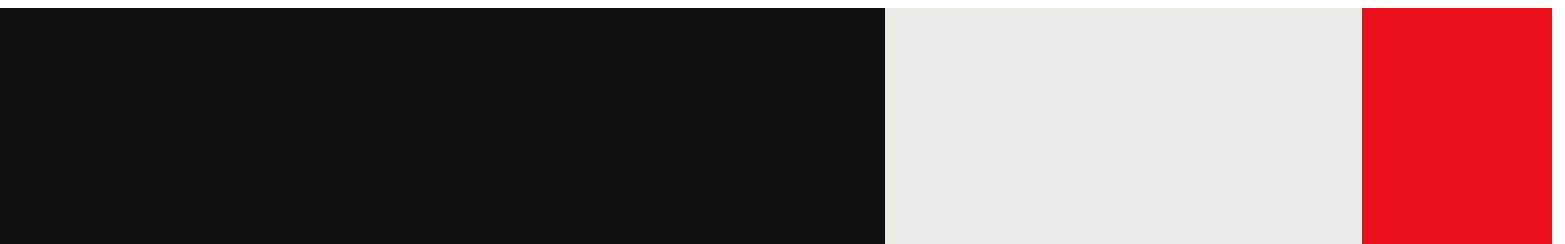


The Daily: Has Meta turned things around, what's next for Instagram, and where are we at with Threads?

Audio



On today's podcast episode, we discuss whether Meta has officially turned things around, just how big Instagram has gotten, and whether Threads can turn itself into a viable X (formerly Twitter) alternative. Tune in to the discussion with our analysts Jasmine Enberg and Max Willens.

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Episode Transcript:

Marcus Johnson:

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Jasmine Enberg:

The biggest source of growth then in users and usage, at least here in the US, is going to be from younger generations. And Instagram is going to have to strike a fine balance between ensuring the safety of those users and generating revenues from the platform.

Marcus Johnson:

Hey gang, it's Monday, February 12th. Jasmine, Max, and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by StackAdapt. I'm Marcus. Today, I'm joined by two people. Let's meet them. We start with Jasmine Enberg, who is our principal analyst covering everything social media based in California.

Jasmine Enberg:

Hi Marcus. Hi everyone.

Marcus Johnson:

Hello. Hello. And we also have with us one of our senior analysts on the digital advertising and media desk based in Philadelphia. It's Max Willens.

Max Willens:

Yo.

Marcus Johnson:

Yo back, Max. Yo back. Today's fact, there are more possible variations of a game of chess than there are atoms in the known universe. Okay, why do we know this? Well, it became famous apparently when, I didn't realize famous, but it became famous in 1950.

Mathematician Claude Shannon wrote his famous paper and came down to the conclusion that approximately 10 to the power of 120, so just an incalculable amount, of possible games of chess is more higher than the estimated number of atoms in the universe.

Jasmine Enberg:

There are so many things you teach me on this podcast that I literally never thought about before.

Marcus Johnson:

Teach is generous. Overshare, more accurate.

Jasmine Enberg:

I was being nice.

Marcus Johnson:

I know. Thank you. So this is how a game kind of starts to play out and how it gets to that number. So the number of distinct chess positions after white's first move is 20. So you can go, there's 16 pawn moves or you can move one of the four knights out total in the game. After the second move, there are 400. It goes from 20 to 400 distinct chess positions after white goes, and then black goes. After white goes again, there are 5,000. After black goes again, there are tens of thousands. And by the fifth move in the game, in the whole game, there are potential one million variations of the board.

Max Willens:

This makes me feel a lot better about deciding to stop playing chess. Just every time I would try to think about to play it, I just thought this is so complicated. The mind boggles.

Marcus Johnson:

It is. I taught someone to play chess once, and then they destroyed me thereafter. I think I got hustled is what happened. Talk about that later. Anyway, today's real topic. Meta. So in today's episode we're talking all about Meta, Facebook, Instagram owned properties, and how they've done in Q4 and 2023. And we'll look ahead to this coming year. No other news today.

So folks, let's start with Meta overall. In Q4, they made close to \$39 billion in ad revenues worldwide. That's up 24% year on year. The previous Q4 ad revenue had fallen by 4%. So it's gone from negative four in Q4 of 2022 to plus 24 in Q4 of 2023. So it's quite the turnaround. We're going to play a newly renamed game called Slice of Pie. It was formally Blame Pie until Stuart said, "Change the name because it's stupid." So we're going to create pie charts as to

reasons why Meta managed to grow ad revenue 24% in Q4. Max, what does your pie chart of reasons look like?

Max Willens:

So I have three slices that are interconnected, overlapping, knotted together like the lattice of the crust.

Marcus Johnson:

Oh, you've created a Venn diagram of reasons. Perfect.

