

Industry & Business Unit Analysis with Recommendations for the Sustained Profitability of X

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Capstone Part A

Introduction

Social media is now the primary space for public discourse in our digital world, with over 5 billion users as of 2024 (*Social Network Usage, 2023*) and ad spending reaching an estimated 234 billion USD, up from 98 billion in 2019 (*Global Social Media, 2024*). This creates intense competition for user engagement.

We define this industry as the market where brands and advertisers buy and place ads on social media to reach users. Unlike broader digital marketing, social media advertising relies on user-generated content and community interaction. It is a billion-dollar industry centered on maximizing consumer reach, directly impacting platforms like TikTok, Meta, and X, which compete to be the most ad-friendly. With minimal subscription options, many platforms rely almost entirely on ad revenue, where success hinges on advertiser appeal, moderation, and safety. Content moderation decisions directly impact competitiveness and profitability, making digital advertising through social media, specifically pertaining to X, our focus.

Industry Analysis

Competitive Landscape

The social media digital ad space is vast, with many major platforms like Reddit, Threads, Facebook, TikTok, Bluesky, and Instagram, occupying distinct niches. Platforms specializing in short-form content, such as Threads and Bluesky, emerged as direct competitors to X amid concerns over misinformation, while nearly all platforms have converged on short-form text or video feeds curated by algorithms to boost user engagement. The market has become saturated with intense competition for user attention and ad revenue. Out of 330 million

internet users in the United States, 240 million people use social media, and most of them access their social media accounts on their mobile devices. By Q3 2023, 96% of U.S. internet users accessed social media via mobile (*Mobile Social Media*). Additionally, data regulations, like the EU's Digital Service Act (*The EU's Digital Service Act, 2022*), are growing and reshaping the industry as privacy and misused personal data concerns from social media platforms mount up.

Market Trends and Industry Lifecycle

Short-form, quick, and engaging video pioneered by Vine in 2013 and later perfected by TikTok through AI-driven content curation reshaped social media for mobile users, forcing the hand of other platforms like Instagram, X, and Facebook to adopt such mechanisms. This shift redefined advertising, as short-form content delivered higher engagement and ad impressions. AI has intensified these trends, shaping content consumption and creation with major platforms utilizing this AI-tech for improved user content personalization to further increase engagement. As a result, this AI-tech enables the mass production of highly consumable short-form videos, leading to an oversaturation of content that further drives user retention and advertising effectiveness. Such trends reflect broader industry life cycle developments, with AI-driven innovations disrupting the maturation phase where digital social media advertising resides. This enables a potential recession from the mature phase into shakeout or fragmentation as platforms increasingly utilize AI technology as platforms like Reddit report ad revenue increases since undergoing an AI tool overhaul.

AI's rapid evolution makes the industry's future uncertain, redefining its maturation phase. Instead of stagnation, platforms are undergoing an architectural transformation, integrating AI-driven personalization and automation to optimize ad targeting and engagement. This suggests that while the industry remains mature regarding platform dominance, its

operational model is evolving, requiring continuous innovation and adaptation from advertisers and platforms alike to maintain competitiveness.

Porter's 5 Forces

Supplier Power – Moderate: Content creators drive engagement, but their bargaining power is limited by the vast number of emerging influencers. In contrast, major cloud providers like AWS and Google Cloud hold stronger leverage due to high switching costs and limited alternatives. Platforms must carefully manage these relationships to control infrastructure expenses.

Buyer Power – Moderate to High: Advertisers influence budget allocation, benefiting from platform competition. However, buyer power is tempered by social media's unmatched ad targeting, engagement, and ROI. In 2023, digital ads accounted for 67% of total ad spending, with Meta and Google capturing 60% of the market (*Digital Ad Revenue, 2024*). Despite moderation concerns, advertisers rely on precise targeting, while platforms invest in AI-driven ad placement to stay competitive. Price competition forces platforms to offer incentives, discounts, and performance metrics to retain ad spend.

Competitive Rivalry – High: The \$600 billion digital ad market is saturated, with fierce competition among Meta, TikTok, and X for ad revenue. Advertisers can easily shift budgets, driving heavy investment in AI targeting and content moderation. X notes, "X Ads serve using an auction, where advertisers bid against each other to have their ads shown to the audience they're targeting" (*Bidding and Auctions, 2025*). However, declining demand has hit X particularly hard, with ad space revenue down 28% in 2024 (*O'Reilly, 2025*), underscoring profitability challenges in a highly competitive environment.

