

# The Daily: Why Snap's decent numbers failed to impress and if Snapchat+ growth is proving folks will pay for social media

Audio

On today's podcast episode, we discuss the takeaway from Snap cutting staff, what to make of its current user total, and whether Snapchat+ can prove that there's a market for paid social features. Tune in to the discussion with our director of Briefings Jeremy Goldman and analyst Minda Smiley.

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## Episode Transcript:

Marcus Johnson:

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Jeremy Goldman:

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Marcus Johnson:

Hey gang, it's Thursday, February 15th. Minda, Jeremy and listeners, welcome to the Behind Numbers Daily, an eMarketer podcast made possible by StackAdapt. I'm Marcus. Today I'm joined by two people. We start by introducing one of our senior analysts covering everything social media based in New York. It's Minda Smiley. I think that's right.

Minda Smiley:

Hello. That is right.

Marcus Johnson:

Yes. We're also joined by our senior director of briefings. He's definitely based in New York. It's Jeremy Goldman.

Jeremy Goldman:

Hey Marcus. Congrats on us both surviving Valentine's Day.

Marcus Johnson:

Both surviving?

Jeremy Goldman:

It's just a day where you can get in trouble with people saying the wrong thing. Doing the wrong thing. So, we got through

Marcus Johnson:

This is like when people say, "You take care out there." And every time someone says that to me, when I'm leaving a restaurant or a coffee shop, I'm always like, "Why? What's out there?" And I immediately think, dinosaurs. I swear this is dead true. I hate when people say that. Take care. You be safe out there.

Jeremy Goldman:

What neighborhood is this?

Marcus Johnson:

I know. All of them. I don't know. I don't know where the dinosaurs are at. Anyway, tell you the fact is the word. All right. This isn't, I'm quite impressed by this one. If no one else is, I don't care. 'Cos I think it's great. The word suns upside down, is suns.

Jeremy Goldman:

If this was a video podcast, if anybody saw what I just did with my hand to try to be like, is this true what Marcus is telling me? I think it's actually ...

Marcus Johnson:

How good is that fact? Is it good or not good?

Minda Smiley:

Okay. So S-O-N-S.

Marcus Johnson:

Suns. No, no, no. Like the sun in the sky, like the star, the sun that the ...

Minda Smiley:

S-U-N-S.

Marcus Johnson:

S-U-N-S.

Jeremy Goldman:

But technically it has to do with what font you use, right? Because if you use the wrong font, then you might draw the N and the U differently.

Marcus Johnson:

For crying out loud.

Jeremy Goldman:

Sorry.

Marcus Johnson:

All right, never mind. No, it's fine. Don't worry. Because I thought that it wasn't going to go well, which it hasn't, I brought a few facts about the sun to save the day. So, one, the sun orbits the Milky Way at 500,000 miles per hour. Despite that speed, it still takes the sun 225 million Earth years for the sun to orbit once around the center of the Milky Way Galaxy. Two more for you, in case you weren't impressed by that. Tough crowd. Light from the sun takes eight minutes to reach Earth. So the light you are getting is eight minutes old. And then three, the surface of the sun is 10,000 degrees Fahrenheit or five and a half thousand degrees Celsius. Also known, it's too hot. Impressed yet? Okay, fine.

Minda Smiley:

Yes, that was a lot. [inaudible 00:03:25]

Marcus Johnson:

That didn't feel very genuine, Minda, but I appreciate the effort.

Minda Smiley:

I think I've heard the eight minute one.

Marcus Johnson:

Oh, come on. Not on this show.

Minda Smiley:

That one I think I heard minute,

Jeremy Goldman:

But the other ...

Marcus Johnson:

Oh my God, we're recycling material. We must move on. Today's ...

Minda Smiley:

Not on this show.

Marcus Johnson:

... real topic ...

Jeremy Goldman:

We heard it on the Lesser Show for sure.

