

Twitter: Stock price decline, layout change, and user ceilings
By: Hannah Marsh
April 28, 2014

With Twitter first going public on November 7, 2013 at \$45 a share, and a steady increase to its peak at \$74 on December 26, many thought that was just the beginning for the company and hoped for an even brighter future in 2014. Fast forward to April 11 and the stock price was at a mere \$40. So what is the future of Twitter look like, and how is its usability and user ceiling affecting its growth?

Twitter recently updated its online platform to mimic Facebook, with a cover photo and push toward a more user-friendly site. With Twitter originally starting as a mobile app, it hasn't had as much traffic through the web as it would have liked. Though mobile versus web is not its only problem.

A gap between die-hard twitter users (those who have been using it for many years) and users who have inactive accounts continues to grow. In an article written March 30, Alexis C. Madrigal from The Atlantic.com noted, "More than 30 percent of accounts are inactive. The number of inactive and suspended accounts has been growing rapidly over the last several years." (<http://www.theatlantic.com/technology/archive/2014/03/how-twitter-has-changed-over-the-years-in-12-charts/359869/>) Many of those people don't see the need for it, or don't know how to use it. There is confusion on how to use the app, like what is the @ symbol and what exactly is a hash tag? Sending more notifications that some of your followers are now following someone else or increased emails from the site might be annoying, but sadly that is not its biggest problem. The question of how they're going to find a way to attract new users is the bigger issue at hand. Forbes journalist Eric

Jackson said on March 29, "...Twitter doesn't have a product problem or an ad problem... reality might be there is a ceiling to the number of users who use it.

(<http://www.forbes.com/sites/ericjackson/2014/03/29/twitter-is-killing-itself-in-order-to-grow-and-please-wall-street/>).

Since 2012, Twitter has more than tripled the money spent on operating costs and most of that is attributed to "research development" (yahoofinance.com), yet they continue to struggle when compared to Facebook, and the only answers they've come up with is to copy the layout of their competitor. When looking at last quarter reports, they added 9 million users, but only 1 million of those were in the United States, which drove their stock down more than 20 % over night. During the earnings call with CEO Dick Costolo, he was asked, "...Can you give us a sense as to how many people come on the platform, tried Twitter and then leave?" He responded, "We're not going to speak of any specific numbers of new user retention or so forth." With no discussion about new users, one can only guess the numbers are in decline and Twitter is worried, or should be.

As a Twitter user since 2010, I understand the need for it; I would consider myself a "die-hard" user. Every day, multiple times a day I scroll through my Twitter feed to read the news, breaking and other important updates from the various sites I follow. The big factor, though, is I rarely "tweet" or "retweet," which is another statistic Twitter sees in decline. Rarely do I use it to catch up with friends or to see what my relatives across the country have been doing, which is exactly what Facebook and now Instagram offers.

Looking at the new generation of mobile users of social sites, their number one concern isn't breaking news; it's what their friends are eating for lunch. The new generation loves visual aspects of social media apps, with photos, music and videos. Twitter being a

micro-blogging site, it is very text heavy. Also, the older generation of users who are interested in news via Twitter are rare, since most of those interested in news aren't reading it through Twitter and find it confusing to use.

In my opinion Twitter is still number one for real-time events, such as reactions to a presidential debate, or a new episode of a popular show, and more importantly extreme events like the recent tornados or local breaking news. The only issue with quick reactions is they are gone within hours and forgotten until another event gets users on the platform. In a new article on wallstcheasheet.com, journalist Jess Scanlon talks about the difference between discussions on Twitter and other sites. Twitter discussions only last for a short time, a "reaction," she calls it, while other sites like Tumblr or Facebook create a conversation that keeps users on the platform for a longer amount of time.

A recent article by Tim Beyers of The Motley Fool, says that Twitter will be testing 15 new formats this summer, adding messaging to the app Vine, and purchasing Gnip, which will help them immediately access tools for analyzing data to help sell higher-margin ads. (<http://www.fool.com/investing/general/2014/04/22/twitter-inc-needs-to-stop-trying-to-be-facebook.aspx>) Though this seems like a solid purchase, it still only helps them in data feed expertise, not the largely obvious problem of new users. Looking at Twitter's moves compared to Facebook's of buying larger apps like Instagram and WhatsApp for \$19 billion, there still have no way of knowing which one will pay off in the long term.

With declining numbers not only in stock price, but in new users, Twitter needs to face the fact that maybe it's time to buy the smaller messaging/social apps that are a threat. In Twitter's 10-k filing they stated, " We compete against many companies to attract and

engage users, some of which have great financial resources and substantially larger users bases, such as Facebook, Google, LinkedIn, Yahoo! and Microsoft.” You would think with such competition, Twitter would consider using whatever resources they do have, and purchase social media apps. Looking at Facebook’s purchase of Instagram, there are obvious benefits. Instagram will surpass Twitter by the end of this year and makes up \$30 billion of Facebook’s total \$115 billion market cap according to Forbes writer Eric Jackson. Facebook hooked the new generation of users in one swoop, without really having to change their first platform at all. Becoming Facebook is not the answer, but following them in purchasing messaging apps like Kik is. By purchasing these social apps, Twitter might shrink their share value, but it could help them stay afloat in the long run. Twitter wants to be a different app with its own niche without buying smaller apps to save themselves, but yet continue to copy ideas from Facebook.

Just in the past couple of days Twitter has seen a massive decline in stock price, the lowest since it went public. Though it had 255 million monthly users at March's end, up 25 percent from a year ago, the declining stock price is still causing a the bigger dilemma in the amount of users. Thus proving analyst like Eric Jackson was indeed correct.

Internet analyst Ken Sena at Evercore Institutional Equities told clients “This quarter represents at least Twitter’s 4th in a row of stepped user growth deceleration, suggesting to us that some users are beginning to find alternatives elsewhere.” The Q1 financial reports from Twitter were impressive, but with the percent of monthly active users declining since last year (down 8%), they could not put an end to the recent share pressure or prove that the company is not losing steam. Wells Fargo Peter Stabler said in a recent comment, “In short, we believe millions of consumers have sampled Twitter

only to find a complex product with marginal relevance and value—a view we realize stands in sharp contrast to the fanatical loyalty the company enjoys among its core users.” (<http://blogs.wsj.com/moneybeat/2014/04/30/analysts-react-to-twitter-earnings-challenges-around-user-metrics-are-not-yet-resolved/>) Though some analysts remain optimistic, the majority sees a very dark future for Twitter but offer no answers for the declining user numbers.

With one of the largest Internet IPO’s on record in November 2013, Twitter and it’s future is both captivating for stockholders and analyst. It still remains a very well known platform and is obviously not going anywhere anytime soon, but we do have to raise some questions. What will the company do to gain more users? Is this the beginning of the end for Twitter with the recent plummet in stock price, and how it is going to monetize its growth outside North America? One thing is certain for Twitter; time is a very precious commodity.