Threat of Substitutes – Low to Moderate: While TV, print, and programmatic ads exist, none match social media's engagement and real-time measurability. Some brands have shifted budgets over moderation concerns, but social media remains dominant due to precise targeting and interactive formats, keeping substitution threats low.

Threat of New Entrants – Low: High infrastructure costs, network effects, and advertiser loyalty create significant entry barriers. Established platforms leverage vast user data and AI-driven targeting, making it nearly impossible for new entrants to compete at scale.

Conclusion

Despite its maturity, social media advertising continues to evolve through AI-driven targeting, personalization, and optimization. Short-form video offers high engagement and brand safety, attracting major advertisers. While competition and regulations persist, network effects and global reach sustain profitability and deter new entrants. Success will depend on adapting to user demands, balancing innovation with moderation, and ensuring responsible data practices.

Capstone Part B

Unit Positioning Within Industry & Success/Failure

X, formerly known as Twitter, distinguished itself from platforms like Facebook and Instagram by focusing on real-time news and discussions surrounding trending topics. Its ad-based business model prioritized brand safety by implementing content moderation policies and filters to maintain a suitable environment for advertisers. Twitter's policy implementation was often criticized for censorship and a left-leaning bias (*The Cover Up*, 2025). These moderation policies were a key factor in Elon Musk's acquisition and repositioning of X. As X

seeks to attract advertisers while upholding unrestricted speech, it exemplifies a major strategic misstep highlighted in Porter's *What Is Strategy?*. Specifically, a company that builds its reputation on delivering a single type of value risks confusing customers and damaging its credibility when trying to offer two conflicting values simultaneously (*Pg. 9*). While this shift appeals to users frustrated with censorship on Meta, Bluesky, and TikTok (*Oladipo, 2025*), it has weakened advertiser trust, increased regulatory scrutiny, and threatened financial stability. Competing in a market driven by short-form content, personalization, and engagement, X aimed to differentiate itself with real-time, unfiltered discourse—aligning with Porter's definition of strategy that states, "Strategy is the creation of a unique and valuable position, involving a different set of activities" (*Porter, Pg. 2*). However, its failure to effectively balance free speech with advertiser confidence has eroded its competitive standing.

The lack of anticipation of the advertiser backlash due to X's regulatory shift was a key failure in X's competitive positioning among advertiser relations. As outlined in *Creating Competitive Advantage*, "When considering changes in activities, it is crucial to consider competitor reactions" (*Pg 18*). The swift reaction of ad reduction or suspension on X forced the company into a reactive rather than a strategic position. Furthermore, we can improve our understanding of X's mistake by utilizing the perspective of game theory (*Pg. 17*) as it relates to strategic interactions among competing platforms like Meta and TikTok. After the advertiser exodus to attract X's fleeing advertisers with displaced ad budgets, rival platforms responded by reinforcing their moderation policies and strengthening AI-driven ad placement tools (*Jackson, 2025*). Outlined in Porter's *Competitor Analysis*, X's initial decision reflects a sequential strategic interaction (*Pg. 6*) by shifting market dynamics, presenting an opportunity for competition to capitalize on advertisers searching for brand-safe environments. While X

struggled to sustain a competitive advantage, its failure to recognize advertiser alternatives inadvertently accelerated its loss in ad revenue and market share, allowing key brands to strengthen their relationships with competitors.

Analysis of the Business Unit's Competitive Position Sustainability

From a value chain analysis (*Pg. 14*) of X's operations, five key competitive advantages were identified that define its position in the social media advertising industry. These advantages stem from X's role as a platform for real-time engagement, its technological infrastructure, and its evolving advertising framework. The analysis considered X's ability to drive high-impact discussions, personalize content with AI, facilitate digital advertising, integrate media and news, and maintain scalable infrastructure for large-scale engagement. Despite industry challenges, these factors highlight X's ongoing relevance in public discourse and digital advertising.

