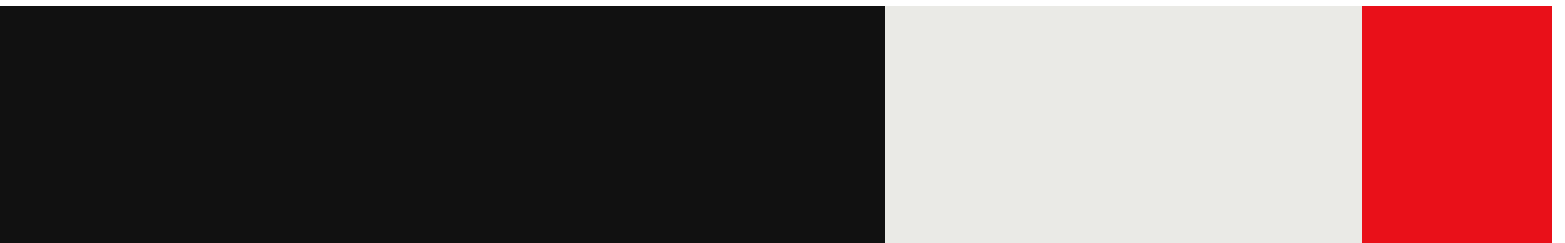


The Daily: Meta launches ad-free tiers, and will AI help us come together again on social media?

Audio



On today's podcast episode, we discuss a new lawsuit against Meta for designing its products to be addictive to kids, new paid ad-free versions of Facebook and Instagram, and where

Threads engagement is at. "In Other News," we talk about whether we will ever come together again on social media and if AI can help us get there. Tune in to the discussion with our analyst Jasmine Enberg and director of Briefings Jeremy Goldman.

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Episode Transcript:

Jasmine Enberg:

We are in this moment where all of the platforms are trying to usher in this new era of ad-free social media. And I mean, Meta's hand is being forced here, right? I mean, subscriptions are

more sustainable than advertising, but they don't tend to be quite as lucrative, and it's pricey.

Marcus Johnson:

Hey gang, it's Monday, November 13th. Jasmine, Jeremy, and listeners, welcome to the Behind the Numbers Daily: an eMarketer Podcast. I'm Marcus. Today I'm joined by two folks we have with us, our principal analyst covering everything social media based on the left-hand side of the country. America, that is. It's Jasmine Enberg.

Jasmine Enberg:

Hey, Marcus. Hey, everyone.

Marcus Johnson:

Hello there. We're also joined by one of our senior directors of briefings based on the right-hand side of the country. It's Jeremy Goldman.

Jeremy Goldman:

The correct hand side of the country, and.

Marcus Johnson:

Oh.

Jasmine Enberg:

Oh.

Jeremy Goldman:

Great to meet with you.

Marcus Johnson:

Shots fired. Maybe he's right. Maybe he's not.

Jeremy Goldman:

But maybe he's right.

Marcus Johnson:

He's not. Today's fact, what lives the furthest underwater? So Monday, Jasmine, we talked about what bird can fly the highest.

Jasmine Enberg:

That still blows my mind, by the way.

Marcus Johnson:

I know, question that we hadn't asked ourselves until then, but when you ask yourself, you're like, "Yeah, I should have asked myself that a long time ago," for no reason at all, it's not really that important. So the next question that I had was, well, what lives furthest underwater? Answer, it's a fish. Shocker. Found off the coast of Japan that could be the deepest ever recorded after Japanese and Australian researchers filmed a *Pseudoliparis* snailfish at 27,000 feet. So that's almost as high as the height a bird can fly. It's the same height most planes fly at, that's how deep down this fish can go. 8,000 meters for meters people, five miles from miles folks. That seems too far. I'm not great in the shallow end of a pool, so I feel like that's a little much.

Jasmine Enberg:

Have you scuba dived, Marcus?

Marcus Johnson:

God, no. I put my head under the water one time in my whole life, and that was, also, I was washing my hair in the bath. Yeah, well, it's interesting because we could obviously find something swimming deeper at some points because only 20% of the sea floor has been mapped. How insane is that? Making it the more mysterious place than the surface of the moon or Mars. So every time explorers go down to the bottom of the ocean, they could be seeing something no human's ever seen before. But another way, more people went on Apollo missions to the moon than have been to the challenge of deep, which is the deepest part of the ocean.

