

MARKETING TWITTER: COMPETING AS A SOCIAL MEDIA PLATFORM¹

Ken Mark wrote this case under the supervision of Professor June Cotte solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com.

Copyright © 2017, Richard Ivey School of Business Foundation

Version: 2017-01-27

In October 2016, Twitter Inc. (Twitter), barely a decade old, needed to reinvent itself. While the popular online social networking service had 310 million global users, its growth was slowing. Its inability to attract more users had prompted its founder, Jack Dorsey, to return as chief executive officer (CEO) in June 2015.

By January 2016, Dorsey had hired Leslie Berland, an experienced marketing executive, as chief marketing officer (CMO)—the first time that Twitter had hired someone for this position. There were rumours that the company had put itself up for sale in September 2016, and speculation about potential suitors included company names such as Microsoft, Salesforce.com, Alphabet Inc., and even Disney. In late October 2016, the news came that Twitter was downsizing—cutting nine per cent of its staff, or about 300 employees.²

Twitter's top challenges all related to its users: how to attract more users to Twitter, how to generate more revenues from current users, and how to win over non-users. With 80 per cent of its users coming from outside the United States, the firm did not increase its total number of U.S. users in the second quarter of 2016. Twitter lagged behind its social media peers—Facebook, Snap Inc. (Snapchat), and Instagram—in terms of the amount of money it generated per user.

In spite of all the bad news, Twitter's survival was not in question. The firm had over \$3 billion in cash—enough for over 400 years of losses at its current burn rate, according to S&P Global Market Intelligence,³ and it had positive cash flow from its operations. In 2016, the most promising initiatives the company was considering included licensing and streaming live events, partnering with firms such as Google, and changing the basic format of its service (by increasing the character limit from 140 to 10,000). While Twitter had been investing to generate growth, it remained to be seen whether those investments had been prudently directed. The company's stock price was about one-quarter of the peak it had reached in 2014, and Twitter executives seemed to be running out of ideas to turn the company around.

THE GLOBAL ONLINE ADVERTISING INDUSTRY

An estimated \$185 billion was spent globally on digital advertising in 2016, representing about one-third of the total \$569 billion that was spent on media advertising overall. Digital advertising continued to grow rapidly, at an average of 30 per cent per year, faster than the growth rate of overall media spending, which was about 5.4 per cent per year.⁴

For advertisers used to creating advertising for the mass audiences of television networks, radio, and print publications, the maturation of the digital advertising medium was significant. They could target more specifically, as a result of the demographic and psychographic data the various digital firms collected on their users. They could also choose different digital advertising categories, including search, display, social, online video, and other formats (see Exhibit 1).

The social media advertising market—estimated by analysts to be worth somewhere between \$29.1 billion and \$35.9 billion in 2016—was dominated by Facebook, which accounted for 72 per cent of the segment's revenues in 2016.⁵ Other key competitors included Twitter, LinkedIn, and Snapchat. The market was fragmented, with other social advertising competitors accounting for the remaining 20 per cent of segment revenues (see Exhibit 2).

Facebook generated about 97 per cent of its revenues through advertising, and 82 per cent of its advertising revenues came from mobile advertisements (ads). These advertising properties included news feed ads, which featured an image along with descriptive text and a link; domain ads, which were displayed adjacent to a website's address; and carousel ads, which allowed advertisers to showcase five products and links for the price of a single ad.⁶

LinkedIn offered advertisers promotional options such as sponsored content—advertisements designed to attract new followers to a company's showcase page; sponsored InMail—content delivered through LinkedIn Messenger; and text ads—targeted advertisements featuring headlines and images.

Snapchat also had various advertising properties available for sale. Snapchat Discover ads provided premium placement space at the top of the Snapchat app for brands; sponsored lenses gave advertisers the opportunity to have a branded lens available for use by Snapchat users; and Snap Ads were mobile video ads.⁷

TWITTER INC.

Twitter was a side business that was spun off from parent podcast-publishing website company Odeo and launched in March 2006 by Jack Dorsey, Noah Glass, Biz Stone, and Evan Williams. It was Dorsey who proposed that there was a need for a service similar to short messaging service (SMS) that would allow users to update a small group of followers, rather than just individuals. Using the project code name "twtr" for the service—a nod to the five-character length of U.S. SMS codes and to the popular photo-sharing site Flickr—the first tweet was sent on March 21, 2006.

Even in its early days, it was difficult for the founders to describe exactly what Twitter would be and what need it would fulfil. Williams recalled,

There are certain businesses that you know what they are when they're born. . . . With Twitter, it wasn't clear what it was. . . . [I]t was hard to define, because it didn't replace anything. . . . [T]he

insight we eventually came to was Twitter was really more of an information network than it was a social network.⁸

Twitter was a social media platform that allowed users to send brief messages, or “tweets,” limited to 140 characters each, to share information with others. The first few months at Twitter saw the service gain a few thousand users. Then in March 2007, at a South by Southwest festival in Austin, Texas, Twitter experienced rapid growth in user numbers.