Max Willens:

But basically I would say that the biggest one is just kind of continued strength and gravitation of people toward buying things online. I know that sounds a little bit silly. But Meta has done so much to optimize Facebook and Instagram to compel people to buy things on their platform, either via shops or via deep linking to advertiser's sites. And this is borne out in their Q4. They do break out to a certain extent which advertising verticals are contributing most of the growth, and e-comm, which is already their largest, was also one of the chief drivers of the growth.

And then you kind of thread that in with China, which people that follow Meta very, very closely have known this for a while. But this started becoming quite apparent in the second half of last year that Chinese brands and manufacturers have basically learned the American D2C playbook, and are running it to great success on Meta's platforms in particular, Susan Li, Meta's CFO, said that they contributed to 10% of revenue overall in the fourth quarter. Which is not nothing. That's real, real growth. Overall, five percentage points of the growth that they saw this year were from China alone.

And what's crazy too is that this also, the thing that speaks to how widely emulated and replicated this strategy was, in calls with investment analysts after they reported their earnings a couple of weeks ago, Susan Li also mentioned that two thirds of their Chinese revenue came from advertisers that are outside of their top 10. So this isn't just Temu pouring gallons and gallons of money into this system. This is lots and lots of smaller manufacturers, smaller brands just finding easy money by using the system that Meta's built.

Jasmine Enberg:

Max, how big of a risk factor do you think that is going into 2024 then?

Max Willens:

It's funny that you asked that because I was going to point to the fact that they should not expect this kind of upward momentum to continue, I don't think. And they're cognizant of that. They cautioned during that same call that the phrase that Susan Li used was that this growth would be hard to replicate. And in light of the major shock that's coming to the Chinese economy because of the problems in their property sector, the just continued sluggishness that you see in lots of different sectors, I think it's reasonable to expect that it's going to be another big slice for Meta's business next year. But it might not grow from 10 to 16 or something like that, or 10 to 20. And I think that it's reasonable to ask though whether other emerging economies might not follow a similar playbook. Like why shouldn't a bunch of manufacturers in Vietnam try a similar playbook?

And then the final thing is just the year of efficiency, which I think a lot of people when Mark Zuckerberg declared that 2023 would be the year of efficiency, they said you would say that, wouldn't you, with your declining revenues and your general levels of alarm floating around your business. But you got to give credit where it's due. I mean, in the fourth quarter, again, kind of pulling from that earnings release, they raised their revenue 25% and dropped their expenses by 8%. They doubled their operating margin. And there's just no way around the fact that their efforts to slash costs in non-core areas, I think a lot of it is in their sales infrastructure as more and more stuff gets automated, has really been good for them.

Marcus Johnson:

Head count down 20% as well from last year.

Max Willens:

That's correct. They did say that they're going to start bumping that up in 2024, but a lot of it is going to be engineers. They're not going to be hiring a bunch of not very helpful salespeople. And the other big piece that's I think really important to flag here is that one of the ways that they managed to drive or get revenue back in gear was by just juicing their ad load and dropping the prices every single quarter of 2023.

Prior to Q4, you had seen 20 plus percent increases in supply of advertising across their family of apps. And usually a high single digit percentage drop in the price of that inventory. In

Q4, they had a in fact raise. It was modest, it was 2%. But still that breaks a really notable streak and one that I think that they seem pretty confident that that's a streak that they can continue. Even though Reels, while it's revenue positive now, it still seems like it's not driving that much real value for them.

Marcus Johnson:

So Max, there were no shares in your answer. But it was a good answer. So it's not-

Max Willens:

I can carve those three up if you want.

Marcus Johnson:

Let's do it. Yeah.

Max Willens:

Okay. 50% e-comm growth, 25% China, 25% efficiency.

Marcus Johnson:

Very nice. Jasmine, what do you think of that pie?

Jasmine Enberg:

The only piece that I had added to my pie was really just the economy and improvements within the digital ad market overall. I think that increased advertiser demand, and one of the things that we're seeing, I mean Snap reported earnings yesterday, is that this recovery has been somewhat uneven or very much uneven with some of these big players just getting bigger. Meta, of course being one of them. But yeah, I mean the year of efficiency really paid off for Meta. You can say what you want about the company, it may not be super innovative anymore, it certainly has its fair share of challenges, but it knows how to execute. And to me, it really proved that in 2023.

Marcus Johnson:

A few numbers quickly for me that stood out. One total ad revenue when you zoom out, 2023, grew 16%. Last year, revenue had fallen by one. So quite the turnaround. Two, they added 25 million users in Q4. They're now at 2.1 billion worldwide. That's for Facebook. In 2022, they

added 70 million. In 2023, they added 110 million daily active users, and they also added some in North America, which we thought couldn't grow anymore. And then also their average revenue per user, significantly up, up 20% year on year worldwide, up 16% in that all important, highly lucrative North American region. Profit also was triple what it was from a year earlier, which is also good.

