, users, relationships with advertisers, staff, brand, tech infrastructure, and intellectual property.

Key Activities

The Snapchat business model's key activities are all about engaging users. So, the platform focuses on growing the base (of all key partners), innovating and improving user experience, growing content, maintaining and developing the app and website, enhancing algorithms, and marketing.

Key Partners

- **Users**: The majority of the content (which drives engagement) is provided by the users

- **Content creators**: Influencers, media outlets, magazines, websites, and many others that develop content, especially for this platform
- **Advertisers**: Businesses that support the Snapchat business model by paying for advertisement and sponsorship
- **Ad technology and agency partners**: Partners that develop ads, target, and track audiences using Snap APIs
- **Developers**: Third-party apps that integrate with Snapchat.

Cost Structure

The Snapchat business model's cost structure revolves around any multisided platform expense:

- Research and development of the app/website and algorithm
- Technology infrastructure maintenance
- Sales and marketing
- Staff
- General and administrative expenses

Summary

Snapchat's refusal of its acquisition by Facebook for $3 billion in 2013 proved to be a well-played strategic move by the founders. Today, as Snap Inc. - the parent company of Snapchat - is worth over $37 billion. Although the Snapchat app is the bottleneck i.e. the only responsible channel for most of its value and revenues, Snap Inc. has grown big in the technology industry, with the launch of the Spectacles gadget, as well as with the acquisition of Bitmoji and Zenly.