Jasmine Enberg:

So what you're saying is this fact may not actually be a fact because we don't know.

Marcus Johnson:

Yeah, no.

Jeremy Goldman:

Mind-blowing.

Marcus Johnson:

It's just what we've seen. Yeah, what someone saw recently and no one else can prove that they saw something more impressive. So that's where we find ourselves. Anyway, today's real topic, Meta launches ad-free tiers and get sued for creating addictive platforms.

In today's episode, first in the lead we'll cover Meta. Then for another news, we'll discuss whether we'll ever come together on social media again and what might help us get there. We start, of course, with the lead. We're talking about Meta, and we're going to start with another big tech lawsuit. Bobby Allyn of NPR writes that a group of over 40 states sued Meta in October, accusing the social media giant of designing products that are deliberately addictive and fuel the youth mental health crisis. He notes that legal experts say Meta will likely invoke Section 230 as part of its defense. That's the bit that says platforms aren't liable for what people post on them. But state prosecutors are trying to swerve that excuse since the allegations center on violations of consumer protection and child safety laws, not pieces of content. Jasmine, I'll start with you. You cover social media for us. What'd you make of this new suit against Meta for designing products to be addictive for kids, allegedly?

Jasmine Enberg:

Look, it's one of the largest legal challenges that Meta has faced here in the US and that needs to be taken seriously. It has the potential to disrupt upend the products that Meta has brought to market. That said, it would take years for any real action, and I'm also not convinced that this approach of singling Meta out is right. It is horrible, and it is tragic to hear about all of the suffering, but we also need to address the root cause of the mental health crisis, especially among young people. So social media can exacerbate those problems, but in many ways, it's also a reflection of our society. So while I do think the platforms bear responsibility for protecting their users, we also need to take a deeper look at ourselves as a society, implement broader regulation, education, and resources if we really want to fix the underlying problem here.

Jeremy Goldman:

I would just add, I think it's not even social media. I mean obviously it is social media in part, but I think smartphone addiction, you can go down a whole rabbit hole and find a number of different players that do quite well by offering younger consumers and consumers in general products that basically are dopamine manipulating to some extent, right? And is it just Meta? Obviously not. Are there other companies that are working on how to get people addicted to their apps and their smartphone features? Yes. So it is a really valid point that should it just be one company held responsible, or is this just a portend of a greater thing going on?

Marcus Johnson:

Yeah.

Jasmine Enberg:

Look, and I made the same argument about TikTok when it was being singled out. I just don't think scapegoating one company is the right approach here. And I am not here defending Meta, they are not perfect and they have a lot of work to do, but they have implemented guardrails to try and help protect users. So at this point, it really does become this larger question of what can we do at a broader scale to actually really start to combat this crisis and not just for better or worse, put a Band-Aid on a larger issue.

Marcus Johnson:

Yeah. The short history here. So the evidence is 2021 internal Instagram report The Wall Street Journal got hold of. So if you folks remember whistleblower Frances Haugen and the Facebook files, it was showing Meta was aware of its negative impact on children. One-third of teen girls who felt bad about their bodies said using Instagram made them feel worse, that was something that came out in his files. Made Meta cancel their Instagram Kids plan, if you guys remember that. So that's what some of this is centered around. Will it work? Won't it work? Section 230 might not work this time as the defense. Jeff Kosseff, a law professor and author thinks, "Courts are increasingly willing to conclude Section 230 is not a defense in suits arising from claims about product design."

However, this is going to be tough to prove. Mark Bartholomew, professor at the University at Buffalo School of Law thinks it'll be a stretch to prove since although social media use might be a compulsive behavior, there's no official diagnosis for such a thing as social media addiction. So we'll see, could be a landmark moment. Mr. Allyn noting some observers like the

litigation to lawsuits of the 1990s against big tobacco, they imposed new limits on tobacco industry marketing. But we'll see.

Let's move to some other news for Meta in Europe across the pond. Meta now offering ad-free versions of Facebook and Instagram for the first time. Adam Satariano and Christine Hauser of the New York Times were noting Meta said it was complying with evolving European regulations on privacy by introducing the subscription option in the EU and a few other European countries outside of it. Quick history, to protect people's privacy, Europe's highest court this past summer barred Meta from combining data collected about users across its platforms, Facebook, Instagram, WhatsApp, and outside site snaps unless it received explicit consent from users. The ad-free tiers will cost about \$11 a month on the web, 14 on mobile devices. Jasmine, how do you think these new paid ad-free versions of Facebook and Instagram will be received?

