

Meta keeps betting big on Reality Labs despite heavy losses

Article

The news: Meta reduced spending on apps for its [Quest mixed-reality \(MR\) headsets](#), leading to layoffs for some outside developers that relied on Meta's funding.

- Gaming studios that create content for Meta have laid off as much as half their staff after losing funding from Meta, per [The Information](#).

- In July, Meta asked its **Reality Labs** hardware team, which includes Quest products and **Ray-Ban Meta Smart Glasses**, to cut spending by about 20% by 2026.

Zooming out: Reality Labs hasn't paid off for Meta yet, but the company is still dominating the virtual reality (VR) market with a 60.5% share in Q2, per **IDC**.

- **The division cost Meta about \$16.12 billion last year**, and its Q3 losses reached \$686 million, up 18% YoY.
- The department's Q3 revenues were \$270 million, a 28.6% increase YoY.

Cutting back investments: Slimming down the apps on Quest headsets could affect sales but could also help bring down operating costs.

- **The company is looking to refine the genre of games it adds to the Quest catalog** and focus on lifestyle apps, such as those that teach cooking skills or how to play an instrument.
- 21% of US adults said a wide range of available apps and games are the most important feature in a VR headset, per YouGov.

What's the plan? Despite its Reality Labs losses, Meta is imagining a long-term roadmap for it and plans to keep investing "significantly" in the division.

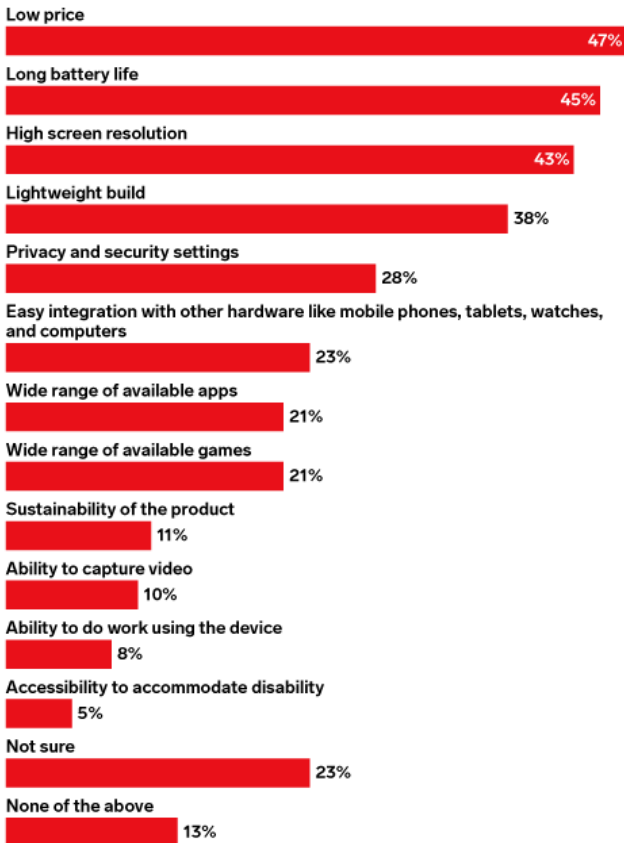
- "As we think about the 2025 budgeting process for Reality Labs ... we want to make sure that we are investing appropriately behind the consumer momentum that we see," Meta CFO **Susan Li** said on the **Q3 earnings call**.
- Meta's Q3 filing also stated that the division's 2024 operating losses are expected to grow "meaningfully" YoY.

Our take: Investors who want clear profitability could grow frustrated with Reality Labs, which could create a catch-22 for Meta.

- If the division can't show investors more immediate returns, it could be forced to pull back on spending.
- However, **reducing spending might lead to losses in innovation and consumer interest**—and a drop in revenues.

Features That Are Most Important in a VR Headset According to US Adults, Jan 2024

% of respondents



Note: ages 18+; top 5 responses
Source: YouGov as cited in company blog, Jan 19, 2024

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