The festival was an annual affair that promoted new music and software, and the company saw an opportunity to gain access to a larger audience through some clever marketing. Twitter installed large television screens in the lobby of the conference centre and enlisted the help of six attendees who were fans of its service. These “ambassadors” had their tweets posted in real time on the plasma screens, attracting the attention of other attendees. Any new users who signed up on Twitter would also see their tweets posted on the screens. The promotion was a hit, and Twitter’s popularity spread.

While there was a temptation to add new features to the service, Williams recalled that paring down the variety of options was vital to ensuring that the service remained true to its roots: “Over the first year or two, we took away almost as many features as we added. We were sure we needed to add features for Twitter to make sense for a larger audience beyond the geeks that were using it at the time. We ended up never adding them.”⁹

Media firms turned to Twitter to source quotes and content, rebroadcasting them on their own channels. Twitter became a real-time source for information on news and events. In addition to news conveyed by the tweet itself, each tweet also contained a surprising amount of information about the author, including his or her location and other characteristics (see Exhibit 3).

While the number of monthly active users (MAUs) had been rising steadily, growth rates had slowed in the past five years (see Exhibit 4). Twitter did not report the number of daily active users (DAUs), but it stated that about 44 per cent of MAUs were daily active users. In September 2016, Statista estimated that Twitter had 314 million MAUs, compared to 1,712 million for Facebook (see Exhibit 5).¹⁰

The number of MAUs was calculated by adding the new users who had joined the platform and subtracting the number of users who had left. The number of users who left a platform—the churn rate—differed by platform. While no numbers were publicly announced, an estimate by SurveyMonkey Intelligence suggested a range of different churn rates for popular social media platforms: under 3 per cent for Facebook, under 10 per cent for Snapchat, about 10 per cent for Instagram, just over 10 per cent for WhatsApp Inc. (WhatsApp), and about 25 per cent for Twitter.¹¹

The User Experience

New users to Twitter picked a name and password and then allowed Twitter to access their smartphone’s address book. Contacts with Twitter accounts were flagged, and users could elect to “follow” their friends’ Twitter feeds. Users could tweet (broadcast a message in a conversation thread, start a new conversation thread, or group conversations together by creating a hashtag); retweet (forward another person’s tweet to others); follow other users by subscribing to their Twitter feeds; and search through the millions of tweets for relevant information.¹²

One drawback—at least in the first few years of the service—was that users could only see tweets from the users they chose to follow. If they had only selected five accounts, users would only see tweets from those five accounts. This meant that users who wanted to tap into the vast network of tweets offered had to invest time to search out and build a comprehensive set of feeds, with tweets funnelling into a timeline that they could read. Vindu Goel, a journalist writing in the *New York Times*, offered this comment:

Anyone who has created a Twitter account knows how difficult it can be to get value from the service. When you sign up, you have to “follow” dozens of people and organizations on the service and then hope they post items that actually interest you, since that is all you are going to see. Everything in the feed, or timeline, is presented in reverse chronological order, with no easy way to find the diamonds among the dross. And good luck figuring out the weird protocols of the social network, such as how to reply to a Twitter message privately instead of to the whole world.¹³

In February 2015, Twitter sought to make the learning curve less steep for new users by offering them an instant timeline feature. The instant timeline was assembled by an algorithm that took into account data contained within the new user’s network of contacts.¹⁴ But the addition of this and other new features did not correct the apparent difficulty of using the service. Walter Mossberg, a journalist at The Verge, offered this opinion:

To potential new users, it’s a real challenge to learn all of Twitter’s often arcane little features. And even for people who have been using the service multiple times daily for years, like me, it can be tricky to decide when to use which feature and in which situation. For instance, new users might be confused about what a retweet is, or the difference between that and a “quote tweet” (where you say more about something you’re reposting). And they surely might not understand the need to place a period before the handle of a user, when that handle is at the very start of a tweet you compose, yet not elsewhere in the tweet. Basically, Twitter has become what I call “secret-handshake software”—something that’s so complicated that, as in a secret society, only insiders know the rituals that unlock its power.¹⁵

Monetizing the Platform

Twitter had several revenue-sharing programs to encourage and reward existing users—especially users with many followers—for drawing an audience. Popular users, usually celebrities, were selected to be part of a sponsored tweet program, an online Twitter marketplace, where users set their own price-per-tweet. Advertisers interested in having that user act as a spokesperson would contact the user, work to craft a tweet that promoted their product or service in some way, and have that user approve and tweet it through their account.¹⁶

Twitter’s Publisher Amplify program paid video content creators 70 per cent of the advertising revenues generated from views. (The remaining 30 per cent went to Twitter.) This arrangement was slanted in the creator’s favour; YouTube, for example, paid creators 55 per cent of advertising revenues.¹⁷ These advertising revenues came from selling pre-roll ads—advertisements that ran before the video content was displayed. Content creators merely had to check a box to agree to include pre-roll ads before posting a tweet.¹⁸

Twitter recognized there was an optimal amount of advertising it could include in tweets or alongside other content. The concept of “ad load” spoke to the amount of advertising that executives felt could be

inserted into content without affecting users' perception of the service. In mid-2015, Twitter's investor relations team noted that "ad load in Q2 (2015) was approximately one-third of what we see as the long term potential,"¹⁹ indicating that the company could potentially sell much more advertising on its network.