A VRIO analysis (*Pg. 14*) of these competitive advantages reveals varying degrees of sustainability. Unmatched engagement in high-impact conversations is valuable, as X remains the top platform for breaking news and real-time discussions. It is rare because competitors like Meta and TikTok rely on algorithm-driven feeds rather than organic discourse. While Threads and Bluesky attempt to replicate this, X's established network effects and historical significance make it difficult to imitate. Strong organization reinforces this, positioning X as the dominant hub for live conversations (*Mac, 2023*). Scalability and infrastructure for high-volume engagement also check all four VRIO criteria. Its backend systems ensure global discussions with minimal downtime, making it valuable and rare. Imitability is low due to the high costs and expertise required to replicate X's infrastructure, and the company has consistently optimized its operations to maintain efficiency (*Caspi 2025*).

The other competitive advantages have limitations. Adaptive AI-driven content personalization is valuable for engagement and ad performance, but rarity is moderate since most platforms use AI-driven recommendations. It is easily imitable as Meta and TikTok continuously refine their AI models. X's organization is weaker in this area due to underinvestment in AI-driven moderation and ad placement tools (Murgia 2023). Agile digital advertising framework provides value through real-time bidding but lacks rarity, as most competitors use similar auction-based models. Imitability is high, and X's organization is weak, as declining advertiser trust has led to shifting ad budgets (*Milmo, 2023*). Strong media and news integration is valuable, as X remains a primary platform for real-time journalism. However, its rarity is moderate, and its imitability is high as platforms like Threads and Substack Notes attract journalists. Strong organization supports this advantage through X's long-standing media relationships (*Feiger, 2024*).

X's unmatched engagement in high-impact conversations and scalability and infrastructure for high-volume engagement are its two sustainable competitive advantages, solidifying its position as a leading platform for real-time discourse and large-scale interactions. These strengths make X indispensable for journalists, policymakers, and public figures, ensuring its relevance in global discussions. Additionally, its infrastructure enables seamless, high-volume conversations, providing a technical advantage that few competitors can replicate. However, these advantages alone do not secure long-term financial stability. Challenges in content moderation, advertiser trust, and brand safety undermine revenue potential and market confidence. Without addressing these issues, X risks further advertiser withdrawals, increased regulatory scrutiny, and declining competitiveness in the digital ad market. While its ability to facilitate large-scale engagement is unmatched, failing to align operations with industry

expectations could accelerate financial instability. The next section examines these pressing challenges and their implications for X's long-term viability.

Identified Issues and Situation Defense

X's lack of alignment with industry trends favoring platform stability, stronger ad safety controls and verification tools, has led to a significant decline in advertising revenue while driving brands toward competitors like Meta and TikTok (*Financial Times*, 2024). Advertisers are particularly cautious about AI-driven programmatic ads appearing alongside harmful content without direct control. Since Elon Musk's acquisition, relaxed moderation policies have led to increased extremist content—X has notably failed to address 99% of flagged hate speech (*Milmo*, 2023) —contributing to over half of its top 100 advertisers reducing or halting ad spending entirely (*Mac*, 2023). Consequently, global ad revenue dropped 46% between 2022 and 2023 (*X's Ad Revenue*, 2024) ,with further declines expected as advertisers shift budgets to platforms unburdened by Musk's inconsistent policy, controversial public image, and stronger moderation.

Unlike platforms like Meta that have implemented AI-driven brand safety mechanisms, X's failure to adopt comparable safeguards has contributed to only 4% of marketers viewing it as a "brand-safe" environment (*Thomas*, 2024). These internal and industry-wide challenges that undermine advertiser trust encourage brands to reallocate budgets toward more safe, stable, and secure platforms.

Recommendations & Defense

While some advertisers hold direct issues with X's new policies, many others express dissatisfaction with Musk personally with his inconsistent policymaking and enforcement style—underscoring the importance of clear business-plan follow-through as emphasized by Bob

Iger, who stated, “I like being direct, and I like people knowing what I’m thinking about where the company is going” (*Collis, Pg. 13*). To increase profitability while granting advertisers with greater peace-of-mind, our team proposes an immediate separation between Musk and X’s executive ruling. By transferring such duty to more qualified individuals such as Advertising Sales managers, this solution can directly address notable advertiser concerns by separating Musk from policymaking, addressing issues advertisers have expressly addressed in the past. (*The Musk Effect, 2024*).

