

When innovation isn't enough: Snapchat's struggle for ad dollars

Article

While Meta struggles with innovation and attracting younger users, at Snapchat, innovation and Gen Z users are in high supply. So why is the company struggling?

“Snap doesn't lack when it comes to innovation,” our analyst Jasmine Enberg said on a recent episode of our **“Behind the Numbers”** podcast. “But there are serious questions about the health of its core business, and it really needs to focus on turning those things around.”

Here's where it stands:

- **Revenues fell 7% YoY in Q1** as the company posted its first decline since going public in 2017.
- These earnings are particularly weak when **compared to Meta**, which saw revenues rebound a bit in Q1.

Fighting to monetize: Snapchat is primarily a messaging app, making it difficult to monetize, said Enberg.

- By some measures, Snap is healthy. The platform boasted 8 million new daily users in Q1, and time spent with Snapchat is increasing, according to our forecast.
- The platform is an innovator in AR, AI, and social media (remember, Snap invented Stories).
- But new tech and high use aren't translating to ad revenues, which we project will decline by 1.8% this year to \$2.08 billion.

Gen Z pros and cons: Snapchat is a favorite for Gen Z users, with more teens and young adults spending more time on the platform. "It's somehow always able to squeeze daily user growth, and I think that's a testament to its staying power among Gen Z," said Enberg.

- But the platform has trouble attracting older users. Just 5.1% of US social media users ages 65 and older use Snapchat, and 10.1% of those ages 55 to 64 do.
- In contrast, 14.4% of US social media users ages 65 and older use TikTok, which has also historically been viewed as a Gen Z platform. Among those ages 55 to 64, that figure is 21.0%.

Snapchat is still small: At \$2.08 billion in US ad revenues this year, Snapchat is behind Meta (\$51.35 billion), TikTok (\$6.19 billion), LinkedIn (\$3.95 billion), and Pinterest (\$2.24 billion).

- "Advertisers are still turning to tried-and-true platforms over smaller or experimental ones," explained Enberg.
- Subscriptions mark a bright spot for Snapchat. **Snapchat+ has more than 3 million users**, thanks in part to the draw of its My AI chatbot. But the platform has a ways to go it reaches its goal of 10 million subs.

For advertisers' consideration: "Snap introduced My AI really as an engagement play. But what I think is really interesting about it now is that it is an advertising play as well," said Enberg.

The company introduced **new AI-driven ads** at NewFronts earlier this month. These spots are worth checking out because they offer insight into what AI chat search ads could look like.

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