

Instagram

Debora Gilliard
Metropolitan State University of Denver

Sally Baalbaki-Yassine
Metropolitan State University of Denver

David Lynn Hoffman
Metropolitan State University of Denver

This case explores the rise of Instagram from its founder's desire to share photos of his passion to successful funding, launch, and eventual purchase by Facebook and Mark Zuckerberg. Starting from an application, it is now a successful technology company. The case provides students with an example of a successful technological innovation, launch, development of an enterprise, and eventual harvest. While the company is popular among some users, younger generations may grow tired and see it as it as an "older" user's platform as they now view Facebook. Can the company maintain its popularity, continued growth, and withstand governmental, societal, and parental concerns?

Keywords: Instagram, entrepreneurship, technology

INTRODUCTION

Based on his love of bourbon and whiskey, Instagram's founder developed an application that enabled users to check in with each other, share plans, and share photos. After two venture capitalists gave him money to develop his application, he launched Instagram in 2010. It gained 25,000 users on the first day, 100,000 downloads the first week, and one billion users by the end of that year (Blystone, 2020).

Instagram slowly added features, such as website profiles, web widget buttons, designs, colorful icons, stories, and improved its offerings (Blystone, 2020). A second round of funding in February 2011 increased its capacity, reach, and number of employees. To develop revenue, it added advertising capability reaching 200,000 advertisers by February 2012. In April 2012 Facebook purchased Instagram for \$1 billion (EarthWeb, 2022).

Instagram's employee amenities include encouraging a good work life balance, flexible hours, family-oriented policies, retirement plans, resources, and a paid 30-day vacation every five years. In 2019 the brand worked to decrease harassment, negative comments, and the number of photos visible on a page. They have also weathered government and parental scrutiny and criticism. (Instagram.com 2022).

Can Instagram keep up with possible government regulation, technological changes, and changes in customer demands, or will younger generations soon consider Instagram "old" like they do Facebook?

INSTAGRAM FOUNDING AND HISTORY

In 2009, Kevin Systrom developed a prototype web application called Burbn that reflected his taste for whiskeys and bourbons. The application would allow users to check in, post their plans, and share photos (Blystone, 2022). At a party in March 2010, Kevin met two venture capitalists and showed them his application. Within two weeks, he received \$500,000 in funding from the venture capitalists. He used the money to start hiring a team of people. The first person he hired was Mike Krieger who he knew from their time at Stanford University. After re-evaluating Burbn, they decided to focus on photographs taken on mobile devices. In evaluating trends and apps, they thought the Hipstamatic application was good because it contained features, such as filters, which applied to photos, but the app did not allow social media-sharing capabilities. The two went back to their Burbn app and stripped it down to its photo, commenting, and 'liking' functions. This application was named Instagram, which combined the words 'instant' and 'telegram'. After eight weeks, they asked friends to beta test and evaluate the app's performance. Instagram was launched on the IOS platform October 6, 2010 (Blystone, 2022). Mike Krieger posted the first Instagram photo of South Beach Harbor on July 16, 2010 and Kevin Systrom posted his first photo of his dog and girlfriend later in the day (EarthWeb, 2022). The application gained 25,000 users the first day, 100,000 downloads the first week, and by mid-December 2010 had 1 million users (Blystone, 2022). Instagram gained 10 million users in the first year and 1 billion users by June 2019 (EarthWeb, 2022).

Instagram raised \$7 million in Series A funding in February 2011 (Blystone, 2020). Founders Systrom and Kreiger hired more people but kept the company small – only 12 employees. Jack Dorsey (Twitter co-founder) expressed an interest in the company and made an offer of \$500 million in stock. Systrom turned down the offer (Blystone, 2022). In April 2012, the company raised an additional \$50 million from venture capitalists (EarthWeb, 2022). April 2012 was a momentous month because Instagram released an android version of the application and received a purchase offer from Facebook and Mark Zuckerberg for \$1 billion in cash and stock with a key provision that the company would remain independently managed (Blystone, 2022). The deal closed September 6, 2012, after Britain's Office of Fair Trading and the United States' Federal Trade Commission approved the deal (EarthWeb, 2022).