Another revenue stream was selling access to the data Twitter had collected on its users. The data product was called "Firehose," and clients could access it by building an application program interface to allow their software to interact with Twitter's database. Firehose provided clients access to a non-stop, real-time stream of tweets that matched customers' specifications, allowing customers to tailor products or services based on the data.²⁰

While Twitter's MAUs and revenues continued to grow, analysts were concerned that the social media platform was not growing as quickly as they had predicted. Twitter went public on November 7, 2013, at an initial public offering price of \$26 per share. By the end of its first trading day, Twitter's shares closed at \$44.94—up by 73 per cent—but growth concerns weighed heavily on Twitter's stock price. On June 11, 2015, Twitter's CEO Dick Costolo stepped down and was replaced by Dorsey. On August 20, 2015, Twitter shares fell to \$25.94; the firm had lost half of its market value in four months due to concerns over poor performance.²¹

On January 26, 2016, Berland was hired as the firm's first CMO.²² Berland had previously served as American Express's executive vice president of digital partnerships and development. At American Express, Berland was in charge of advertising, media, sponsorship, content, branding, and digital sponsorships. About Twitter, she said,

Twitter is a service like no other. It has and continues to change the world, shaping how we communicate and connect, how we're entertained, informed, and inspired. It represents everything that's relevant at each and every moment—to me, there's nothing more powerful. I'm thrilled to have the opportunity to work with Jack and the Twitter teams to bring the magic of Twitter to life, broaden its reach, and deepen its impact as the company enters this incredibly exciting new chapter.²³

TWITTER'S CHALLENGES

Berland faced two challenges. First, she had to think about how to advertise an already popular social media platform to non-users. Prior to her arrival, some work had already been done to broaden Twitter's appeal. In October 2015, it had launched its multimedia feature, "Moments," highlighting the "best of Twitter," in an attempt to draw non-users into the fold. Yet half a year later, user growth still had not picked up. Berland looked at various options to engage with and entice new users, to kick-start Twitter's growth.

Second, she had to find a way to encourage current users to stay with the platform. Twitter competed with many other platforms such as Facebook, Snapchat, and Instagram. By June 2016, Snapchat had surpassed Twitter in daily usage. Even more strikingly, Pokémon Go, an augmented reality game owned by Nintendo, had more daily users than Twitter just seven days after its launch on July 6, 2016.²⁴

There was a shift in the advertising market toward media-rich advertisements, and despite the fact that Twitter had embedded multimedia capability into its sponsored tweets, rivals were taking a larger share of these advertising revenues. The objective was to entice advertisers to focus on Twitter's new offerings, including Audience Insights, which provided more accurate verification of audiences, and Reach and

Frequency Buying, which provided planning assistance with the goal of helping advertisers achieve reach and frequency targets.²⁵

Yet there was hope: Twitter had beaten analysts' expectations in the third quarter of 2016, posting revenues of \$616 million—an increase of eight per cent year-over-year—and a net loss of \$103 million. The firm had ample cash on hand and a set of initiatives to augment the experience for current users and to reach out to new and former users.

TWITTER'S NEW INITIATIVES

"If you were to describe what Twitter is, it's live news, entertainment, sports, and chat," said Dorsey, in an interview with *Vanity Fair* magazine in June 2016.²⁶ After Dorsey's return, Twitter focused on developing more ways to deliver real-time news, commentary, and events. Starting in June 2016, the maximum length for video tweets was increased to 140 seconds from the previous limit of 30 seconds. The move to make Twitter more appealing seemed to be in response to news that the number of daily tweets had dropped from a high of 661 million in August 2014 to 303 million in January 2016.²⁷

The Move into Live Streaming

In September 2016, Twitter streamed a National Football League (NFL) game live for the first time. It had purchased the rights to stream 10 Thursday Night Football games for \$10 million and hoped to sell more than \$50 million in total advertising spots: \$2–\$8 million per advertiser for 10–15 advertisers. Advertisers would receive in-game advertising, to be shown in place of television commercial spots; pre-roll ads, to be displayed in advance of game highlights; and sponsorship of pre-game analysis and player footage from Periscope, a live-streaming app Twitter acquired in March 2015, which allowed users to stream live video to followers.²⁸