Jasmine Enberg:

So it's interesting, right? I mean we are in this moment where all of the platforms are trying to usher in this new era of ad-free social media. And I mean Meta's hand is being forced here, right? I mean, subscriptions are more sustainable than advertising, but they don't tend to be quite as lucrative. And it's pricey. I was looking this up and a standard Netflix subscription in the EU costs about 12 euros. So if you compare that to Meta's plans, it's around the same amount. I think that might price out a lot of people. Might not necessarily be a bad thing for Meta if more people choose to stay on the ad-based version of the site. But either way, I think this will be a really great test case for how ad-free social media might perform.

Jeremy Goldman:

The interesting thing about this is that obviously we're all aware that this is coming out of legislation and unique market concerns that the EU has. They're also going to be offering this option in a few other places like Norway and Switzerland. But I think that to me, the big challenge with this is we've covered Snapchat plus, which has done quite well by offering these really interesting features that not everybody has yet, and that has outperformed by some measures what people expected. This is different because this is trying to get you to pay to get rid of ads.

And one thing Meta said for a really long time is that these ads are a value add basically. They are improving the overall user experience. So by saying, but now you can pay to get rid of

them, it does undercut that argument. And I think the last thing I'll say about this, which is interesting is if you were to try to replicate this in other markets like North America, it's really difficult because the average revenue per user is so incredibly high here, I don't know how you could actually replicate it because it's almost showing people, by the way, you are worth quite a bit more to us depending on where you live.

Marcus Johnson:

Yeah.

Jasmine Enberg:

Your point, Jeremy, I was just reading the blog post where Meta announced this and it was just fascinating to read the language and the terminology they used to describe this move. Talking so much about how they're still committed to this ad supported internet, which I think goes perfectly with your point about this undercutting what they've said before about advertising really being a value add to their platforms. But would either of you pay for Facebook is the question.

Marcus Johnson:

Facebook or any social media platform for no ads?

Jasmine Enberg:

Facebook.

Jeremy Goldman:

I think that, I mean, I'm a tough person to ask this, right? Because I want to see as many ads as possible so I can look to see how targeting works across everything.

Jasmine Enberg:

That's fair.

Jeremy Goldman:

But for most people, I think the answer is it's very difficult to get them to pay for something, even if they like it. And with Facebook, people are a little bit more on the fence than they might be on Instagram.

Jasmine Enberg:

What about any social media platform? Marcus, will you answer that one?

Marcus Johnson:

Well, I'm not on any, which is why I'm hesitating because it's hard to get me to use any in the first place.

Jasmine Enberg:

All right, this is not the right audience for this question.

Marcus Johnson:

Not at all. Yourself, Jasmine?

Jasmine Enberg:

Maybe. Maybe not for Facebook, but I'm not a big Facebook user, but I could see a world in which I would pay if there was a right value add for it.

Marcus Johnson:

Yes, and the price is really important here. And yeah, it seems like there's not a lot of interest for paying for these, at least at the moment. There was some new CivicScience research out that's showing 82% of folks who use Facebook or Instagram would not be interested in paying for an ad-free subscription option. Of the 14% who said they would be interested, they said they'd pay up to 10 bucks a month for it, which is a touch below what these are being offered as. It's a large audience to test this out on, the EU home to 450 million people, which is a hundred million more than America across 27 countries. So we'll see. Fascinating experiment of sorts.

Let's move to their earnings to close out the lead. Jeremy, they just recently reported on how they did in the last couple of months, and so Facebook, they said they added 21 million new users worldwide. That's more than added last Q3, Facebook is approaching a total of 2.1 billion daily active users. Jeremy, what stands out to you most about Meta's Q3 daily user growth?

Jeremy Goldman:

So one of the things that stands out to me most when looking at these is that Meta did quite well, but it also did well by serving up more and more impressions, not necessarily charging advertisers more. And I think that that's a really important thing is that they looked at this as an opportunity to flood the market, if you will, with impressions. And the cheaper it is to reach customers, the easier it is to get people to advertise with you obviously. That's something that they were looking long and hard at from a business perspective and that's why they eventually do want to open up more and more ads surfaces if you will, through Reality Labs, which they continue to invest in. And they say that they're actually going to be investing more in the next year as well as Threads, which they are not quite monetizing right now, but they do look at as critical to their future in terms of just getting people to spend more time on their platforms overall.

