"Instagram was our threat."

Posted 2012-01-26 23:52:32 UTC
Status Instagram is eating our lunch. We should've owned this space but we're already losing quite badly. Lots of new friends are joining and following me every week, and I find myself checking it far more often than FB Mobile. It's a far more focused, compelling way to keep up with what my friends are doing. Google+ is a red herring — we are getting distracted by a shitty clone while guys like Instragram and Pinterest ramp up and create new markets that we should've seen coming.
Mobile

- from: Mark Zuckerberg ([redacted])
- to: [redacted] Mark Zuckerberg([redacted]),
- time: Mon Apr 09 10:51:24 PDT 2012 (1333993884473)
- subject:
- body

Yeah, I remember your internal post about how Instagram was our threat and not Google+. You were basically right. One thing about startups though is you can often acquire them. I think this is a good outcome for everyone.

00063367; 00063341

“[T]hey could be very disruptive to us.”

- from: Mark Zuckerberg ([redacted])
- to: David Ebersman([redacted]), Mark Zuckerberg([redacted]),
- time: Mon Feb 27 23:41:03 PST 2012 (1330414863647)
- subject: null
- body

One business questions I've been thinking about recently is how much we should be willing to pay to acquire mobile app companies like Instagram and Path that are building networks that are competitive with our own. These companies have the properties where they have millions of users (up to about 20m at the moment for Instagram), fast growth, a small team (10-25 employees) and no revenue. The businesses are nascent but the networks are established, the brands are already meaningful and if they grow to a large scale they could be very disruptive to us. These entrepreneurs don't want to sell (largely inspired our success), but at a high enough price -- like $500m or $1b -- they'd have to consider it. Given that we think our own valuation is fairly aggressive right now and that we're vulnerable in mobile, I'm curious if we should consider going after one or two of them. What do you think about this?

“The businesses are nascent but the networks are established, the brands are already meaningful and if they grow to a large scale they could be very disruptive to us.”

“[N]eutralize a potential competitor?”

- from: David Ebersman ([redacted])
- to: Mark Zuckerberg([redacted]), David Ebersman([redacted]).
- time: Tue Feb 28 09:37:43 PST 2012 (1330450663315)
- subject: null
- body

I tend to have a high bar for M&A considerations. All the research I have seen is that most deals fail to create the value expected by the acquirer. My instinct is that many deals are done because the CEO is frustrated that the business is not where they want it to be, they would rather do something than nothing, and M&A seems like the biggest lever they have. This is a bad reason to do a deal. So for these two ideas specifically, I would ask you to find a compelling elucidation of what you are trying to accomplish. 1) neutralize a potential competitor? Bad reason in my book since someone else will spring up immediately in their place. There will always be consumers who are instinctively negative about the industry leaders and want to work with the upstarts. We will always have upstarts nipping at our heels. We have to win against competitors by having better products. 2) acquire talent? Seems expensive for this. 3) integrate their products with ours in order to improve our service? This can be a very compelling reason, if you have a clear vision for how the implementation would be great for users and that we cannot do the product improvements ourselves in a reasonable timeframe. 4) other? Happy to discuss further.

“1) [N]eutralize a potential competitor?”

“2) [A]cquire talent?”

“3) [I]ntegrate their products with ours in order to improve our service?”

“[W]hat we’re really buying is time.”

- from: Mark Zuckerberg ([redacted])
- to: David Ebersman([redacted]), Mark Zuckerberg([redacted],
- time: Tue Feb 28 09:55:42 PST 2012 (1330451742327)
- subject: null
- body

It's a combination of (1) and (3). The basic plan would be to buy these companies and leave their products running while over time incorporating the social dynamics they've invented into our core products. One thing that may make (1) more reasonable here is that there are network effects around social products and a finite number of different social mechanics to invent. Once someone wins at a specific mechanic, it's difficult for others to supplant them without doing something different. It's possible someone beats Instagram by building something that is better to the point that they get network migration, but this is harder as long as Instagram keeps running as a product. (3) is also a factor but in reality we already know these companies' social dynamics and will integrate them over the next 12-24 months anyway. The integration plan involves building their mechanics into our products rather than directly integrating their products if that makes sense. By a combination of (1) and (3), one way of looking at this is that what we're really buying is time. Even if some new competitors springs up, buying Instagram, Path, Foursquare, etc now will give us a year or more to integrate their dynamics before anyone can get close to their scale again. Within that time, if we incorporate the social mechanics they were using, those new products won't get much traction since we'll already have their mechanics deployed at scale.

“There are . . . a finite number of different social mechanics to invent.”

“[W]hat we’re really buying is time.”