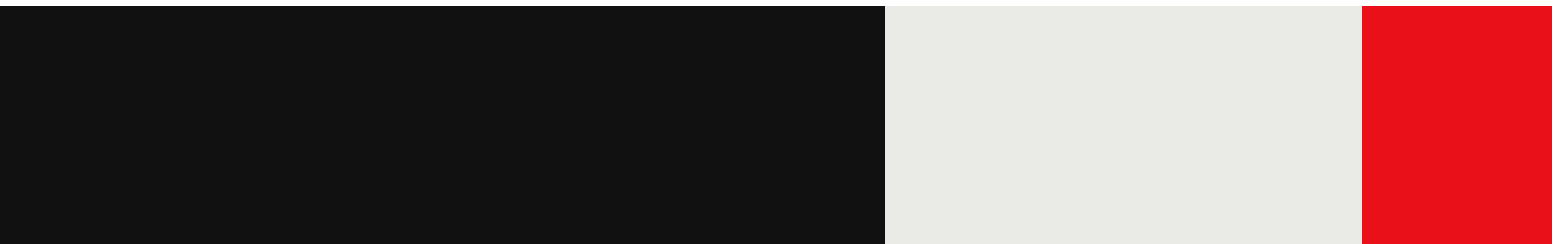


# The Daily: Why Snap continues to stall, how Pinterest is getting on, and social media habits by generation

Audio



On today's episode, we discuss why Snap's growth continues to stall, what to make of their TikTok-esque short form video feed Spotlight, and what to expect from the company in the second half. "In Other News," we check in on Pinterest and discuss the most interesting trends in social media usage by generation. Tune in to the discussion with our analyst Jasmine Enberg.

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## Episode Transcript:

Marcus Johnson:

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Jasmine Enberg:

I am not counting Snap out yet. It's clearly still struggling, but it has the potential to defy the odds and turn itself around. There is no lack of innovation at the company. It just needs to figure out a way to turn that innovation and turn its high engagement into revenue.

Marcus Johnson:

Hey gang, it's Tuesday, August 8th. Jasmine and listeners, welcome to the Behind the Numbers daily eMarketer podcast made possible by Awin. I'm Marcus. Today I'm joined by one of our principal analysts who covers everything social media, typically based on the left coast of America, but somewhere else today, is Jasmine Enberg.

Jasmine Enberg:

Hey Marcus. Hey everyone.

Marcus Johnson:

Did I make that up? You did say you are hours in the future of me and I'm in England, so you have to be... You can't be less-

Jasmine Enberg:

I am two hours in the future of you. I am in Finland right now.

Marcus Johnson:

Hello. Very nice. We're typically-

Jasmine Enberg:

I'm hoping for a Finland fact because I am in Finland.

Marcus Johnson:

No, I don't have one.

Jasmine Enberg:

That is so disappointing.

Marcus Johnson:

But I do have a California one.

Jasmine Enberg:

Okay.

Marcus Johnson:

So apparently, I only give you a fact of the place that you're going to be at some point in the future. But yeah, so you swapped roles. You've gone from California to Finland and the fact has also swapped as a result.

Jasmine Enberg:

Okay, I like it. I like it.

Marcus Johnson:

The fact of the day, California themed, California is the birthplace of the internet. On October 29th, 1969, at some point past 10:00 PM the first connection was made over the ARPANET between UCLA and the Stanford Research Institute in room 3420 in Boelter Hall. A UCLA graduate student called Charles Klein, under the supervision of engineering professor Leonard Kleinrock typed out the first message. Klein, however, was only able to send the letters L and O trying to spell out login before the system software crashed, but that was the very beginnings of the internet.

You might be thinking, "What about Tim Berners-Lee?" That was the worldwide web. So the worldwide web built on top of the internet was of course invented 20 years later by British computer scientist Tim Berners-Lee in 1989 while working at CERN, the Center of Scientific Research that straddles the French Swiss border.

Jasmine Enberg:

That is fascinating, Marcus.

Marcus Johnson:

Yeah.

Jasmine Enberg:

I did not know that story.

Marcus Johnson:

Thank you to them. They did it mainly so this podcast could exist. So thanks, gang. And some other things. Today's real topic, Snapchat's growth continues to stall. Why?

In today's episode, first in the Lead, we'll cover Snapchat. Then in other news, we'll discuss Pinterest's recent performance and how social network usage looks by generation. Jasmine, we start with the lead. We're talking about Snapchat. How have they been doing of late? Let's look at how many new users they've added. Well, they've added 14,000,00. One four million new daily active users in April, May, and June, also known as Q2, to reach 397 million worldwide. So they're close to 400. Jasmine, how significant is this 400-million user milestone the company is approaching, will likely cross next quarter.