Instagram continued to add features such as website profiles, web widget buttons, black and white flat design theme, more abstract and colorful icons, and the "Instagram Stories" feature (Blystone, 2022, EarthWeb, 2022). The concept of 'liking' was introduced in 2016, but in 2018 the company tested the removal of the public display of 'likes'. In 2019 the company announced it would add new features to reduce harassment and negative comments. Also in 2019, the company removed the 'following' option and reduced the number of photos visible on page scrolling displays. Reels (like TikTok) were added in 2020 and Vertical Stories was added in 2021 (EarthWeb, 2022).

In September of 2018, Kevin Systrom and Mike Kreiger announced they were stepping down from Instagram and that Adam Mosseri would lead the company (EarthWeb, 2022).

Advertising

Because Instagram had yet to generate a profit, it began adding advertising capabilities with image ads in 2013 and video ads in 2014 (Martin, 2022). By February 2016 the company had 200,000 advertisers, 500,000 by September 2016, and 1 million advertisers by March 2017. The company continues to add new tools for its business accounts, including business profiles, analytics, and product links (EarthWeb, 2022). Instagram marketing strategies for brands include (1) organic content such as photos, videos, reels and stories, (2) paid content such as Instagram ads, stories ads, shopping ads, (3) influencer marketing, and (4) shopping tools (Martin, 2022).

With the Ad Manager tool, companies can develop advertising campaigns across Facebook family social media sites. Companies may identify their target audience, upload creative ad work, manage their advertising budget, deliver personalized ads, update, and pause the advertising campaign, identify which ads perform best, and get real-time insights about their advertising (Instagram.com, 2022).

Instagram ads are more attractive and less intrusive because they do not appear while you are watching stories or interrupting your experience. Instagram ads are only shown once you have watched all the stories

which allows consumers to remain engaged. On other platforms such as Facebook and Snapchat, consumers lose interest in content because they are bombarded with ads while browsing. Instagram allows them to engage and spend more time browsing ad free (Kaleem, 2022).

Building Community

Everyone is welcome in the Instagram community and the company continues to work to develop a safe environment (Instagram.com, 2022). To promote anti-bullying, the company takes a number of actions. If content is potentially offensive, a warning comment will be sent. Users can report content that violates community guidelines. Users can filter inappropriate or offensive comments, restrict who sees comments, block someone, and limit unwanted interactions. The company has developed safety tools users may use, prepared a Parent's Guide, and programs to promote a safe community for users to accept themselves as they are and take care of themselves. Instagram provides a list of resources in various countries of organizations that may provide support to individuals (Instagram.com, 2022).

Human Resources

Instagram headquarters is in Menlo Park, California, but the company has offices around the world. The company provides financial support for employees to set up remote workspaces (Instagram, 2022). It provides competitive salaries, health benefits and 401(k) matching. A good work/life balance is encouraged and supported with flexible work hours and vacation days. Family-oriented work policies include benefits such as paid leave for new parents, flexible spending account for dependent care, equity awards, access to Turbo Tax, legal support, retirement plans, employee clubs and resource groups, and a 30-day paid break every five years (Instagram.com 2022).

Key Statistics

In 2020 Instagram generated \$26.8 billion in revenue accounting for 33.8% of Meta's revenue (Iqbal, 2022). In 2021, Instagram generated \$47.6 billion in revenue accounting for 44% of Meta's total revenue. In 2021, over 2 billion people used Instagram once per month which made it the 4th most popular social app in the world (behind Facebook, YouTube, and WhatsApp). It is expected to reach 2.5 billion users in 2023. Half of Instagram's users live in the Asia Pacific region with its biggest market in India which has over 300 million active users. Over 70% of Instagram users are under 35 years of age. After Instagram, the most followed brand on an application is National Geographic; Cristiano Ronaldo was the most followed user in 2021; and fashion accounts were the most responsible for all brand interactions (Iqbal, 2022).