Let's move to Instagram. Our colleague, Minda Smiley, just wrote a piece titled *How Instagram Evolved Under Meta and What's Next*. We estimate that the platform made \$25 billion in US ad revenue last year. It'll be up 17%. Our forecasting team have just over half of American smartphone users on Instagram. But Jasmine, what's next for the platform?

Jasmine Enberg:

Instagram has been picking up Facebook's slack in terms of users and usage for years. I mean, if you just think back to how important it was that Facebook purchased Instagram back in 2012, I think it's really made that clear. It's also really important to Facebook's business. I mean Instagram accounts for a relatively significant share of Meta's overall revenues. And Max started to allude to this when he talked about Reels. And yes, there are some signs that there is a ceiling to Reels monetization. It's something that we pointed out already in Q3, but it has become a strong part of Instagram's business and the short video landscape.

I think the biggest challenge or one of the biggest challenges for Instagram going into this year is the issues surrounding young people and teens in particular. I would say that Instagram is to Gen Z kind of what Facebook is to millennials. It's this necessary platform, but not one where they're necessarily spending most of their time. And the biggest source of growth then in users and usage, at least here in the US, is going to be from younger generations. And Instagram is going to have to strike a fine balance between ensuring the safety of those users and generating revenues from the platform.

Marcus Johnson:

Yeah. Instagram, you mentioned contributing to a significant share of Meta's business. They're approaching a tipping point. They don't release Instagram revenue numbers, so we parse those out with our forecasting team. But we estimate that this year that Meta is getting 52% of its ad revenues from Facebook and 48 from Instagram. Next year, it will be pretty much neck and neck. And so we don't have 2026 yet. But if you play that trend forwards, that 2026

in theory could potentially be the first year that Meta is making more money from Instagram than Facebook, if all trends continue.

Max Willens:

Yeah. I think what's interesting is to see how successful Instagram is in essentially pursuing the path that TikTok is on and maybe kind of struggling on, I say struggling advisedly. And I would say, I mean it in a relative sense because their ad business is also doing very, very well. But basically their mission now is to sort of become an entertainment app where you can shop. You see the shop ads are now at a \$2 billion run rate across Meta. That also includes Facebook, but I would imagine most of that happens on Instagram.

And what's going to be interesting is just try to compare and contrast the balance that the two apps can strike. There seems to be a lot of anecdotal evidence that TikTok is pushing TikTok Shop a little too hard. And you get a lot of people who are kind of complaining that every time they log on, they're inundated with people hawking cheap crap at them. And Instagram so far has managed to sort of avoid that, but we'll see. I mean, again, to your point, as Facebook stops being a growth engine, you can see that even again Meta is going to stop breaking Facebook user numbers out because they-

Jasmine Enberg:

That was huge.

Max Willens:

Yeah. I thought that was really, really notable. And in a way it's kind of surprising it took them this long to do it because they've been sort of getting beaten up by people like Jasmine and myself. It's no longer a fast growing object of intrigue for the tech press. And so anyway, it's just going to be really interesting to see which company can kind of out execute the other in terms of pursuing this shared vision of what they want their platforms to be.

Marcus Johnson:

So let's talk about one of the other platforms, a pretty new one, and that's Threads. Our Jeremy Goldman just wrote that Meta's Twitter clone, Threads, is experiencing somewhat of a resurgence saying download figures for the app tripled in December. According to Appfigures data, the app secured top spots and download charts across major app stores.

And during Meta Q4 earnings call, Mr. Zuckerberg said Threads now has 130 million MAUs, up nearly 30% from Q3. Jasmine, what's going on with threads at the moment?

Jasmine Enberg:

Well, first of all, I think the word resurgence is maybe a little too strong. One of the things that happened in December, of course, was that threads launched in Europe, so that could help account for the surge in downloads as well as the increase in users. And it's very possible that what happened here in the US could be replicated in the EU in terms of having a lot of people sign up during the hype cycle who are super excited. And then having that engagement drop. Still 130 million monthly users isn't bad for an app that's just over six months old at this point. But I do think that 2024 is going to be the make it or break it year for Threads. It's still a far cry from that path to one billion users that Mark Zuckerberg was talking about when Threads launched here in July. And if it doesn't get close to that and Meta doesn't have a path to monetization, I could see it folding it into Instagram.

Max Willens:

That seems very credible to me. I would say that I feel like Threads' real existence is opportunistic and more of an insurance play than a major focus. I mean, to me, the fact that they joined the fediverse, which is this kind of protocol that allows BlueSky and Mastodon and now Threads to talk to each other is a sign that they're not serious about this. If they felt that this was a market that was really worth owning and dominating, that they would close everyone out and try to crush those people instead of trying to play nice with them.