Jasmine Enberg:

It's significant. I mean, the hop-in daily active users including in Snap's largest market North America, was definitely a bright spot in the company's Q2 earnings, but there was actually another usage growth trend that really stood out to me from their earnings report, which was the pretty phenomenal growth in time spent on Spotlight, it's TikTok like feed. I mean, we spend so much time talking about how Snapchat is primarily a messaging app, which is true, and it's been trying to move more into the public facing content and rolling out more surfaces and ways for people to create more public content. And it seems that that is resonating. And Snap of course, has also recently rolled out ads in Spotlight. So there's potential for growth in those areas when it comes to both usage and advertising.

Marcus Johnson:

Yeah, the Spotlight story is interesting, saying, as you noted, time spent watching Spotlight, which is its TikTok-esque short form video feed, has more than tripled year-on-year. Snap says Spotlight now reaches over 400 million users each month. So the 397 I mentioned are daily active users, but they say Spotlight now reaches over 400 million users each month.

We were talking before we hit record on this episode just about how kind of predictable that their user growth's been, right? I mean, I was going back over some of their numbers. They've



added about 13 million give or take, up or down a million or two, since the pandemic every quarter just so consistently. So it's not the most remarkable story, but it's one of consistency.

Jasmine Enberg:

Mm-hmm.

Marcus Johnson:

And I think, I mean, the main reason there, Jasmine, is because of rest of world. Carrying user growth at this point, half of Snapchat's users come from rest of world now. At the end of 2020, a third did. So the rest of world is really the make of engine behind that user growth. And they have close to double the number of the total number of rest of world users as they did two years ago. So that's definitely part of that story.

Jasmine Enberg:

Absolutely, it's a huge part of the story, and I'm glad you pointed that out too because where those users come from also affects Snapchat's ability to monetize, which I am sure we'll be talking about in just a little bit.

Marcus Johnson:

Yes, right now. Let's talk about their dollars. Snap made close to 1.1 billion in ad revenues in Q2. That was down 4%. So Jasmine, the story, as you well know, of Snapchat's ad revenue growth over the last year, so the last year and a half has been Q1 2022, they were up nearly 40% in revenue growth year-on-year. The quarter after, growth dropped sharply to 13, from 40 to 13, was cut in half the following quarter to six, so 40, 13, 6, and then hit zero at the end of last year Q4. Q1 of this year, it continued to fall, falling from zero to negative seven, and now we're at negative four, which is a little bit up from negative seven, but it is its second straight quarterly decline in ad revenue. Jasmine, Google's Q2 ad revenue was up three for context, Meta's was up 11. What should we make of this -4% Q2 ad revenue growth number from Snap?

Jasmine Enberg:

Well, Snap is clearly not out of its revenue slump yet.

Marcus Johnson:

[inaudible 00:06:58].

Jasmine Enberg:

And at the same time, we're seeing signs that the digital advertising rebound has started, but it clearly hasn't been an even rebound. And I think what's happening is that advertisers are funneling more money into larger platforms, the Googles and the Metas of the world, and Snap of course is still a much smaller player. And it had struggled quite a lot recently. But that said, again, I think there were some positive signs coming out of its Q2 earnings in terms of its ad business too. They reported an increase in the number of active advertisers as well as advertiser retention. They also reported some improvements for E-commerce advertisers based on some of the technological changes that they made to their ad platform. So I'd say that Snap is clearly not out of the woods yet when it comes to its revenue generating problems, but there are some signs of hope for the future.

Marcus Johnson:

Mm-hmm. So a few things for me. One, this is definitely new territory for Snapchat. That -7% year-on-year growth in Q1 was the company's first quarterly decline in sales since they went public in 2017. So this negative four is not a place that they are used to hanging out.

The second thing, as a tale of regional differences, North America is what dragged it into the red. That was down 13% as a region. Europe was plus seven. Rest of world continued its strong double-digit growth at close to 30. And then, I mentioned rest of world, and you were saying that's significant. In part because you make less money outside of the US as a social media platform typically. Average revenue per user is typically driven by North American users, much more money being made per user in North America than the rest of world. But with Snap it was down across the board, every region saw average revenue per user down. It was worse in the all-important North American region, down 14% in Q2 year-on-year. It was down 18% last quarter, Q1. Tiny bright spot net income slightly improved from last Q2, but slightly improved means that it was still down nearly \$400 million in the red. It's not ideal.