Instagram is the fastest growing global social media platform (Jackson, 2019), especially with the younger generation. Although Facebook has more users, consumer engagement on Instagram far surpasses Facebook. Brands see engagement of 0.09% per Facebook post, versus 1.60% engagement rate per post on Instagram. This is especially relevant for images on Instagram (Jackson, 2019). Instagram's hashtags are also more influential and help brands grow and expand their reach. Instagram has also made it easier for brands and content creators to share their content on multiple platforms through the Instagram app, providing convenience and a way for brands to streamline their activity online. Finally, Instagram is constantly innovating to provide its consumers with the best most up to date experience out there (Kaleem, 2022).

Controversy: The Pros and Cons

Instagram is all about sharing photos, but some pros and cons have been identified (Thapliyal, 2021).

The 'Pros' Include

- Use of filters to add charm and glamour to photos.
- A way to connect with others. Established brands can showcase products and new companies can use Instagram to create an audience.
- It is neat and organized and does not send a flood of information to users.

- Travelers can post pictures and the geotagging features allows addition of the location of the pictures.
- Privacy is taken seriously.
- Effective features.
- Instagram TV (IGTV) allows users to upload videos of any length.
- Easy to switch from a personal profile to a business profile when users want to promote something on Instagram. The ‘contact’ button enables users to use email, view a location, and call.

The ‘Cons’ of Instagram Include

- Users may be bombarded with advertisements or sponsored posts.
- Users may create a fake life to gain celebrity and have posts go viral. Teenagers are especially susceptible to the need for validation.
- The web version of Instagram lacks many features.
- It is addictive and users may spend many hours uploading photos and viewing photos.
- There are some technical drawbacks: Instagram is optimized for app use, privacy settings are global and cannot be set for individual photos, and tech support is not great.

META PLATFORMS, INC.

After being purchased by Facebook in 2012, Instagram has become part of the Meta Family that includes (Meta 10-K, 2021):

- Facebook – Users build a community, share life’s milestones, and connect to interests.
- Instagram – Users share through photos, videos, and private messaging.
- Messenger – Connect with friends, family, groups, and businesses via chat, audio, video calls, and Rooms.
- WhatsApp – A secure messaging app used by businesses and individuals to connect in a private app.
- Reality Labs – Augmented and virtual reality products help people feel connected with VR hardware, software, and content.

Business Operations

Product development focuses on continuous innovation. The company invests in new technologies like artificial intelligence to enhance product offerings while maintaining security, privacy, and integrity. Most marketers use the self-service platform to launch advertising campaigns. The company has a global sales force that focuses on attaining and retaining advertisers and supporting advertisers with real-time optimizations and post-campaign analytics. Meta Platforms grow users organically when people invite friends to connect with them (Meta 10-K, 2021).

Government Regulations

Meta Platforms is subject to multiple US, State, and international laws and regulations regarding privacy, data use and protection, biometrics, encryption, advertising, intellectual property, etc. Examples of regulations and laws include (Meta 10-K, 2021):

- How content is displayed and user consent
- How data is transferred, processed, and shared between and among countries
- Privacy Shield (used to transfer data from the EU to the US) was invalidated in July 2020 by the EU Court of Justice; the Irish Data Protection commission concluded Meta Platforms Ireland’s reliance on SCCs related to European user data does not achieve compliance with the General Data Protection Regulation (final decision expected in 2022).
- California Privacy Rights Act (effective January 2023) establishes transparency rules and creates new data privacy rights for users.

- The proposed EU Digital Markets Act and other countries' proposed or enacted legislation related to data protection requirements.

