

Twitter takes hit as user growth disappoints (Update 2)

February 5 2014, by Glenn Chapman



An official Twitter account on a smartphone in Rennes, November 7, 2013

Twitter got a reality check Wednesday as the high-flying messaging company reported modest user growth during a quarter in which it lost \$511 million.

Even more disconcerting, in the eyes of some industry watchers, was that the typical amount of time people spent checking out timelines actually

dropped.

"If you don't have an engaged user base, you don't have a business," Forrester analyst Nate Elliott told AFP.

"They have got to do better on users, that is the entire story."

Twitter makes money from ads in the form of "promoted tweets" in timelines, and it needs strong growth to keep its momentum.

Twitter shares skidded more than 17 percent to \$54.16 in after-hours trades that followed its first quarterly earnings release since its stock market debut last year.

Twitter problems include going from being seen as an online venue for quick fame to being viewed as a global platform for infamy, according to analyst Rob Enderle of the Enderle Group in Silicon Valley.

Attention has been shined on people losing jobs or facing ridicule for Twitter posts.

In a recent example, a television star came under heavy online fire for a joke he tweeted playing off the death of actor Philip Seymour Hoffman.

"When people started getting destroyed by what they posted, people started looking at using the service as stupid," Enderle said. "And stupid is not status."

The results showed revenues in the quarter that ended December 31 doubled from a year ago to a better-than-expected \$242.6 million.

The number of worldwide users was up just nine million from the figure of 232 million when Twitter went public in November, suggesting only

modest growth at a time when investors were looking for a surge.

In its first earnings report as a public company, Twitter said the loss for the year widened to \$645 million from \$79 million in 2012, even as revenues more than doubled to \$664 million for the full year.

The San Francisco-based firm said advertising brought in \$220 million in the quarter, an increase of 121 percent year-over-year, with mobile accounting for more than 75 percent of total.

Twitter shares soared from the offering price last November of \$26, and analysts say that to sustain that momentum Twitter must prove it can grow and move toward profitability.

"Twitter finished a great year with our strongest financial quarter to date," chief executive Dick Costolo said in the earnings release.

"We are the only platform that is public, real-time, conversational and widely distributed and I'm excited by the number of initiatives we have underway to further build upon the Twitter experience."

Investors still not sold

Twitter has fast become ingrained in popular culture but must still convince investors of its business model.

It is expected to be able to reach profitability over time by delivering ads in the form of promoted tweets, and from its data analytics.

However, "the problem is that there are some serious caveats for growth ahead," Jon Ogg of website 24/7 Wall Street wrote in a post about the earnings.

"Twitter's stock is so far getting a reality check."

Costolo spent much of an earnings call assuring analysts that Twitter is working on features and improvements intended to ramp up the number of users, along with how much they engage with the global one-to-many messaging platform.

"It will be a combination of changes introduced over the course of the year that will change the slope of the growth curve," Costolo said.

"We want to reach every person on the planet."

Twitter will be particularly focused on making it easy for anyone to grasp the service within moments of a first visit and on improving the experience on smartphones and tablets, according to the chief executive.

Twitter, which has its roots in 140-character text messages, also planned to get more visually engaging with pictures and video.

The service's format of sharing in real-time with short text messages doesn't lend itself easily to traditional ad formats, so the company needs to get creative with marketing messages, according to analyst Enderle.

During the earnings call, Costolo told analysts that Twitter didn't need to change anything, it simply needed to make "Twitter a better Twitter."

Forrester analyst Elliott criticized Twitter for essentially remaining a one-trick pony since the San Francisco-based service launched in 2006.

Leading social network Facebook, in contrast, has relentlessly added features or capabilities and its ranks of users now tops 1.2 billion people.

"It's a bit vexing," Elliott said.

"Facebook is constantly adding to the site, while Twitter has been sitting on this single feature for their entire existence."

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Citation: Twitter takes hit as user growth disappoints (Update 2) (2014, February 5) retrieved 26 April 2024 from <https://phys.org/news/2014-02-twitter-4q-loss.html>

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