Marcus Johnson:

Yeah. Threads now claiming just under 100 million monthly active users, they've reached 100 million signups in the first week. Their goal is for a billion users, but monthly active users, it's not the best sign of or indicator for social network engagements. Threads has gone, if you look at weekly, Threads has gone from 50 million visitors a week when it launched to 10 million as of October according to Similarweb. Looking at Facebook, yeah, regionally, North America, they added users each of the last four quarters now at 203. So that's impressive given they were stuck at 198 for a couple of years, 2020 to 2022.

Europe's been stuck at 307 all year. Asia and rest of world we're up about 10 million roughly. Facebook's family of apps. Just remarkable growth there. Facebook, WhatsApp, Instagram, et cetera. Daily active people shot past 3 billion at the start of the year. The monthly average people will cross 4 billion by the end of this year. 4 billion people using one of Meta's apps by the end of this year. They just added 80 million people in Q3, 8-0. That's two Californias worth of people, I don't know where they're finding them.

Jasmine Enberg:

Yeah, it's just incredible how they can continue to grow given how massive the platforms already are. But the other piece that really stood out to me in terms of usage from their earnings report was the time spent growth on Facebook and Instagram. It was up 7% and 6% respectively, which is also just incredible growth considering how much time people are already spending on these platforms. And that of course is also another really important metric to advertisers, and we know that Facebook engagement has been going down for

quite some time. Now, Meta credited a lot of this to AI and its AI driven feed recommendations that were really driving more engagement across the platforms. And if you look at the whole scope of their earnings, whether we're talking about users or advertisers, AI really was the big story for me. They said AI almost 50 times on the call.

Marcus Johnson:

Wow.

Jasmine Enberg:

Which was really just a sign of where they're focused now and what investors also want to hear. To Jeremy's earlier point about Reality Labs and how that is still the end goal and the focus of the company overall, I mean with all the attention shifting towards AI, Meta has not only been able to also shift in that direction, but also convince investors to stop worrying so much about the losses that Reality Labs continues to incur, because it's been able to stabilize its core business using some of these tools.

Marcus Johnson:

Yeah, Meta is spending a truckload of money on the company's Metaverse division, Reality Labs. They said operating losses will increase meaningfully year-on-year because of its product development efforts. And they posted an operating loss of close to 4 billion as in just Q3.

Jeremy Goldman:

Another thing that they said quite a lot on the call was I think the word messaging. I think actually Jasmine noticed this initially, and that is really critical because I think actually WhatsApp is going to be certainly a part of their ecosystem that they try to monetize a lot more in the year to come. That's something that Mark Zuckerberg has talked a decent amount about. So I think look for more on that front over the coming year.

Jasmine Enberg:

And guess what they're banking on to monetize messaging? AI.

Marcus Johnson:

What? No.

Jasmine Enberg:

All just goes full circle.

Marcus Johnson:

Who saw it coming? So on the revenue side, a few highlights real quick before we move to the second half. Sustained bounce back, this is the third consecutive quarter of rising revenue growth after shrinking most of last year. However, chief financial officer Susan Li warns the company had seen softer ad spending in Q4, which correlated with the start of the Middle East conflict. Jasmine, something we were talking about in the Snapchat episode as well. Average prices per ad fell 6% in the quarter. Average revenue per user was up two bucks in Q3 worldwide, up seven in North America, five in Europe, so that was good.

A net income for the company, nearly 12 billion, that's three times what it was a year ago. Headcount is down 25% from last year. So that is obviously helping get that number up. Metrics expects Q4 revenue to land between 36 and 40 billion. That'll be 15% growth on the low end. It had a negative for last Q4 or a 30% growth on the high end. That would be the best Q4 since 2020. Skip the halftime report. We move straight to the second half of the show, which isn't really the second half. It's a last quarter and Stuart hates that we call it the second half of the show, but we do. Today, in other news, will we ever come together again on social media and can we bring socializing back to social networks?

