

Cheap content, growing reach make Snapchat a fast-rising star

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Thousands of revelers descended on the Coachella music festival this month to rock out to their favorite bands and party day and night. But a far bigger audience from around the world - at least 40 million - joined in remotely through video snippets from Snapchat.

Those snippets, no more than 10 seconds long, were shot and posted by Snapchat users at no cost to Snapchat. The fast-growing startup simply stitched clips together using software. It's now selling [advertising](#) for those programs; with free content, the profit margins would be huge.

Critics dismissed Snapchat early on as a smartphone app that didn't do much but let lovers trade the type of photos they didn't want saved. But the huge audiences that Snapchat is gathering on a new feature called Stories is the latest example of how a tiny company can rise up fast with a business strategy that could make it the next hot technology sensation out of California - much like Facebook in its early days. Early Stories advertisers include Coca-Cola, Universal Pictures, Macy's and Samsung.

Consider the potential: Top broadcast shows, such as CBS's "NCIS," average about 20 million viewers, half the Coachella audience. Snapchat's reach, advertising industry analysts say, is big enough to siphon ad dollars otherwise spent on television and YouTube.

"You have a TV-sized audience all viewing at once, or at least within a day," said Michael Boland, chief analyst at ad consultancy BIA/Kelsey. "Brand advertisers really like that."

The under-35 crowd, spending less time with TV, has been a pesky lot to track down for advertisers, but Snapchat is among the few social media apps in which they see possibility. Spending on mobile ads that take a user's location into account is expected to balloon to \$19.3 billion in 2018 from \$4.3 billion in 2014, according to BIA/Kelsey. Snapchat aims to take a big piece.

There's no certainty that it will. The private company's profits will have to be huge and sustained for many years before it can justify its market value, reputedly about \$15 billion based on recent venture capital investments.

That assumes some hefty advertising revenue. Adweek reported this year that the company was asking brands for \$750,000 a day to place ads on the platform. Snapchat declined to say how much it makes from advertisers.

Facebook, founded in 2004, de-emphasized advertising in its early years, when founder and Chief Executive Mark Zuckerberg talked about building a social network first. When it got big enough, advertising dollars would follow, and they did. Now Facebook is becoming a channel for videos and other content and is pulling in annual revenue of \$12 billion a year and growing.

Snapchat is taking a more aggressive approach to ad revenue than Facebook did. The disappearing message feature grew fast by attracting mostly young users who sought a more shrouded social network than the highly public Facebook could provide. And then it took off yet again as it added mobile video. When Facebook launched, technology for online video was still fairly crude.

Snapchat's content is cheap. User-sent video costs next to nothing - just some software and human curators to piece together compelling

snippets, which differs substantially from the disorganized mess that confronts visitors to YouTube.

Snapchat gets free content from media companies too, some of it high quality. Snapchat's new Discover feature displays buttons that take Snapchat users into short, splashy video productions by Vice, CNN, National Geographic and others. Advertisers on Discover include Verizon, BMW and Sperry Top-Sider.

Forget profits for now, though. It's believed that Snapchat barely brings in any revenue, with its experiments in advertising at an early stage.

Still, the nearly 4-year-old company's success with new forms of ephemeral content is likely to keep early investors happy.

"I see what Snapchat is doing around Stories and Discover, and I feel it's safe to assume that Snapchat will become a viable platform for video advertising," said Jared Lake, director of digital strategy at ad buying agency Ocean Media. "They have some refining to do, but I would be shocked if they didn't get there very soon."

The success with Coachella highlights the possibilities for Stories, a grass-roots look into what life is like at festivals, award shows, sporting matches, college campuses and cities near and far. The glimpses of daily life are organized into three- to five-minute videos by a small team of Snapchat employees. Their source material: hundreds of hours of user-generated photos and videos. Attention from Snapchat can amplify the chatter about an overlooked event - like last weekend's Oxford vs. Cambridge boat race on the River Thames - as much as a highly orchestrated TV production.

Requests for certain events flood Snapchat workers on Twitter and email, cluing them in to items the company might never have imagined:

cheerleading competitions, university dance-a-thons, horse races. Each clip in a story is available for 24 hours only; then it disappears.

Stories for Los Angeles and New York City, the two cities where Snapchat has offices, have become mainstays since launching in February and have drawn millions of views a day. Snapchat also has produced Stories for 70 college campuses, though the videos are viewable only to those nearby.

"The experience is through the lens of the community, and that human perspective is pretty unique and exciting," Snapchat spokeswoman Mary Ritti said.

Snapchat is playing with ways to incorporate ads into the new features. It has slipped advertising in between clips in a few event-based Stories, but not yet into any city- or college-themed ones.

It's the latter group, however, that could widen Snapchat's revenue potential as it taps into niche or regional advertisers in thousands of markets, not just national accounts such as Verizon Wireless and Sperry Top-Sider.

"Multi-location businesses, restaurants, retail or down even further to the small-business marketing space," said Boland, the analyst. "The more fragmented universe of local advertisers is where Snapchat could really get scale."

The ads probably would have to remain high-quality, vertically shot, short and sporadic - as they are now - according to experts. Snapchat's avoidance of sloppy and infuriating ads is paying off, said Stephen Boidock, social engagement director for the Austin, Texas-based advertising agency Drumroll.

"What's great about Snapchat is they're learning how people use the tools and apps to create the best way to integrate advertising naturally," Boidock said.

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