Snap - When your Core Competency is a Loss Leader

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> We won't put advertisements in your personal communication—things like Snaps or Chats. That would be totally rude. We want to see if we can deliver an experience that's fun and informative, the way ads used to be, before they got creepy and targeted.
>
> - Evan Spiegel

I'm increasingly receptive to the narrative that Snap is becoming the new Twitter. While the revenue of both are restrained by the limited degree to which they have information in the user (and such can't charge advertisers a premium for really direct targeting like Google and Facebook), Snap also suffers from the lack of a feed users can be sucked into.

Snap's core competency is messaging by way of photos. This has been a notorious segment for monetization. Specifically, Facebook Messenger puts ads in between messages and it's a horrible user experience, WhatsApp just charges $1/year after the first year, and even WeChat/KakaoTalk just use messaging as a loss leader (beyond simple things like sticker packs) to pull people into their wider ecosystem based around their specific messaging app. If we're being honest, Facebook is using messaging as a loss leader too.

The problem with Snap is that messaging can't be a loss leader.

This means that Snap can only advertise in areas outside of its core competency and has to both create new channels for its customers to interact with, and monetize it at the same time. This leads to a really bad user experience which leads to lower advertising premiums. When the data you collect on users is also sparse, (Snapchat must have orders of magnitude less data on each user than Facebook) ad premiums suffer even more and their relevance drops. I've come to really appreciate Facebook Ads and interact with a good number of them, while all I want to do when I hit a Snapchat ad is to continue clicking. If Snap dies, it will be because of this spiral (poorly monetized core competency + a lack of user data leads to a bad user experience and low rates of interaction which leads to lower quality advertisers which only reinforce users idea of a Snapchat ad).

Related reading:

Snap seems to have really good international reach [a] — 13+/32 million in the Kingdom of Saudi Arabia seems remarkable.

I think Snap suffers from one of the same core problems as Twitter - particularly its defunct Vine division. Users have some tolerance level for the percent of their time they will spend on a platform engaging/tolerating ads during any given session and Snapchat Stories/Vine sessions are just too short to ads to exist at any meaningful scale without being disruptive to a user's experience (feeding the aforementioned cycle). Feed based social networks like Facebook (and increasingly Twitter) have longer sessions and a more natural place to put ads).

Having more user data would probably help Snap deliver "an experience that's fun and informative". I find Facebook ads so good because they're so targeted for my niche interests. All I see on Snap are body building videos, pyramid schemes, and fraternity formal planning sites (I guess they know I'm on a college campus…).

Links

a. forbusiness.snapchat.com/blog/snap-across-the-map-addressable-reach-around-the-globe