In September 2016, Twitter attracted about 2.1 million viewers per game for its first three live-streamed NFL games, and there were twice as many tweets per game as for games that were not streamed. In total, about 0.4 per cent of Twitter's base viewed the game. However, even though Facebook did not pay for the live stream, about 0.8 per cent of Facebook's U.S. audience interacted with game-related content.²⁹

Service Simplification

Twitter continued to focus on simplifying its service for new and existing users. Its purchase of Magic Pony Technology (a start-up that developed techniques to enhance images and video) allowed it to improve video viewing experiences for its users.³⁰ The company also considered expanding the number of characters in a tweet from 140 to 10,000. "We've spent a lot of time observing what people are doing on Twitter, and we see them taking screenshots of text and tweeting it," Dorsey wrote. "Instead, what if that text . . . was actually text? Text that could be searched. Text that could be highlighted. That's more utility and power."³¹

Augmenting Live Events

Unlike a user's Twitter timeline, which was meant to be read in reverse chronological order with the most recent tweets displayed first, Twitter's Moments product was designed around live events, which unfolded in chronological order. When a user followed a Twitter Moment, Twitter temporarily inserted

tweets—curated from outside of that user’s network—into the live event being followed. When that live event was over, the user would no longer see tweets from outside his or her network. Twitter’s objective was to generate conversations around live moments such as international demonstrations or sporting events.

Appealing to Non-users

Twitter had perhaps 500 million non-users—that is, people who visited Twitter every month but who did not have accounts—and it attempted to capitalize on these visitors by showing them advertising.³² According to observers, the challenge was that Twitter had very little information about this group:

The unknown, of course, is how much money these ads can actually generate. Twitter’s advertising pitch has always been anchored to the promise of relevant targeting: We know who you are because we see what you tweet, who you follow, and what kinds of things you engage with. It’s the Facebook pitch, too, but it doesn’t really translate when people aren’t logging in.³³

In surveys, non-users told the company that they “felt that in order to really use Twitter, they had to be tweeting every day,” said Berland. “Many of them say to us, ‘You know, I don’t have anything to say.’ They come in thinking we’re a social network.”³⁴

RUMOURS OF TWITTER BEING ACQUIRED

None of these initiatives were expected to return Twitter’s revenues or reach, or to double growth rates. By September 2016, there were rumours that Twitter would be acquired by another large corporation, possibly Disney, Google, Microsoft, or even Salesforce.com. By October 2016, it was clear that no buyer was willing to step forward with a bid for Twitter. One potential reason for buyers’ reluctance was that Twitter was paying its employees equity-based compensation of \$167 million—twice that paid by Facebook (see Exhibits 6 and 7).³⁵

LOOKING TO GROW THE PLATFORM

In October 2016, the challenges facing Berland and the rest of the Twitter team were clear. The company’s growth had stalled, and other social media platforms were gaining momentum at its expense. It was less clear what the Twitter team could do about the situation, if anything.

“What was Plan B if Dorsey couldn’t turn the company around?” asked a journalist writing an article about Twitter. “There is no Plan B,” he was told. “This is it.”³⁶

EXHIBIT 1: GLOBAL DIGITAL MEDIA SPENDING BY FORMAT (IN US\$ BILLION)

Digital Media	2014	2015	2016
Search	\$ 70.3	\$ 80.4	\$ 89.8
Growth	15.6%	14.3%	11.7%
% of Digital	49.5%	49.2%	48.5%
Display	\$ 29.3	\$ 30.5	\$ 31.8
Growth	5.3%	4.2%	4.3%
% of Digital	20.6%	18.7%	17.2%
Social	\$ 16.6	\$ 22.8	\$ 29.1
Growth	63.8%	37.3%	27.5%
% of Digital	11.7%	14.0%	15.7%
Online Video	\$ 11.2	\$ 15.1	\$ 19.8
Growth	34.9%	34.3%	31.7%
% of Digital	7.9%	9.2%	10.7%
Other Formats	\$ 14.5	\$ 14.6	\$ 14.5
Growth	3.2%	0.7%	-0.3%
% of Digital	10.2%	8.9%	7.8%
Total Digital	\$ 141.9	\$ 163.4	\$ 185.0
Growth	17.2%	15.1%	13.3%
% of Total Media	27.3%	30.4%	32.5%
Mobile	\$ 30.0	\$ 43.4	\$ 59.0
Growth	71.9%	44.7%	35.9%
% of Digital	21.1%	26.6%	31.9%
Total Media	\$ 512.0	\$ 536.6	\$ 569.0
Growth	5.5%	4.8%	6.0%

Source: Magna Global, SFG Research, and Shyam Patil, *Internet Advertising*, 7, SIG Susquehanna Financial Group, LLP, August 10, 2015, accessed November 8, 2016.

