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Snap Shares Sink in Social Media–Driven Storm

By Lindsay Frost April 9, 2018

Social media company **Snap**, the maker of the popular photo and video app Snapchat, has seen its shares fall 24% since Feb. 20 due to a tornado of user anguish around updates to the app's platform, an advertisement gone wrong and a workforce reduction announced in March.

Sources say boards of all companies need to take heed of how quickly high-profile backlash can ignite fear in their investors, and ensure that management is working to mitigate the risks that come with disruptive communication such as hashtag protests that can drain customer bases. Reputational risk management is a key oversight function for boards in the age of social media–driven firestorms, says **Nir Kossovsky**, CEO and director of **Steel City Re**, a reputation risk insurance firm.

"These social media–driven reputational tornadoes descend almost instantly," Kossovsky says. "It's the board's job to ensure that management has built its tornado shelter already and it's been tested and validated so that its stakeholders know what protections are in place to protect the assets of the firm and the stock price."

Snap's Downturn

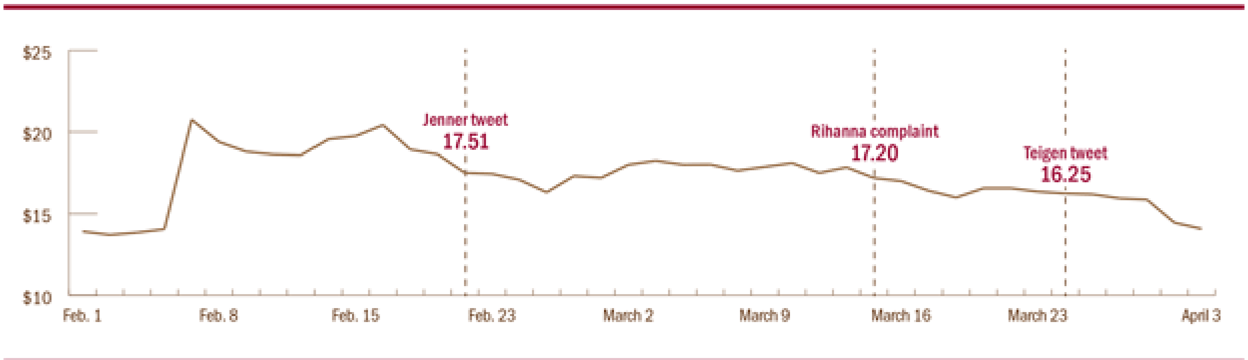
"Sooo does anyone else not open Snapchat anymore? Or is it just me … ugh this is so sad." These 18 words from social media queen **Kylie Jenner** caused Snap's stock to drop 6% in one day. Jenner's tweet about her disappointment with the redesign came only weeks after Snap stock soared on positive quarterly guidance. After Jenner's portentous comments, a series of missteps by the company and celebrity- and user-based issues continued to pummel the stock amid a larger downturn in tech industry share prices.

For example, singer **Rihanna** publicly complained about Snapchat on March 15 due to an advertisement on the app making light of her 2009 assault by singer **Chris Brown**, while model **Chrissy Teigen** claimed she was dropping Snapchat on March 24 due to the same ad and the Jenner-disapproved product redesign. Users have protested on social media and threatened to leave the app in droves, and brands have also questioned whether they should continue spending marketing dollars on Snapchat.

For example, cosmetics company **Maybelline** polled its customers on Feb. 22 in a since-deleted tweet on whether it should continue its presence on Snapchat or not due to the recent backlash.

Snap Stock Slides

Stock price ($/share)



Source: Yahoo Finance

The stock price has continued to slide since these incidents, and Snap has lost $1 billion in market value since mid-February. It recently announced it was slashing its workforce by 7%, primarily in engineering and sales.

“The power of celebrities continues to morph in the age of millennials and Z-generations,” writes **Shelley Smith**, owner of **Premier Rapport**, an executive leadership and culture consulting firm, in an e-mail. Boards should be aware of who their company’s social media followers are and what their company’s social media presence is like, Smith says. “Getting ahead of the ‘what ifs’ that can happen is a daily conversation that needs to be held within organizations’ [public relations] departments and executives [to create] a strong culture of positive response.”