Furthermore, to combat statistics like 26% of marketers globally planning to decrease their X ad spending in 2025 (*Ziady, 2024*), our team also recommends incorporating a tiered system into X that enables advertisers with varying levels of transparency and control. This three to five-tiered system would offer various levels of environmental moderation and customization control, with higher, “premium” tiers offering full customization for ad placement and lower tiers offering minimal ad restriction and customization. With buyer bargaining power highlighted in Porter’s Five Forces in consideration, adopting a tiered system would present a solution for varying advertiser risk tolerance, similar to Walmart’s market-specific approach (Bradley). Related and worth mentioning, consumer ad preference for X has risen since 2022 as ad volume has dropped (*More Marketers, 2024*). With these findings considered, implementing this system could balance user experience while rebuilding advertiser confidence, addressing X’s competitive weakness, and providing an edge to X in the saturated social media ad market.

Unlike platforms like Instagram, even before Elon’s acquisition, off-putting gruesome or pornographic content was prevalent on X (*Popov, 2018*). As a final recommendation to improve content moderation and offer a greater ad-friendly space, X should increase investment in xAI to develop features such as “Parallel Universe Mode”. Before ad assignment, this feature would

detect and moderate blatantly explicit content while maintaining balance by installing a buffer for public feedback on controversial posts deemed ‘potentially harmful’. Combined with our other recommendations, this feature could provide greater advertiser assurance on par with competing platforms.

Simply put, advertisers prefer platforms that facilitate healthy discussions rather than those inundated with bots and inappropriate content, which we see backed by revenue numbers (*Instagram Ad Revenue, 2024*). Although X’s minimal moderation differentiates it from competitors, its significant loss of profit highlights the necessity of balancing ideological values with sustainable revenue. Initially, X built its reputation as a real-time platform for breaking news and dynamic public discourse within a brand-safe, ad-driven model, however, Musk’s pivot toward prioritizing free speech over profitability has eroded advertiser trust and financial stability. Moving forward, the integration of strategic measures—such as advertiser-focused moderation independent of Musk’s direct influence, a tiered advertising system, and AI-driven content moderation—will be crucial to restoring advertiser confidence, securing long-term profitability, and repositioning X as a leading social media platform ready to leverage technology effectively.

