

Facebook and WhatsApp

Getting the messages

SAN FRANCISCO

Why Mark Zuckerberg's social network is paying such a whopping sum for a messaging startup

THE rivalries among the tech industry's giants have often resembled a "Game of Thrones", in which companies such as Facebook, Google, Amazon and Apple constantly try to invade one another's online kingdoms. On February 19th Facebook took a dramatic step to defend its turf, saying it would pay \$19 billion for WhatsApp, a messaging service that had also attracted the attention of Google and almost certainly other suitors.

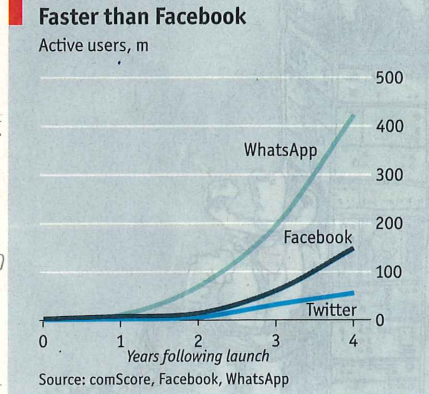
Even veterans of Silicon Valley goggled at the staggering sum of money changing hands, which comprises a mixture of cash and shares in Facebook. WhatsApp's price tag is the most ever paid for a venture-capital-backed company and gives a startup founded in 2009 a valuation that is greater than that of household names such as Southwest Airlines and Sony.

The deal marks the coming-of-age of messaging apps, which let people send text messages and share photos and other stuff without incurring charges from telecoms firms. WhatsApp is free to use for 12 months and then costs a mere 99 cents a year. Plenty of other such apps have sprung up, including Viber, which Rakuten, a Japanese internet giant, recently bought for \$900m, and the immensely popular WeChat, which belongs to Tencent, an innovative Chinese company.

All of them have benefited from two profound trends that are transforming the technology landscape. The first of these is

the rapid growth of web-connected smartphones, which has allowed WhatsApp and its rivals to spread like wildfire. Announcing the deal Mark Zuckerberg, Facebook's boss, said WhatsApp had reached 450m users much faster than any other web service (see chart). It has also made itself addictive: 72% of its users are active on it every day. And the viral nature of its appeal means it has achieved all this without spending a penny on marketing.

Casual-gaming apps are also spreading rapidly on mobile devices. King.com, which filed for an IPO in New York on February 18th, is a case in point. The company, which makes the hit game "Candy Crush Saga", saw its monthly active users soar from 67m in the fourth quarter of 2012 to



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408m in the same period last year. Its revenues soared too, hitting \$1.9 billion last year compared with \$164m in 2012.

The second trend behind WhatsApp's success is the dramatic decline in the cost of building start-ups. Thanks to things such as cloud computing, which lets young firms buy vast amounts of cheap computing capacity, entrepreneurs can create globe-spanning businesses on shoestring budgets. WhatsApp has just 32 software engineers, which means that each one supports some 14m users. And the volume of messages it is handling is said to be the equivalent of all the SMS messages transmitted by the world's telecoms companies.

Indeed, WhatsApp's success in many ways mirrors that of Facebook itself, which came from nowhere to dominate social networking. Recently, however, Facebook has been losing some of its cool, especially among younger users. That may explain why the famously paranoid Mr Zuckerberg is willing to pay a king's ransom for a company that might ultimately eclipse his own creation. He has spent lavishly before, paying around \$1 billion for Instagram, a photo-sharing app, in 2012.

But does the whopping price tag for WhatsApp make sense? Assuming it keeps adding users at its current rate of 1m a day—and they end up paying for its service—it could generate hundreds of millions of dollars of revenue. Twitter, which reported \$665m of revenue last year, has a market capitalisation of \$30 billion. Much will depend on how well Mr Zuckerberg gets on with Jan Koum, the boss of WhatsApp, who is joining Facebook's board and will run the app as an independent business. Mr Koum, who has a well-known aversion to collecting people's data and plastering advertising over his app, seems an odd bedfellow for Facebook. But the deal was clearly one that he couldn't refuse.