Marcus Johnson:

Probably. We're talking about Snap, of course.

In today's episode, first in the lead, we'll cover Snapchat things. Now other news today, let's get on with it folks. So, we'll talk about how many people use the platform, how much money it's making, but we have to start with some recent headlines, like the one from Jacob Kastrenakes of The Verge, explaining that Snap is cutting 10% of its staff. Jeremy, I'll start with you. What's your takeaway on this announcement?

Jeremy Goldman:

There are a few things here, but I think one of them is clearly that this is just essentially a cost of doing business right now as a public company is you need to show that you're being efficient with cutting back and then reinvesting in a few other areas. This is something that a number of key players did, most notably Google this year. But we're seeing a lot of, you hear we cut back on human personnel and then we're throwing this money back into R&D. It's very difficult if you're Snap and you don't try to echo that message to some degree, and some of it obviously has to do with their slowing growth in relation to what other players, particularly Meta are able to provide.

Marcus Johnson:

Jasmine, who covers social media for us as well, had a great quote, which I'll cite here. "Snap is likely trying to garner some goodwill with investors who rewarded its competitor, Meta, for its cost-cutting measures." And it's continued, "Do more with less mantra going into 2024." This is probably an important move for the company because they haven't made money, almost ever. They lost another 250 million in Q4. From what I understand, they went back in their records and it seems as though the company has only been profitable for one quarter. I think that was Q4 of 2021, they made \$23 million. So they need to find ways to not only make money, but keep investors happy. Minda, they've been doing this for a little while though, right? I mean Snap, they cut staff 20% in 2022, 3% last year. What do you make of this?

Minda Smiley:

I pretty much agree with Jeremy's take. I mean, the one thing that I thought was somewhat interesting was when I was reading through some of the coverage, I did see that they had mentioned that the layoffs were due partly to foster more in-person collaboration, which I think is jargon for we want people back in the office. I don't know to what extent remote workers were impacted by this round specifically.

Marcus Johnson:

Good question.

Minda Smiley:

But I do know that from what I've seen, they have been a little stricter lately about their return to office mandates and getting people back in. So I do wonder to what extent people that work remotely will be impacted in the future by this sort of attitude, I guess.

Marcus Johnson:

Good question. Let's look at how they have been performing. So Q4 last year, Snap made \$1.4 billion in worldwide ad revenues. That's up 5%. That's an improvement on the 0% growth from the previous Q4. So it's time to play a newly renamed slice of pie, formerly Blame Pie. Minda, I'll start with you. Could you please create a pie chart as to the reasons why Snap grew ad revenue 5% in Q4?

Minda Smiley:



I would say the first part of the pie is just broadly, economically, we're doing better and I think a lot of the big tech companies have been benefiting from that. So I think part of it is less about the actual business and more about just advertisers spending more money because of the economy.

Marcus Johnson:

How big is that piece?

Minda Smiley:

I would say 40% of the pie.

Marcus Johnson:

Okay. Solid 40.

Minda Smiley:

It's definitely not a small part of it.

Marcus Johnson:

Okay. Large minority.

Minda Smiley:

I would say they did mention in their earnings that they've had more luck with all the medium-sized advertisers. I think what was the exact stat? Saying that they've seen this number of small to medium-sized advertisers grow 20% year over year. So I would say that that's, we'll say 30% maybe due to just new advertisers coming in, giving them some more revenue. And then the rest I would say has to do with just the ad products themselves. I think we've heard over the past two years they're trying to invest in their advertising business and grow it, and that's a mix of things. We're seeing direct response advertising be a core part of their business that they're really trying to boost. They're putting ads in their AI chatbot, my AI, I think it's sponsored links and there are a few other formats, but I would just say generally they are investing more in their advertising formats and I think we're starting to see that pay off a little bit.

Marcus Johnson:

Okay. Jeremy, what does your pie chart look like?

