

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 App Tracking Transparency, 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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