

Snapchat's revenue warning ripples throughout digital advertising

Article

The news: Snapchat owner Snap Inc. issued a warning to investors this week that it will not meet its revenue projections for the current quarter, sending its stock into a freefall and

stirring concerns about the state of digital advertising overall.

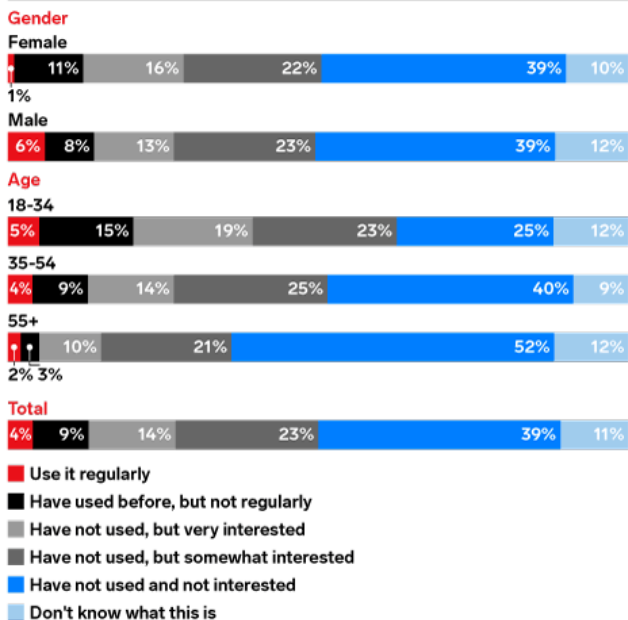
Industry concerns: The issues cited in Snap’s warning—inflation, the war in Ukraine, supply chain shortages, and rising interest rates—don’t only apply to Snap but to the entire social media and digital ad industry, which is [still recovering](#) from changes to Apple’s Identifier For Advertisers and coping with ad tracking regulations.

- Digital ad revenues are on the rise overall—US revenues jumped 35% to **\$189 billion** last year, and we [forecast](#) that US spending will jump from **\$248.8 billion** in 2022 to **284.1 billion** in 2023—but the uncertain state of the economy and fears of a recession could cause advertisers to reel in spending.
- Snap’s news dragged down other social stocks. **Meta, Pinterest, Twitter**, and more all fell Tuesday. But social media wasn’t the only sector hurt by the news: **Google** and **Roku** were also dragged down alongside several other ad tech stocks, a sign that Snap’s issues extend to all of digital advertising.
- In an internal memo obtained by [The Verge](#), Snap CEO **Evan Spiegel** said the company would cut costs and [slow hiring](#) like many other tech companies, but avoided mention of [layoffs](#) that have also plagued the industry lately. Spiegel said the company still plans to hire 500 more employees by year’s end.

Analyst take: “Headwinds are turning into gale force winds for the social platforms,” said **Jasmine Enberg**, principal analyst at Insider Intelligence. “A perfect storm [is] heading straight for their ad businesses. While a slowdown was to be expected after the pandemic-induced gains last year, Snap isn’t likely to be the only social platform to struggle to meet its expectations for Q2.”

How Interested Are US Adults in Using AR* and VR While Shopping?

% of respondents, by demographic, Oct 2021



Note: numbers may not add up to 100% due to rounding; *for example, trying on clothing or makeup by superimposing an image onto themselves
Source: "The Insider Intelligence Ecommerce Survey" conducted in October 2021 by Bizrate Insights, Oct 6, 2021

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InsiderIntelligence.com

No immunity: Like other social media apps, Snapchat has bet on [in-app shopping](#) and social commerce to boost revenues. But this week's warning and other stiff competition could be a sign that Snap's unique features aren't enough to help it avoid a digital ad slump.

- Augmented reality (AR) features have differentiated Snap in a crowded field. AR features have helped it make inroads in the beauty industry, and the company has highlighted AR as the future of its social commerce business. AR has also let Snap tap into investor interest in the metaverse.
- But even though AR enjoys high penetration—**over 25% of Americans will use AR this year**, and [half of US adults](#) are interested in or have shopped via AR—that penetration means little if consumers and advertisers spend conservatively.

The big takeaway: Snapchat's warning is a warning for the entire social media industry, whose reliance on ad revenues amid [difficulty pivoting to subscriptions](#) have left it vulnerable to unstable economic conditions and industry-wide changes.