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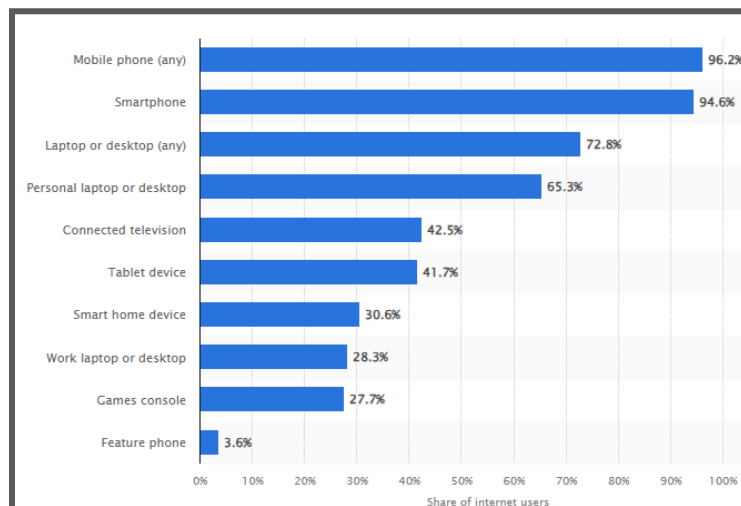
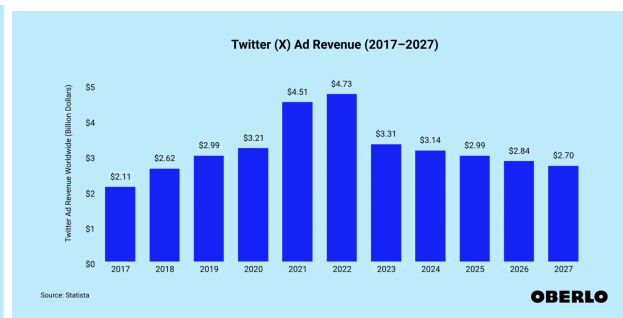
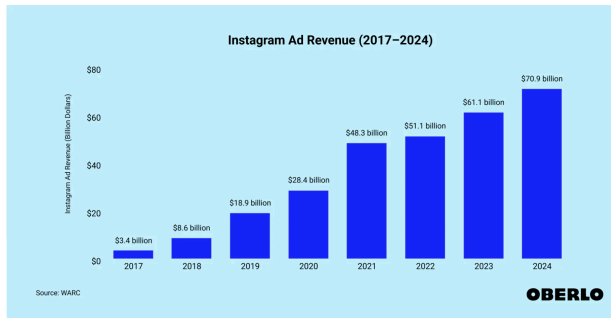
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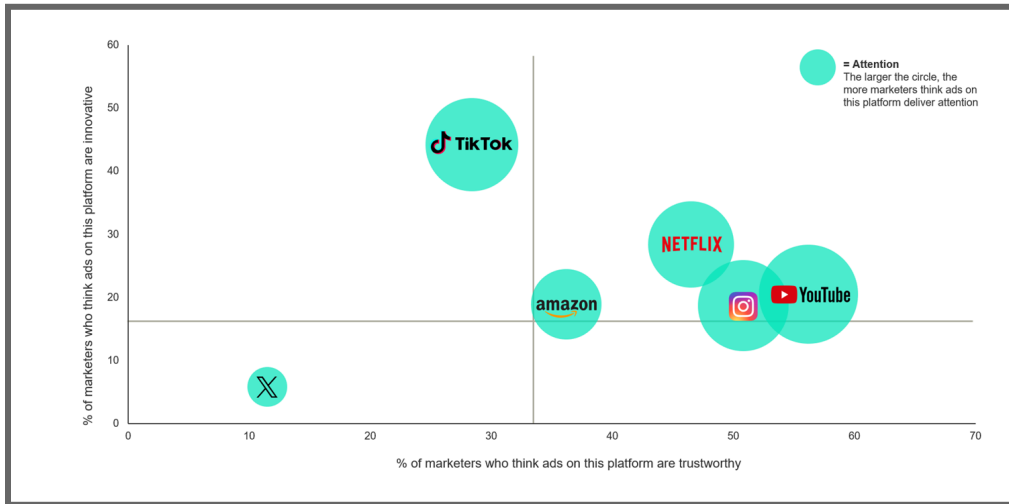
1. Real-time discourse dominance – X remains the top platform for live conversations and breaking news, distinguishing itself from algorithm-driven competitors
2. Exclusive content partnerships – Deals with journalists, independent creators, and news organizations provide unique content and strengthen credibility
3. AI-driven content filtering – Advanced moderation tools balance brand safety with open discourse, mitigating advertiser concerns
4. Dynamic content delivery system – Ensures seamless real-time interactions, enhancing both user experience and advertiser integration
5. Ad-supported revenue model – Digital advertising remains the primary driver, accounting for over 90% of revenue
6. Auction-based ad system – Enables real-time bidding, increasing flexibility and efficiency in ad placements for advertisers
7. AI-driven content recommendations – Optimizes engagement and retention through algorithmic curation, improving personalization and targeting
8. Evolving content moderation policies – Adaptations to moderation practices aim to balance free speech and advertiser confidence
9. Restructured advertising strategies – Enhancements focus on long-term financial sustainability and revenue diversification
10. Subscription-based Twitter Blue – Expands revenue streams beyond advertising, with future monetization potential
11. Brand safety measures – Ongoing refinements help improve advertiser confidence while maintaining user engagement
12. User engagement strategies – Continuous adaptations help X stay competitive amid shifting social media trends
13. Legal positioning and regulatory compliance – Adjustments to align with global content and privacy regulations ensure long-term viability
14. Verification system updates – Strengthened verification processes aim to rebuild trust and enhance platform credibility
15. Strategic leadership decisions – Executive-level strategy shifts impact overall platform evolution and market position
16. Workforce optimization – Streamlining operations while focusing on key engineering and AI investments
17. Consistent platform presence – Maintaining accessibility across mobile and web platforms for strong user retention
18. Short-form video expansion – X Spaces and video features increase content variety and appeal to younger demographics
19. API monetization strategy – Enhances third-party integration opportunities for businesses and developers
20. Strategic executive hires – New leadership brings expertise to drive platform innovation and market repositioning
21. Global advertising framework – Standardized policies aim to create a more consistent advertiser experience across markets
22. Improved search and discovery features – Refinements ensure users can easily navigate and find relevant content
23. Strong relationships with media organizations – Reinforces X's role as a top source for breaking news and political discourse
24. Expansion into financial services – X Payments creates an alternative revenue stream beyond traditional advertising
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31. Competitive adaptability – Refining positioning within the market to remain agile against industry disruptions
32. Revenue-sharing programs for creators – Attracting top-tier influencers by improving monetization incentives
33. Enterprise advertising solutions – Targeted offerings for high-budget brands seeking premium ad placements
34. Investments in video and live-streaming – Enhancing capabilities to compete with YouTube, Twitch, and TikTok
35. AI-powered analytics tools – Providing deeper performance insights for advertisers optimizing campaigns
36. Collaborations with lifestyle and consumer brands – Expanding partnerships to integrate X with non-tech markets
37. Engagement-focused platform innovations – Refining gamification and interaction-driven content discovery
38. Adaptive algorithmic updates – Continuously improving user experience and ad placement performance
39. Strengthened market positioning in digital advertising – Maintaining competitiveness despite shifts in advertiser trust
40. Scalability of platform operations – Ensuring infrastructure can support long-term expansion while improving cost efficiency