Jasmine, we've talked to users, we've talked dollars. What other part of Snap's business are you paying closest attention to at the moment and why?

Jasmine Enberg:



I've got two areas of the business that I'm really focused on right now. One is creators. Snap made a huge push for creators in Q2. We talked a little bit about how they're working on improving that public-facing content, and part of that has to do with opening up public stories to more users as well as a creator ad revenue sharing program that has really given Snapchat a ton of positive press recently with a lot of creators reporting that they're making a ton of money off of it. And I think that that could actually have long-term benefits for its business too. Creators bring in audiences and audiences bring in ad dollars. I think really to supercharge Snap's creator push, it needs to bring in stronger influencer marketing tools because I think that would help get more brands on board with Snapchat as a creator platform as well.

And the second part that I'm really focused on is My AI. There's a lot of potential there for My AI to provide Snap with first-party data that could potentially make up for some of those loss signals from Apple's privacy changes that of course have been really damaging to its business. It could also potentially provide another revenue stream. They've started testing sponsored links in My AI, which would aid it on its quest to diversify its income, which I think is really critical, especially as its ad business continues to struggle.

Marcus Johnson:

The My AI part though, I noted that as well. So they said since launching My AI, which is its AI-powered chatbot, over 150 million people have sent over 10 billion messages, which they believe makes My AI among the largest consumer chatbots available today. Another part of their business, which we've talked about in the past, and you've been keeping a very close eye on, is Snapchat+. Continuing to see strong uptake there. Recently reaching the 4 million paying subscribers mark. Twitter Blue, Twitter's equivalent, has closer to 700,000 or six times fewer.

Jasmine, let's finish the lead up by talking about the mini future, also known as the second half of 2023. Snapchat says they expect to cross the 400 million worldwide daily active users mark in Q3. I think they said about 405, 406 is what they're expecting. However, they expect revenue to continue to struggle giving guidance of -5% for the upcoming quarter, Q3. What do you expect to see from Snap in the second half of this year?

Jasmine Enberg:

Well, before earnings came out, I had said that Snap's ad business wouldn't start to improve until at least H2. Now, based on its guidance and based on what we saw in Q2 earnings, I think it's going to be Q4 at the earliest. I think the big picture here for me though is that I am not counting Snap out yet. It's clearly still struggling, but it has the potential to defy the odds and turn itself around. There is no lack of innovation at the company. It just needs to figure out a way to turn that innovation and turn its high engagement into revenue. And if it can do that, I think it's very well positioned for the future in terms of the way that it's diversifying its revenue streams, not only with Snapchat+, but its expansion into a tech platform focused on AR as well as that strong engagement that we continue to see from its users. There's clearly a long road ahead, and it's not going to be easy, but no, I'm not giving up hope on Snap just yet.

Marcus Johnson:

All right. Time for the halftime report. Jasmine, what do you think is most worth repeating from the first half?

Jasmine Enberg:

I think it's worth watching how Snap's creator push continues to evolve. There's clearly been a lot of attention around it right now. A lot of creators are making money off of it, off of the ad revenue sharing program. I'm curious to see how that continues to unfold as especially more smaller creators get involved. And I'm curious to see if they can translate that into influencer marketing and brand dollars as well.

Marcus Johnson:

Let's move on. What are we talking about? The second half of the show today, in other news, Pinterest had a better than expected Q2. Why? And how does social media habits differ across generations in 2023 and beyond?

Story one, Pinterest had a better than expected Q2 with revenues growing 6% year-on-year to over \$700 million rise. Our senior director of briefings, Jeremy Goldman, "Global monthly active users, MAUs, grew 8% year-on-year to 465 million." But Jasmine, the most interesting sentence in Jeremy's article about Pinterest better than expected Q2 is what, and also why?

Jasmine Enberg:

The sentence that stood out to me was notably its partnership, it being Pinterest. So Pinterest partnership with Amazon to launch third-party advertisements presents exciting

opportunities for enhanced user engagement and revenue expansion. And I fully agree with that. I think that was an incredibly smart move from Pinterest. I think it was leaning into its prowess as a shopping app. That's one thing that's always set it apart even though it has long been a much smaller platform than many of its competitors. But its value proposition is that its users come with intent and the more it can lean into shopping, I think the better off it will be.