There's really just one big story, so let's get into it. Will we ever come together again on social media? Kaitlyn Tiffany of The Atlantic wrote last year that the viral online challenge is never coming back. We used to come together on social media, now we come apart, she says. In the piece, she reminds us of one of the first viral social media challenges when folks danced and lip-synced to Carly Rae Jepsen's number one hit Call Me Maybe. She thinks the challenge once embodied all that social media was meant to be, a forum for exchange. But today's challenges, she says are a hot or talented famous person's game now. Jasmine, your take on this article.

Jasmine Enberg:

So Marcus, to me this reads like when you hear older generations be like, "Back in my day."

Marcus Johnson:

Oh, yeah.

Jasmine Enberg:

And talk about how everything was better, less expensive.

Marcus Johnson:

It was.

Jasmine Enberg:

And easier. And the author makes some good points, and it's true that a lot of these viral challenges have been co-opted and transformed by TikTokers, but also social media moves fast and we've entered a new era. And to say that there's no connection or community organization on social platforms is not true, we're just finding it in different ways. It's more about niche communities, group chats, Discords and all these micro trends, which again, to the author's credit may not translate to a larger population the way that Carly Rae Jepsen does, but I don't think that means we're less connected, and in some ways maybe we're more connected just to a smaller group of people.

Marcus Johnson:

Yeah, it did bring up some really very nostalgic feelings. She was referencing some challenges like the Harlem Shake, the Ice Bucket Challenge, the Mannequin Challenge.

Jasmine Enberg:

The Ice Bucket Challenge, that is forever lodged in my memory.

Marcus Johnson:

As well it should be.

Jeremy Goldman:

The thing is though about this is that it's almost like all these people who were saying TV is dead. And it's like, well, TV actually transformed.

Jasmine Enberg:

Right.

Marcus Johnson:

Yeah. I thought it was also interesting though because she was pointing out that all of these older challenges had spread on Facebook via YouTube, which was more or less the official platform of the viral challenge because Facebook at the time was a cross generational platform, she says, where you could share content with your mother and grandmother. Facebook was far from perfect, but people did use it like a town square or a family meeting place saying in 2017 though Facebook started to lose younger users to Instagram, then TikTok came along. Now Facebook is a wasteland known for corrupting the minds of boomers. And so a different landscape indeed.

But there's a second article we were reading for this topic, September 2023, New York Times article by Yiwen Lu was read to bring socializing back to social networks apps try AI imagery to rejuvenate the fun, interactivity and whimsy of creating and sharing images. Ms. Lu writes that last month Snapchat announced Dreams, an AI imaging feature that lets users in Britain, Australia and New Zealand create outlandish selfies. TikTok last year rolled out several in-app filters that use AI to transform selfies into the style of a comic or a dreamlike character. And there's also a new app called BeFake, which prompts users at a different time every day to take a picture with their smartphones front and back cameras, and then has AI transform the image. Think BeReal, but it creates an AI modified image. And Sam Saliba, who was Instagram's global brand marketing lead and is a consultant, says the growing number of AI imagery tools in various apps underlies how using AI interactivity is where social media will go. Jeremy, do you agree?

Jeremy Goldman:

I partially agree in the sense that-

Marcus Johnson:

Maybe, it's a maybe.

Jeremy Goldman:

Well, yeah.

Marcus Johnson:

It's a soft maybe.

Jeremy Goldman:

AI is something that can increase time spent, which naturally is going to then increase some type of social communication between people on social platforms. I think I have a bigger problem with the overall premise just because social media was not always 1000% social, there were always facets of antisocial if you will in it. And also you've got a lot of things that you're just seeing convergence all over the place. There are platforms like Netflix that you don't think of as social, but try to make watch parties a thing and are trying to become more social over time. And then you've got social platforms that are becoming less social. So to me it's just like a bit of an issue with this whole entire idea that social was always social because it wasn't always super social.

Marcus Johnson:

And that is all we have time for folks. Thank you to my guests, thank you to Jasmine.

Jasmine Enberg:

Thank you, Marcus. Thank you everybody.

Marcus Johnson:

Thanks, Jeremy.

Jeremy Goldman:

Pleasure as always.

Marcus Johnson:

And thank you to Victoria who edits the show, James who copyedits, Stuart runs the team, and Sophie who does social media. Thanks to everyone for listening in. We'll see you tomorrow hopefully for the Behind the Numbers Daily: an eMarketer Podcast.