INFRASTRUCTURE		9, 13, 15, 20, 21, 40		
HR MANAGEMENT		16, 20		
TECH DEVELOPMENT		3, 19, 35		
PROCUREMENT				
INB. LOGISTICS	OPERATIONS	OUT. LOGISTICS	MRKTNG & SALES	AFTER SALE SERVICE
16, 28	4, 7, 17, 38	22, 35	1, 2, 5, 6, 8, 9, 10, 11, 12, 18, 23, 25, 26, 27, 29, 30, 31, 32, 33, 34, 36, 37, 39	3,14,24

Competitive Advantage	Valuable	Rarity	Imitability	Organization
Unmatched Engagement in High-Impact	✓	✓	✓	✓

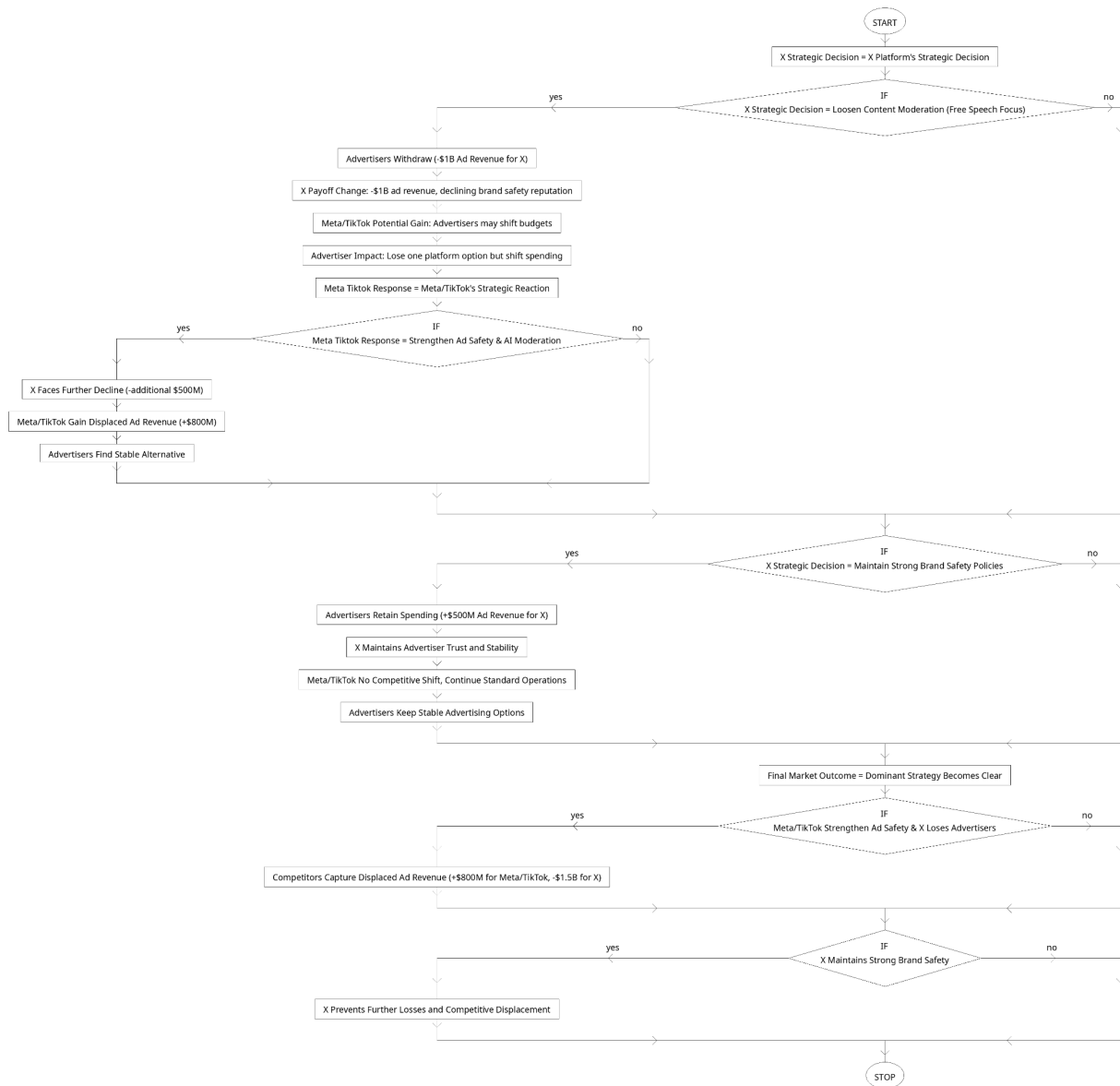
Conversations				
Adaptive AI-Driven Content Personalization	✓	✗	✗	✗
Agile Digital Advertising Framework	✓	✗	✗	✗
Strong Media and News Integration	✓	✓	✗	✓
Scalability and Infrastructure for High-Volume Engagement	✓	✓	✓	✓