EXHIBIT 2: WORLD SOCIAL ADVERTISING ESTIMATES BY COMPETITOR (IN US\$ MILLION)

	2015	2016E	2017E	2018E	2019E	2020E
Worldwide	\$ 25,140	\$ 35,860	\$ 47,647	\$ 59,559	\$ 71,471	\$ 82,191
Year-to-Year Growth	40.8%	42.6%	32.9%	25.0%	20.0%	15.0%
Facebook	\$ 17,080	\$ 25,727	\$ 35,695	\$ 45,084	\$ 53,777	\$ 61,796
Twitter	\$ 1,994	\$ 2,284	\$ 2,636.00	\$ 3,093.00	\$ 3,602	\$ 4,159
LinkedIn	\$ 275	\$ 449	\$ 606	\$ 758	\$ 928	\$ 1,114
Snapchat	\$ 59	\$ 367	\$ 936	\$ 1,760	\$ 2,552	\$ 3,318
Other	\$ 5,731	\$ 7,033	\$ 7,774	\$ 8,864	\$ 10,611	\$ 11,805
Year-to-Year Growth						
Facebook	48.6%	50.6%	38.7%	26.3%	19.3%	14.9%
Twitter	58.8%	14.5%	15.4%	17.3%	16.4%	15.5%
LinkedIn	104.9%	63.0%	35.0%	25.0%	22.5%	20.0%
Snapchat	n.a.	519.4%	155.1%	88.1%	45.0%	30.0%
Percentage of Total						
Facebook	67.9%	71.7%	74.9%	75.7%	75.2%	75.2%
Twitter	7.9%	6.4%	5.5%	5.2%	5.0%	5.1%
LinkedIn	1.1%	1.3%	1.3%	1.3%	1.3%	1.4%
Snapchat	0.2%	1.0%	2.0%	3.0%	3.6%	4.0%

Note: eMarketer and Magna Global (see Exhibit 1) differ in the way they estimate the value of social advertising; LinkedIn data includes revenues from sponsored updates.

Source: Created by the case author based on company reports from eMarketer (database), accessed November 8, 2016, and estimates from Michael Graham, Austin Moldow, and Vinod Srinivasaraghavan, "Twitter, Inc.," Canaccord Genuity, October 10, 2016, p. 7.

EXHIBIT 3: WHAT A TWEET KNOWS

Each tweet has 30-plus data fields. Here is some of the key information revealed by a tweet:

Data Field	Information Provided
created_at	Date and time the tweet was sent
current_user_retweet	Latitude and longitude where the tweet originated
place	Either where the tweet came from or the subject of the tweet
source	Type of device used to tweet
user	Name and hometown of the person tweeting

Source: Bloomberg Businessweek, "What a Tweet Knows," in Benjamin Elgin and Peter Robinson, "How Despots Use Twitter to Hunt Dissidents," Bloomberg Technology, October 27, 2016, accessed November 8, 2016, <https://www.bloomberg.com/news/articles/2016-10-27/twitter-s-firehose-of-tweets-is-incredibly-valuable-and-just-as-dangerous>.

EXHIBIT 4: MONTHLY ACTIVE USERS—HISTORICAL AND FORECASTS

U.S. Advertising Metrics	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of Timeline Views per U.S. Monthly Active User	3,063	3,221	3,138	2,230	2,252	2,275	2,297	2,320	2,344	2,367
Twitter's U.S. Average Monthly Active Users (millions)	39.0	51.0	61.0	65.2	65.9	67.2	69.2	71.3	73.5	75.7
International Advertising Metrics	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of Timeline Views per Intl Monthly Active User	2,182	2,486	2,347	1,631	1,648	1,672	1,698	1,723	1,749	1,775
Twitter's Intl Average Monthly Active Users (millions)	121	173	214	239	249	259	269	280	291	303

Source: "Twitter," Trefis for Professionals (data analysis), August 25, 2016, 22–23, accessed November 8, 2016.

EXHIBIT 5: MONTHLY ACTIVE USERS, SEPTEMBER 2016, IN MILLIONS

Facebook	1,712
WhatsApp	1,000
Facebook Messenger	1,000
WeChat	806
Tumblr	555
Instagram	500
Twitter	314
Skype	300
Viber	249
Snapchat	200
LinkedIn	106
Pinterest	100

Source: Compiled by case authors based on "Most Famous Social Network Sites Worldwide as of September 2016, Ranked by Number of Active Users (in Millions)," Statista, accessed November 8, 2016, <https://www.statista.com/statistics/272014/global-social-networks-ranked-by-number-of-users/>.