Marcus Johnson:

Two quick things. One, you mentioned that it does seem, given that Meta, Microsoft, Google had really good Q2s that advertisers are supporting larger platforms. And Snap having a weaker earning season supports that. But this was quite hopeful, quite promising with Pinterest earnings. Jeremy noting, giving more hope that the digital ad market is rebounding, again, at 6% growth year-on-year. It's not fantastic, but there are some bright spots definitely. And the second thing, there was an article in Payments noting Pinterest said, "Click rates and saves on posts linked to shoppable items rose 50% exceeding its Q1 growth rates." Something to watch.

Story two, how does social media habits differ across generations in 2023 and beyond? This is a question insider intelligence analyst Paolo Flores-Marquez has been looking into recently. In her new report, she notes that Gen Z will add the most social network users over the next few years as they close in on the millennials' total of 70 million social network users in America. The older generations will actually lose some social network users over that time. Not many, but some. Other interesting findings include that Instagram's Gen Z user base will be the largest, but TikTok will still win more time spent. There's plenty more in here as well. But Jasmine, to you, the most interesting finding in this report on social media habits differing across generations is what and why?

Jasmine Enberg:

Snapchat is more popular than TikTok among Gen Z teens. That means Gen Z ages 12 to 17 versus Gen Z adults who are ages 18 to 24. And this was a fascinating finding for me because a lot of times we tend to lump Gen Z into one group, but as you dig deeper into their media habits and their behaviors and their preferences, they are incredibly different. Note a 12-year-old is going to act very differently online than a 24-year-old.

Marcus Johnson:

Yeah.

Jasmine Enberg:

And I love that Paolo was able to pull out some of those findings from our forecast and our research and really start to draw those comparisons between the two.

Marcus Johnson:

It's such an important point. We use generations to try to explain how behaviors differ across ages, but there really should be these sub generations that we focus more on. For example, older millennials, regular Game Boy, younger millennials, Game Boy Color. That's how you can tell who you're dealing with.

Jasmine Enberg:

Wait, since we're talking about this, Marcus.

Marcus Johnson:

Yeah.

Jasmine Enberg:

Have you heard of zillennials?

Marcus Johnson:

Ugh, no.

Jasmine Enberg:

It's my new favorite generation.

Marcus Johnson:

Why age is this?

Jasmine Enberg:

So it's people who are born on the cusp of Gen Z and millennial, and so they're called zillennials.

Marcus Johnson:

No. We're not taking any Gen Z. I already think that young millennials are the worst people. We're not adopting any Gen Z folks. Absolutely not.

Jasmine Enberg:

What's wrong with the young millennials?

Marcus Johnson:

They're the worst.

Jasmine Enberg:

Although, I don't think I'm young. I think I'm a-

Marcus Johnson:

Game Boy Color? They don't know how hard we had it, Jasmine.

Jasmine Enberg:

That's true.

Marcus Johnson:

They don't know how hard older millennials had it. It had a magnifying glass on the front. It was chaos. Anyway, the full report from Paolo is US Social Network Usage by Generation: Gen Z and millennials are focal cohorts for marketers. You can find the four reports on [insiderintelligence.com](https://insiderintelligence.com) or link in the show notes. That's all we've got time for. Thank you, Jasmine, for hanging out today.

Jasmine Enberg:

Thank you, Marcus. Thank you everyone.

Marcus Johnson:

Thank you to Victoria who edits the show, James who copy edits here, Stuart who runs the team. And thanks to everyone listening into the Behind the Numbers Daily and email-to-podcast made possible by Awin. You can tune in tomorrow to learn how Chinese companies are influencing US retail as Reimagine Retail hosts Sarah Lebow speaks with analysts Sky

Canavus and Man-Chung Chueng. Oh, that's the whole... That's the end of the sentence. It felt like I was going to say more. The end.

Sorry, I just looked at the camera. You do look a bit like a Sith lord with that. Victoria was right. There's something very... What did you say, Victoria, Galactic?

Victoria Grace:

It looks very galactic.

Marcus Johnson:

The staff was asked about the background light that you got.

Jasmine Enberg:

I don't know what happened. The light went out and now I'm just being like lit from below by [inaudible 00:18:26] fluorescent.

Marcus Johnson:

It is very hard to take this episode seriously, Jasmine, while we're talking to a Sith lord about Snapchat.

Jasmine Enberg:

Sorry, John. Okay, shall we try to turn them on? I was waving.

Marcus Johnson:

It's so good. No, no, no. Don't change a thing. This is perfect. We're expecting you at any minute to fire up a lightsaber.

Jasmine Enberg:

I wish I had one.