

From AR to AI, what's going on at Snap?

Article

Snap is having trouble monetizing because Snapchat is primarily a chat platform, and “messaging apps are notoriously difficult to monetize,” said our analyst Jasmine Enberg.

Snapshot: Last week, Snap reported its first quarterly revenue fall since going public in 2017. With ad sales falling, the company is leveraging AR and an AI chatbot to get back on track, announcing new AI-driven ads this week at the Interactive Advertising Bureau's NewFronts.

- First-quarter revenues totaled \$989 million, falling short of analysts' expected \$1.01 billion and a 7% decline YoY.

- An ad slump cut into average revenue per user, which was \$2.58, down from \$3.20 YoY, according to StreetAccount. Snap is still struggling with fallout from Apple's AppTrackingTransparency, even as competitors like Meta and Google posted decent first-quarter earnings.
- Spotlight, **Snapchat's TikTok copy**, was a spotlight for the quarter. Monthly active users were up 46% YoY and time spent was up 170% YoY, according to Snap.

If Snap wants to venture beyond messaging, the company could lean into its software as a service (SaaS) retail offerings, but consumers aren't sold on AR for shopping. Just 12.4% of US adults use AR for shopping, according to our forecast.

It's also leaning into AI, but its own users are **weirded out by Snap's current offerings**.

The AR angle: Snap's AR is ahead of many competitors (except perhaps TikTok) in both capability and adoption, boasting **250 million daily users worldwide**,

- The social media platform **partnered with Amazon** in November 2022 to make virtual try-ons available for eyewear using filters that direct **Snapchat users** to Amazon's app.
- The company has branched into SaaS, offering a "fit finder," clothing try-on, 3D visualization, and physical AR mirrors available for retailers.
- But Snap isn't a retail company, and the D2C partnerships with Goodr, Princess Polly, and Gobi Cashmere haven't been enough to buoy revenues overall.

The AI angle: Snap's other recent venture is **a chatbot called My AI**, which rolled out in April.

- New ad formats were announced yesterday, which would leverage data from conversations with My AI to deliver sponsored links. For example, a user asking where to go on vacation would see ads for flights or hotels.
- For those ads to work, users will have to talk to the bot, which received a flood of negative reviews from users who felt the chatbot got in the way of Snapchat's main purpose—messaging.

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