EXHIBIT 6: TWITTER FINANCIAL STATEMENTS—HISTORICAL AND ESTIMATES

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Revenues (billion US\$)	0.32	0.66	1.40	2.22	2.89	3.54	4.21	4.79	5.32	5.85
United States Advertising (% of total)	70.80	66.20	60.30	58.50	58.20	57.70	57.50	56.30	55.40	55.00
International Advertising (% of total)	14.20	23.20	29.10	31.40	32.20	33.20	33.90	35.30	36.20	36.80
Data Licensing (% of total)	15.00	10.60	10.50	10.10	9.69	9.09	8.56	8.43	8.36	8.20
Direct Expenses (billion US\$)	0.06	0.10	0.19	0.38	0.50	0.61	0.74	0.85	0.95	1.06
United States Advertising (% of total)	70.80	66.20	60.30	58.50	58.20	57.70	57.50	56.30	55.40	55.00
International Advertising (% of total)	14.20	23.20	29.10	31.40	32.20	33.20	33.90	35.30	36.20	36.80
Data Licensing (% of total)	15.00	10.60	10.50	10.10	9.69	9.09	8.56	8.43	8.36	8.20
Gross Profit (billion US\$)	0.26	0.56	1.22	1.84	2.39	2.93	3.47	3.94	4.36	4.79
United States Advertising (% of total)	70.80	66.20	60.30	58.50	58.20	57.70	57.50	56.30	55.40	55.00
International Advertising (% of total)	14.20	23.20	29.10	31.40	32.20	33.20	33.90	35.30	36.20	36.80
Data Licensing (% of total)	15.00	10.60	10.50	10.10	9.69	9.09	8.56	8.43	8.36	8.20
Indirect Expenses (billion US\$)	0.32	0.69	1.28	1.79	2.06	2.42	2.80	3.05	3.32	3.58
United States Advertising (% of total)	70.80	66.20	60.30	58.50	58.20	57.70	57.50	56.30	55.40	55.00
International Advertising (% of total)	14.20	23.20	29.10	31.40	32.20	33.20	33.90	35.30	36.20	36.80
Data Licensing (% of total)	15.00	10.60	10.50	10.10	9.69	9.09	8.56	8.43	8.36	8.20
Free Cash Flow (billion US\$)	n/a	n/a	n/a	n/a	0.34	0.51	0.68	0.89	1.05	1.21
United States Advertising (% of total)	n/a	n/a	n/a	n/a	58.20	57.70	57.50	56.30	55.40	55.00
International Advertising (% of total)	n/a	n/a	n/a	n/a	32.20	33.20	33.90	35.30	36.20	36.80
Data Licensing (% of total)	n/a	n/a	n/a	n/a	9.69	9.09	8.56	8.43	8.36	8.20

Source: "Twitter," Trefis for Professionals (data analysis), August 25, 2016, 20, accessed November 8, 2016.

EXHIBIT 7: PROFITABILITY ANALYSIS OF TWITTER AND KEY COMPETITORS FOR 2015

	Last Historical Year						
	Net Income		Gross Margin %			EBITDA Margin %	
Company/Ticker	(Million US\$)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Alphabet Inc GOOGL USA	21,307	62.4	61.5	61.1	39.5	39.1	39.4
Facebook Inc FB USA	5,436	84.0	85.4	84.3	45.6	50.0	48.2
LinkedIn Corp LNKD USA	373	86.0	86.5	86.5	26.1	27.8	27.0
Average		77.5	77.8	77.3	37.1	39.0	38.2
Twitter Inc TWTR US	276	67.1	66.5	67.6	24.4	27.0	29.1
	Operating Margin %			Free Cash Flow Margin %			
Company/Ticker	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	
Alphabet Inc GOOGL USA	25.8	25.1	25.1	21.5	21.6	20.7	
Facebook Inc FB USA	34.7	41.7	40.6	33.9	30.9	34.7	
LinkedIn Corp LNKD USA	(5.1)	(2.8)	1.2	10.0	13.6	15.3	
Average	18.5	21.3	22.3	21.8	22.0	23.6	
Twitter Inc TWTR US	(20.3)	(14.5)	(6.4)	1.6	6.2	9.0	

Note: While Twitter had negative operating margins, its net income was positive as a result of financial adjustments; Twitter defined non-GAAP net income as net loss adjusted to exclude stock-based compensation expense, amortization of acquired intangible assets, noncash interest expense related to convertible notes, noncash expense related to acquisitions, the income tax effects related to acquisitions, and restructuring charges; amounts for 2016 and 2017 are estimates; EBITDA = earnings before interest, taxes, depreciation, and amortization.

Source: Ali Mogharabi, "Twitter Inc.," Morningstar Equity Research, July 1, 2016, 18, accessed November 8, 2016, http://files.shareholder.com/downloads/AMDA-2F526X/3104513346x0x913984/36DC5767-AF54-496B-93D7-8437630D5DFA/TWTR_Q3_16_Earnings_Press_Release.pdf.

ENDNOTES

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Twitter Inc. or any of its employees.

² Lara O'Reilly, "Twitter Beats on Revenue and Earnings but Confirms Layoffs," Tech Insider, October 27, 2016, accessed November 8, 2016, www.businessinsider.com/twitter-q3-earnings-2016-10.