Jeremy Goldman:

I really think maybe close to 85% of it is the market generally just doing better and maybe 15%, and I know I'm really simplifying this here, but 15% of it is directly credit that you can give to Snap from an innovation standpoint. 'Cos frankly, there are a few things that they've tried to do, like have an enterprise augmented reality division, which I think you covered on the pot at one point, they shut down. And a lot of the things that they want to do, I don't want to say they haven't worked. They have a clear mission about, this is a nice place to have a strong messaging experience, feel a little bit better about your social media experience, but they don't have enough monetizable service areas to get most people's ad dollars. That's arguably why they might be doing a little bit better with small and mid-sized businesses.

So I think ultimately it's like they're getting the dollars that are left over from the people who want to diversify their spend as opposed to just trying to be, they're never going to be really right now the primary place that you're parking your ad dollars, you're going to Google and Meta for that. And then to some extent for some products, definitely Amazon.

Marcus Johnson:

So 5% growth in ad revenue in Q4. If you look at North America, there was a bright spot that grew 13%, huge turnaround from negative 14 last Q4, rest of world underperformed. That's what dragged it down, going from 28% to 11 over that time, average revenue per user, also down five points year-on-year. Let's look at how many people that are using the platform at the moment. Snapchat crossed the 400 million worldwide user mark in Q3. They reached 414, 4-1-4 million in Q4. Jeremy, how should we view Snapchat's total user count at this point?

Jeremy Goldman:

I mean it's okay. I don't want to be too down about it, but just to put one other thing in perspective, global monthly active users for Pinterest rose to 498 million in this most recent earnings, setting a record for the platform.

Marcus Johnson:

Wow.

Jeremy Goldman:

So, I mean I think that when we're talking about, is this a strong number, a lot of the key thing has to do with user growth and are they attracting an entirely different user base? And I think they're doing a solid job, maybe even strong job at loyalizing people who are using the platform from a messaging perspective. From an acquisition standpoint, if you look at their overall user growth, it's not something that is going to allow them to really take that much market share away from the bigger players over the next few years. So, in some ways, if you're following them, you have to think that their goal is to grow faster than these other platforms that are about as old as they are. And that's an uphill battle for them.

Marcus Johnson:

You mentioned them attracting a different user base. I noticed that they're a much more international audience than they once were. 2019, a quarter of its users came from the rest of the world and today it's half North American users have been stuck at about 100 million for the last year and a half. So that's changing the makeup of its audience. Minda, what'd you make of just over 400 million Snapchat users?

Minda Smiley:

It didn't super surprise me. I mean, I was looking at their past six quarters and they've reported similar growth. It's usually somewhere in the double digits. So I mean, they've seen a steady pace of growth. But to Jeremy's point, I mean when you compare it to some of the bigger platforms, they're certainly not nearly as big as a Meta. And like you were saying, I think most of these gains are from outside of the US and Europe, so it's markets for them that are a bit newer. And so that's worth noting as well.

Marcus Johnson:

The gains are also slowing down. They added fewer, when you look year by year, they added fewer users than before. So Snapchat has added close to 50, 5-0 million new users in 2020, 2021 and 2022. But 2023, they added just under 40 million new users. So that's not a great trend.

Jeremy Goldman:

And by the way, Marcus. I was just going to say, in terms of our forecast, by the way, we've got them at about, for users worldwide, we've got them at 5.8% this year and then 4.7% next

year and then 3.8% the next two years. So we are expecting slower growth from all indicators on our end.

Marcus Johnson:

Okay. So that trend we expect to continue. That's interesting.

Minda Smiley:

Oh, and also they did point out on their earnings that the average revenue per user fell 5% year over year.

Marcus Johnson:

Also going in the wrong direction. Let's end by talking about Snapchat+. That's their page subscription. It's got extra features, it's hit 7 million subscribers less than a year and a half after it launched. Minda, what does this 7 million Snapchat+ subscribers mean?