In addition to the celebrity-related incidents, young people seem to be moving away from the app in general.

According to CNBC, boutique analyst **MoffetNathanson** last week said it surveyed three distinct cohorts of middle school, high school and young college students in Snap’s core user group about the redesign, and cited “uniform disapproval.”

In fact, according to the firm, the smartphone battery usage percentage for Snapchat declined 6 percentage points, to 31% of all apps for middle school students, versus a year ago.

Snap did not respond to a request for interviews for this story. However, in response to a petition on Change.org with respect to product redesign, the company released a statement saying it appreciates the feedback, but defended the change, which reorganized the app’s features.

“We hear you, and appreciate that you took the time to let us know how you feel. We completely understand the new Snapchat has felt uncomfortable for many,” Snap wrote in the statement. “This new foundation is just the beginning, and we will always listen closely to find new ways to make the service better for everyone. We are grateful for your enthusiasm and creativity. We are very excited for what’s ahead.”

“Like with a lot of these incidents, what’s important is how the company reacts,” says **Doug Chia**, executive director of the governance center for **The Conference Board**. “And the company did respond — so it became about crisis management, how quickly they responded and what the response looks like.”

Social Media and Communications

While Snap is unusual in many ways — for example, its user base, its business model and its relative newness to the public markets — social media has heavily influenced the way stakeholders and customers communicate broadly across business sectors, Smith says.

For example, several other companies including **Amazon**, **Boeing** and **General Motors** have suffered stock dips after President **Donald Trump** tweeted negative comments about the companies, as *Agenda* has reported.

Companies no longer have the luxury of taking the time to craft an appropriate message to calm investors and other stakeholders if a crisis ensues, Kossovsky says, so messaging strategies need to be prepared well in advance and the board needs to see them.

Eden Bowe, president of **Gillott Communications**, writes in an e-mail that boards "must keep their fingers on the pulse of the organization." During a crisis, there's no time for combing through months or years' worth of information as they need to quickly reassure investors and other stakeholders, she says.

Kossovsky says if it's come to a point where the board needs to get involved in communications, things must be "going very badly." In most situations, it's management's job to get their message to customers and vendors and convey this messaging to the board, he says. Wall Street traders are quick to sell on a rumor in the absence of solid evidence, Kossovsky continues, so the board needs to make sure a credible, simple and straightforward story is already in place to tell credit analysts and bond raters.

Chia says the board should be asking management about social media communication and crisis management and be given an explanation of how the company would react to a backlash. If the company has made an offensive faux pas — such as Snap's "slap Rihanna" ad — Chia says, the board needs to look at the controls and procedures in place to make sure it won't happen again.

Also, companies need to ensure that risk factors are properly disclosed in 10-Ks, Kossovsky says. For example, Snap's most recent 10-K emphasizes the risks stemming from potential user upset over changes to its products, especially considering its young user base.

"This demographic may be less brand loyal and more likely to follow trends than other demographics. These factors may lead users to switch to another product, which would negatively affect our user retention, growth, and engagement," the 10-K states.

"[Boards need to say,] we are in a state of control, we anticipated this crisis, we were not surprised by it, we have the systems in place and it's our duty as a board to protect the assets of this firm," Kossovsky says. "First and foremost, the risk management is in place, so we anticipated the potential [consequences] and made preparations so that you, the stakeholder, know we will weather the storm."

Risk Management and the Board

The Snap situation is certainly one that other companies can learn from, sources say. Any consumer-facing company is subject to the risk of public criticism of its product, Chia says, and many companies depend on both usability and popularity.

Kossovsky says because of the speed of reputation "tornadoes" driven by social media such as hashtag movements like #MeToo and #DeleteFacebook, risk management is more important than ever. He suggests that boards implement reputation committees to examine this risk.

Additionally, he says, the board should be meeting with chief risk officers and establish enterprise risk committees. The audit committee should communicate with internal audit about potential reputation risk also.

"It's too big of an issue to simply think about it as negative media," Kossovsky says. "It's a phenomenon affecting all companies and every stakeholder. Everyone — communications, human resources, marketing — needs to have a voice in enterprise risk management."