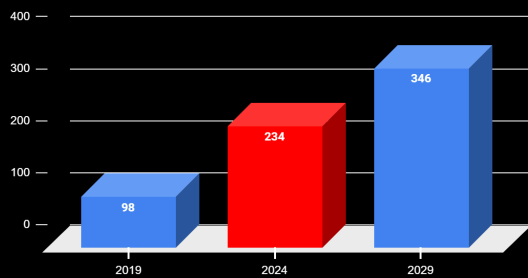


Top-ranking media channels by preference, brackets denote change in ranking

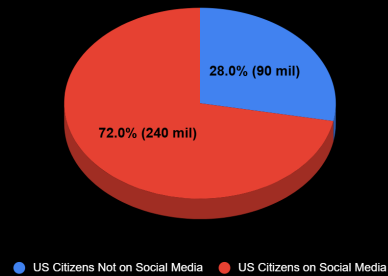
Consumers	Marketers
1. Point of sale ads (+3)	1. Digital out of home ads (+2)
2. Cinema ads (-)	2. Sponsored events (-)
3. Sponsored events (-2)	3. Online video ads (-2)
4. Newspaper ads (+3)	4. Out of home ads (+7)
5. Out of home ads (-2)	5. Ecommerce ads (+1)



Spending on Social Media Advertising (Billions)



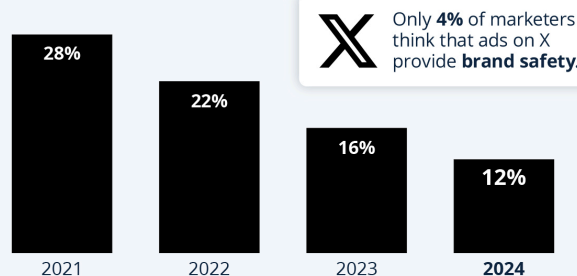
Percentage of US Citizens on Social Media



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38. Adaptive algorithmic updates – Continuously improving user experience and ad placement performance
39. Strengthened market positioning in digital advertising – Maintaining competitiveness despite shifts in advertiser trust
40. Scalability of platform operations – Ensuring infrastructure can support long-term expansion while improving cost efficiency

Advertiser Trust in X Deteriorates

Share of marketers who think ads on X (formerly Twitter) are trustworthy



Based on surveys of around 1,000 marketing professionals from advertisers, agencies and media companies around the world
Source: Kantar Media Reactions



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