CONCLUSION

Now that Instagram has grown from a dream, to an application, to include successful VC funding, launching, having incredible growth, and being purchased by Facebook (now Meta), what should it do now? While successful, the future is uncertain and technology changes quickly as do consumers. Governments, society, and parents are concerned about its reach, potential for abuse and misuse, and potential harm even with its potential for good.

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The Teaching Note – Instagram

Overview of the Case

This case examines the founding of Instagram from its inception to purchase by Meta. This journey explores the founder's initial concept, initial VC funding, growth, and eventual purchase by Meta.

Suggestions for Using the Case

Several classes could use the story of a successful start up to a well-run company built on good values and employee welfare to one of the most popular social media applications. The case could be used in entrepreneurship, human resources, marketing, digital marketing, social media marketing, or management courses.

Learning Objectives

1. Analyze company actions by applying brand management principles.
2. Analyze the macro-environmental forces using a SWOT analysis.
3. Analyze the competitive environment using Porter's Five Forces Analysis.
4. Evaluate the leadership and actions taken.
5. Recommend future actions that senior management could take to continue Instagram's growth.

Suggested Assignment Questions

1. Prepare an analysis of environmental macro-environmental factors and explain how they impact the industry and company.
2. Prepare a Porter's Five Forces analysis of the industry.
3. What actions should the company take with respect to the EU and US's privacy concerns?
4. What marketing or strategy should they pursue to maintain their brand recognition in the future?
5. What recommendations would you make to senior management for the future direction of the company to maintain or grow the company?

Answers to Question 1. Prepare an Analysis of Macro-Environmental Factors and Discuss How They Impact the Industry Using a SWOT Analysis

Strengths. The major strengths are the industry's growth life stage, low customer class concentration, and high profits per sector (Thomas, 2021) and its established customer base. First the company benefits from being in the growth stages of the life cycle. This allows it to grow, experiment, and expand. There is still some available penetration in the target market- the younger generations. There are high profit margins in this sector (Thomas, 2021).

A big strength is the company's established customer base, reputation, and revenue from advertising. The customer base is large with over 2.5 billion users in 2021 (Thomas, 2021). A large percentage of its users are in Asia. Many of its customers are younger, under 35 years of age and can be expected to continue using the platform. Many of them use it several times a month.

Users find the platform organized, a convenient way to connect with others, allows lengthy videos, and can showcase products for new companies. These strengths make the company more resistant to economic downturns or covid 19 shutdowns forcing people to stay at home.

Advertising revenue was \$47.6 billion in 2021 and growing \$42.6 billion in 2020 (Thomas, 2021). Advertisers view the huge and committed customer base as an excellent place to advertise. The company's commitment to technology allows it to add new features and uses.

Weaknesses. With this type of success comes several weaknesses including a high level of competition, high capital requirements to enter, limited technical support (Thomas, 2021), user fatigue with all the advertising, inappropriate use of the platform, privacy concerns, addictive users, and weak technology support. The high level of competition and high capital requirements are a weakness for new entrants but a strength for Instagram. The limited technical support can easily frustrate users – but Instagram is not alone in this weakness.

Users are bombarded with advertising and posts from sponsors. Some users spend so much time on the site that they become addicted to spending hours viewing and sharing photos. Some fake users use the site to attract attention or bully others. Instagram lacks some features other platforms are developing.

Opportunities. Opportunities include the capacity for future growth, growth in advertising, additional technological improvements including better technology support, more transparency with respect to data sharing with other companies, and privacy settings. First, there is still some growth possible in the target demographics which will also allow more additional advertising revenue. The company has the resources and time to build more technological improvements and tech support. The public will become increasingly concerned about privacy data sharing and will want transparency from the big tech giants. Another opportunity is to continue capitalizing on new users and uses of mobile devices.