³ All figures are in U.S. dollars; Matt Krantz, "Twitter Has 412 Years in Cash to Fix Itself," *USA Today*, January 26, 2016, accessed November 8, 2016, www.usatoday.com/story/money/markets/2016/01/25/twitter-has-412-years-fix-itself/79301680/.

⁴ Source: Magna Global, SFG Research, and Shyam Patil, *Internet Advertising*, 7, SIG Susquehanna Financial Group, LLP, August 10, 2015, accessed November 8, 2016.

⁵ eMarketer (database), accessed November 8, 2016; estimates from Michael Graham, Austin Moldow, and Vinod Srinivasaraghavan, "Twitter, Inc.," Canaccord Genuity, October 10, 2016, p. 7.

⁶ Adrian Stevens, "What Are Facebook's Main Revenue Streams?" Yahoo! Finance, May 25, 2016, accessed November 8, 2016, <http://finance.yahoo.com/news/facebook-main-revenue-streams-130759705.html>; "The Beginner's Guide to Facebook Advertising: Types of Facebook Ads," AdEspresso, accessed November 8, 2016, <https://adespresso.com/academy/guides/facebook-ads-beginner/facebook-ads-types/>.

⁷ "Snapchat Advertising Costs—A Breakdown of Each Offering," Wallaroo Media, accessed November 8, 2016, <http://wallaroomedia.com/snapchat-advertising-cost/>.

⁸ Issie Lapowsky, "Ev Williams on Twitter's Early Years," *Inc.*, October 4, 2013, accessed November 8, 2016, www.inc.com/issie-lapowsky/ev-williams-twitter-early-years.html?cid=em01011week40day04b.

⁹ Ibid.

¹⁰ Christopher Heine, "Snapchat Has Reportedly Surpassed Twitter in Daily Users by Reaching 150 Million: It Only Took Four Years," *Adweek*, June 2, 2016, accessed November 8, 2016, www.adweek.com/news/technology/snapchat-has-reportedly-surpassed-twitter-daily-users-reaching-150-million-171793; "Most Famous Social Network Sites Worldwide as of September 2016, Ranked by Number of Active Users (in Millions)," Statista, accessed November 8, 2016, <https://www.statista.com/statistics/272014/global-social-networks-ranked-by-number-of-users/>.

¹¹ "Churn for Social Networking Apps: Weekly Active-User Churn for First Week of April 2016," SurveyMonkey Intelligence, accessed November 8, 2016, https://secure.surveymonkey.com/business/intelligence/wp-content/uploads/2016/04/twit_1.png.

¹² "Getting Started with Twitter," Twitter Inc., accessed November 8, 2016, <https://support.twitter.com/articles/215585>.

¹³ Vindu Goel, "Twitter Displays Its Value with Instant Timeline for New Users," *Bits* (blog), *New York Times*, February 2, 2015, accessed November 8, 2016, http://bits.blogs.nytimes.com/2015/02/02/twitter-displays-its-value-with-instant-timeline-for-new-users/?_r=0.

¹⁴ Ibid.

¹⁵ Walt Mossberg, "Mossberg: Twitter Has Become Secret-Handshake Software," *The Verge*, January 27, 2016, accessed November 8, 2016, www.theverge.com/2016/1/27/10836466/walt-mossberg-twitter-is-too-hard-to-use.

¹⁶ Casey Markee, "Want to Monetize Your Twitter Account? Here's Three Options!" Search Engine News (SEN), accessed November 8, 2016, <https://www.searchengineneews.com/sample/content/want-to-monetize-your-twitter-account-heres-three-options>.

¹⁷ Vincent Lanaria, "Twitter Now Lets Video Makers Earn Cash via Monetization Program To Compete with YouTube, Facebook," *TechTimes*, August 31, 2016, accessed November 8, 2016, www.techtimes.com/articles/175670/20160831/twitter-now-lets-video-makers-earn-cash-via-monetization-program-to-compete-with-youtube-facebook.htm.

¹⁸ Guy Snir, "Twitter Monetization, Now at Your Fingertips," The Twitter Media Blog, August 30, 2016, accessed November 8, 2016, <https://blog.twitter.com/2016/twitter-monetization-now-at-your-fingertips>.

¹⁹ Twitter Investor Relations, Twitter post, July 28, 2015, 2:16 p.m., accessed November 8, 2016, <https://twitter.com/twitterir/status/626139091663503360>.

²⁰ "What Is a Firehose?" Quora, accessed November 8, 2016, <https://www.quora.com/What-is-a-firehose>.

²¹ Yasmeen Abutaleb, "Twitter's Dick Costolo To Step Down As CEO in Yet Another Shake-Up," Reuters, June 11, 2015, accessed November 8, 2016, www.reuters.com/article/us-twitter-moves-dickcostolo-idUSKBN0OR2Q020150612; Reem Nasr, "Twitter Stock Falls below IPO Price," CNBC, August 20, 2015, accessed November 8, 2016, www.cnbc.com/2015/08/20/twitter-stock-falls-below-ipo-price.html.