Minda Smiley:

I mean I think it's definitely growth or showing growth. I think it's, again, it's like 7 million is a drop in the bucket when you look at the larger user figures. But I still think it's a worthwhile thing for them to be investing in. I mean, we're seeing this larger trend across all the social platforms of investing in subscription based offerings. They all look quite different, but I think the fact that Snap is doing this is wise. And again, like I said, they're seeing growth, it's being monetized. So I mean, again, I would say it didn't really strike me as a huge figure, but it is showing that they are slowly but surely gaining some kind of little fan base, I guess you could say, for the product.

Jeremy Goldman:

I love the story and I think that the challenge is the fact that, revenue diversification, Minda, is totally right. We're seeing a lot more of that. I think the tricky thing is, is when you look to see exactly how much money they're making off of that Snapchat+ user base, and then you try to say, "Well, how easy will it be for them to grow that and to have that be a meaningful percentage of the overall pie?" That's pretty difficult. And this is one hypothesis that I've had for a while, which is it happens to be the youngest skewing platform and it happens to be doing the best in terms of subscriptions. I think that mom and dad are footing a lot of Snapchat+ bills out there. So Snap, if you're listening, we're very happy to get data from you

on this to refute this hypothesis, but I think it certainly does make sense and that does ask the question, well then how easy will it be for them to double this number, triple this number in the name of revenue diversification? I think it might be challenging.

Marcus Johnson:

Currently, four bucks a month. Will that go up? Snap said that they hope to double Snapchat+ subscribers this year from its current 7 million. That's just their goal. It's not a promise by any stretch, but that number is small, but it is picking up a bit. They added 2 million since September of last year, so that's suggesting that subscriber growth has picked up a little bit. It's not tapering off already, which is a positive sign for them.

Grades time. So Minda, I'll start with you. What grade will you give Snap for Q4 and then also a separate one for 2023 and their performance?

Minda Smiley:

I would say for Q4, I would give it, I mean a B+? I mean it wasn't great, but they did see, maybe I'm being optimistic, but they did see revenue growth. They did see daily active user growth, so they ended the year on a bit of a better note than they had in the past. For the year though, I would probably say a B-. I don't think they're, I would say, I have to look at the whole year, not as impressive.

Marcus Johnson:

Okay. Jeremy?

Jeremy Goldman:

This is a bit tricky. I think I would probably give them a B for 2023 and then for the most recent quarter, probably a B minus. Again, factoring in the fact that Snap is more weighted towards brand marketing, which is a little bit harder to recover. Performance marketing dollars are easier to come by these days, but ultimately there are a lot of really strong ambitions and ideas behind the platform. But from an execution standpoint, I certainly don't envy them because of the challenging landscape for them to compete in right now. But I also wonder could they be executing a little bit better than they have?

Marcus Johnson:

That's pretty generous actually, to be honest. 'Cos, I mean the Q4 was plus five, and as I said, it'd been zero before that and the year and a whole quarter by quarter basis wasn't great for them. But when you zoom out for the year, Snap was flat, 0% growth overall, year-on-year. 2022, they grew 12%. The two years before that, they grew closer to 50%. So full year growth, it feels like it is officially stalled despite showing some promising signs towards the end of last year, 2023. Snap's guidance for Q1 suggests they're expecting pretty decent revenue growth, but only okay, subscriber growth. Our forecasting team is expecting a bounce back year though for the company for 2024. We'll see. That's all we've got time for this episode. Thank you so much to my guests. Thank you to Minda.

Minda Smiley:

Thank you.

Marcus Johnson:

Thank you to Jeremy.

Jeremy Goldman:

Pleasure as always. Thanks.

Marcus Johnson:

Yes indeed. Thank you to Victoria who edits the show and the gang, James, Stuart and Sophie. Thanks to everyone for listening in. We hope to see you tomorrow for the Behind the Numbers weekly listen, an eMarketer video podcast made possible by StackAdapt.