Threats. The biggest threats come from government regulation, the possibility of stagnation of the percentage of business conducted online. First governments around the world especially the EU and California, will probably increase regulation and scrutiny. While not probable, a leveling of the percentage of business conducted online would affect the company. Finally, Thomas (2021) expects new entrants to increase competition.

Other threats are a tendency of established companies to make marginal improvements to their offerings allowing competitors to use technological improvements that will erode Instagram's customer base. Finally, a recession bringing a drop in disposable income would affect consumer spending on products advertised on Instagram.

Answers to Question 2. Prepare a Porter's Five Forces Analysis of the Industry

Rivalry Between Competitors. Right now, competition between competitors is high. The expectation that new entrants will come into the industry (Thomas, 2021) will create increased competition. Competitors will consistently seek ways to imitate or replace the other tech companies' offerings and erode their customer base. Each will look to capitalize on their competitors' mistakes.

Competition from Substitutes. Currently there are no substitutes for these social media platforms since the industry is still new and in the growth stage. For example, there are few substitutes for moving large video files around, but technology will make this easier in the future.

Power of Suppliers. Suppliers in the usual use of this concept such as supplies of paper and pencils have limited power in this industry since improvements are made digitally.

Power of Customers. Customers as always are the key to this company's success. They have the power to decrease their use. Since the industry is dependent on disposable income this could occur in a recession. Customers have little negotiating power over what a platform offers other than moving to a different platform. This is a distinct possibility because as new platforms come online younger generations desert it for the latest and greatest. Some younger consumers see Facebook customers as older than themselves. However, given current technology, their options to move are limited if they have specific needs they can only find on Instagram.

Barriers to Entry. The barriers to entry are substantial given Instagram's established customer and advertising base. It would take considerable capital, an alternative platform development to come into this market and pull customers from Instagram.

Answers To Question 3. What Actions Can the Company Take with Respect to the EU and US's Privacy Concerns?

This is a big strategic requirement for the company. The EU's strict General Data Protection regulation will be vigorously enforced in the future. The EU has been at the forefront of privacy concerns. If Instagram does not recognize the issue and continue to be proactive and install privacy measures one or more of the government entities will step in with fines and or more regulation. California's new 2021 law and the approve Proposition 24 are other examples of the requirement for transparency and data privacy (California Attorney General office, 2023).

The company needs to address parental issues and addiction issues. They need to be mindful of what happened to liquor, gambling, and other addictions and emphasize moderate and appropriate use in its advertising.

The company needs to continue monitoring and eliminating bullying behavior.

Answers to Questions 4. What Marketing or Strategy Should They Pursue to Maintain Their Brand Recognition in the Future?

Instagram found a niche market within which to gain a competitive advantage by focusing on visual content, which is the most engaging content for today's consumers. It continues to innovate and is considered not only the biggest social media platform in the world, but also the best social media app to use (Kaleem, 2022).

Instagram is easy to use, allowing consumers to easily get their profile up and running, and be able to browse through the newsfeed with ease. Instagram has focused on providing consumers with a wide variety of quality filters that allow them to enhance their images. Their competitive advantage is the ability to use filters on both stories and posts, and even edit your images before posting. Instagram has also made it easier for brands and content creators to share their content on multiple platforms through the Instagram app, providing convenience and a way for brands to streamline their activity online. As long as Instagram continues to innovate and provide its consumers with the most up to date experience, they will continue to have success.

Students can provide examples of brands that have found success marketing through Instagram.

Answers to Questions 5. What Recommendations Would You Make to Senior Management for the Future Direction of the Company to Maintain and or Grow the Company?

Given the above answers to the SWOT analysis, the company is very successful and entrenched. However, senior management should take note of the threats facing this industry especially customer and global governments' privacy concerns. All levels of governments are concerned that growing markets give the technology giants increased power over its consumers.

Another strategic initiative would be to continually innovate which they are doing. However, making the platform even easier to navigate and providing better tech support would be a plus.