²² Marty Swant, "Twitter Hires AmEx's Head of Digital Partnerships, Leslie Berland, As Its New CMO," *AdWeek*, January 26, 2016, accessed November 8, 2016, www.adweek.com/news/technology/twitter-hires-former-amex-exec-leslie-berland-its-new-cmo-169206.

²³ Ibid.

²⁴ Sarah Frier, "Snapchat Passes Twitter in Daily Usage," Bloomberg Technology, June 2, 2016, accessed November 8, 2016, <https://www.bloomberg.com/news/articles/2016-06-02/snapchat-passes-twitter-in-daily-usage>; Sarah Perez, "Pokémon Go Tops Twitter's Daily Users, Sees More Engagement Than Facebook," Tech Crunch, July 13, 2016, accessed November 8, 2016, <https://techcrunch.com/2016/07/13/pokemon-go-tops-twitters-daily-users-sees-more-engagement-than-facebook/>.

²⁵ Twitter, "6 Plays to Build Your Brand," 8, accessed November 8, 2016, <https://marketing.twitter.com/content/dam/marketing-twitter/downloads/Playbook-BuildYourBrand.pdf>.

²⁶ Nick Bilton, "Twitter Is Betting Everything on Jack Dorsey. Will It Work?" *Hive* (blog), *Vanity Fair*, June 1, 2016, accessed November 8, 2016, www.vanityfair.com/news/2016/06/twitter-is-betting-everything-on-jack-dorsey.

²⁷ Jim Edwards, "Leaked Twitter API Data Shows the Number of Tweets Is in Serious Decline," *BusinessInsider UK*, February 2, 2016, accessed November 8, 2016, <http://uk.businessinsider.com/tweets-on-twitter-is-in-serious-decline-2016-2>; Nick Bilton, "Twitter Is Betting Everything on Jack Dorsey. Will It Work?" *Hive* (blog), *Vanity Fair*, June 1, 2016, accessed November 8, 2016, www.vanityfair.com/news/2016/06/twitter-is-betting-everything-on-jack-dorsey; Jeremy Rishel, "New Ways to Tap into Video on Twitter," *The Official Twitter Blog*, June 21, 2016, accessed November 8, 2016, <https://blog.twitter.com/2016/new-ways-to-tap-into-video-on-twitter>.

²⁸ Kurt Wagner, "Twitter Wants to Sell Its NFL Ad Spots for More than \$50 Million," *Recode*, June 22, 2016, accessed November 8, 2016, www.recode.net/2016/6/22/12006468/twitter-nfl-ad-deal-50-million-dollars; Yoree Koh and Evelyn M. Rusli, "Twitter Acquires Live-Video Streaming Startup Periscope," *Wall Street Journal*, March 9, 2015, accessed November 8, 2016, www.wsj.com/articles/twitter-acquires-live-video-streaming-startup-periscope-1425938498.

²⁹ Michael Graham, Austin Moldow, and Vinod Srinivasaraghavan, "Twitter, Inc.," *Canaccord Genuity*, October 10, 2016, 3; accessed November 8, 2016.

³⁰ Ingrid Lunden, "Twitter Pays Up to \$150M for Magic Pony Technology, Which Uses Neural Networks to Improve Images," *Tech Crunch*, June 20, 2016, accessed November 8, 2016, <https://techcrunch.com/2016/06/20/twitter-is-buying-magic-pony-technology-which-uses-neural-networks-to-improve-images/>.

³¹ Kurt Wagner, "Twitter CEO Jack Dorsey Shows Users Why 10,000-Character Tweets Aren't So Crazy," *Recode*, January 5, 2016, accessed November 8, 2016, www.recode.net/2016/1/5/11588516/twitter-ceo-jack-dorsey-shows-users-why-10000-character-tweets-arent.

³² Kurt Wagner, "Twitter Will Finally Start Making Money off People without Twitter Accounts," *Recode*, December 10, 2015, accessed November 8, 2016, www.recode.net/2015/12/10/11621354/its-time-to-deliver-twitter-is-finally-making-money-off-people.

³³ *Ibid.*

³⁴ Harry McCracken, "Game Time for Twitter: Jack Dorsey's Bit Bet on Live Events," *Fast Company*, September 12, 2016, accessed November 8, 2016, <https://www.fastcompany.com/3063032/twitter-jack-dorsey>.

³⁵ Mathew Ingram, "Here's the One Thing That's Holding up a Potential Twitter Acquisition," *Fortune*, September 7, 2016, accessed November 8, 2016, <http://fortune.com/2016/09/07/twitter-acquisition-holdup/>.

³⁶ Christina Bonnington, "Yikes—Twitter Is Laying Off 9% of Its Employees," *Refinery 29*, October 27, 2016, accessed November 8, 2016, www.refinery29.com/2016/10/127530/twitter-layoffs.