Jasmine Enberg:

That's a good point. And did you see the news today that BlueSky is getting ready to launch?

Max Willens:

Oh, [inaudible 00:16:03].

Marcus Johnson:

Interesting. All right folks, let's get some grades for Meta's Q4 and also their 2023 performance. Jasmine.

Jasmine Enberg:

I'm so happy that I can give an A. You know how I feel about grading these companies.

Marcus Johnson:

You hate it.

Jasmine Enberg:

But I'm giving Meta an A, and I'm joyous that I can do that.

Marcus Johnson:

A for Q4 and 2023?

Jasmine Enberg:

Yeah.

Marcus Johnson:

A's for everyone. A's for everything. Max.

Max Willens:

Yeah, I'm a grouch-

Marcus Johnson:

He is.

Max Willens:

... by nature.

Jasmine Enberg:

At least he's [inaudible 00:16:31].

Marcus Johnson:

It's the best.

Max Willens:

A stingy grader. But like Jasmine, they get an A with a gold star. It's very hard to find any reason for penalty in what they've done over the last 12 months.

Marcus Johnson:

Okay. Well, I mean you might be thinking to yourself, listeners, are they going to talk about the Senate Judiciary Committee and that hearing and the fact that the CEOs from Meta, Snap, TikTok, Discord, X were all there testifying about and answering questions to Senators and also to family members of kids who are harmed by using social media.

But we're going to talk about that, about young people and social media use in an episode at the end of the month with Minda Smiley who also covers social for us. So look out for that episode. But we did want to quickly mention some recent news. Meta announcing that Facebook, Instagram, and Threads, will start labeling all fake AI images generated by other companies' AI tools. They already label AI images generated by their own systems. But Jasmine, you're up, your reaction.

Jasmine Enberg:

Yeah, this is actually really great timing for you to bring this one up because I was just researching some of this for my news and politics on social media report that's coming out later this month.

Marcus Johnson:

Timely.

Jasmine Enberg:

Yeah, very timely. I think most people say when they're asked how they want platforms to moderate content, that labeling is usually their number one choice, at least for AI generated misinformation, from the research that I've seen. I mean my own personal opinion about this is labeling is retroactive, and once this information is out in the world, it's really impossible to reign in and the damage is done-

Marcus Johnson:

Good point.

Jasmine Enberg:

... whether you stick a label on it or not. And overall, when you're thinking about the different policies across the social media companies, especially going into an election year or being in an election year as we are right now, they're too little too late. And these companies just really aren't equipped to deal with harmful content misinformation in the AI era. They weren't equipped to deal with it in the pre-AI era either.

Marcus Johnson:

Great points. Max, thoughts.

Max Willens:

Yeah, I feel like it's important that a voice as big as Meta's is saying this is something that needs to be done and something that needs to be looked at. But this is also, all of Jasmine's points are super on point. And I would just add that this is basically just a turn in a cat and mouse game. Appending metadata to media is not difficult. And anybody who's determined to sow confusion or disseminate misinformation is not going to have much trouble getting around this at first. I'm interested to see what this does to other large platforms that are responsible for sharing content like YouTube and Google, and how they respond to this. Because I think that they have a lot to think about on this front as well.

Marcus Johnson:

Yeah, Yeah. You mentioned is this easy to work around. Professor Soheil Feizi, director of the Reliable AI Lab at the University of Maryland suggesting such a system is easy to get around. Also saying it they can create a high rate of false positives as well. And Meta also acknowledging its tool will not work for audio or video, even though much of the concern about AI fakes is focused on these types of media. Its current workaround for that is saying that people should label the posts for audio and video themselves and that there'll be penalties, maybe penalties if they fail to do so. Yeah.

Why now? It seems as though there's been pressure from a lot of folks, but particularly its own oversight board, for Meta to develop stronger AI generated content policies, as election season rolls rounds in the US and the rest of the world. A lot of this stemming from a video centered around the president that was manipulated, but Meta said that it was fine. It did comply with its manipulated media policy. And so the board was saying maybe the policy is too focused on how content is created and not on the potential harms from the altered

content, such as damaging electoral processes. That is all that we've got time for for today's episode. Thank you so much to my guests. Thank you, Jasmine.

Jasmine Enberg:

Thank you, Marcus. Thank you everyone.

Marcus Johnson:

Thank you to Max.

Max Willens:

Always a pleasure, Marcus. Thank you.

Marcus Johnson:

And thank you to Victoria who edits the show, James who copyedits it, Stuart who runs the team, Sophie who does our social media. Thanks to everyone for listening in. We hope to see you tomorrow for the Behind the Numbers Daily, an eMarketer podcast made possible by StackAdapt.