

Snapchat: Here to stay or gone tomorrow?

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The Los Angeles-based company behind the vanishing-message smartphone app Snapchat was valued at more than \$15 billion in its latest funding round

Is Snapchat a lasting sensation or a shooting star?

Just as the vanishing-message smartphone app confirmed that six billion videos are viewed daily—a three-fold surge from early this year—word spread Wednesday that one of its investors slashed the value of its holding in the startup by 25 percent.

It wasn't clear from regulatory filings whether backer Fidelity Fund thought Snapchat was worth less, or whether it had sold off some of its stake.

The Los Angeles-based company was valued at more than \$15 billion in its latest funding round.

"Right now, investors are confused," Global Equities Research analyst Trip Chowdhry said while discussing dizzying valuations being heaped on trendy Internet startups.

"These social media companies rise fast and fall fast. The life is very short."

Investors can fall prey to leaping in too quickly onto hip Internet startups picking up traction, then they "look to a bigger fool than themselves" to bail them out at higher valuations in later funding rounds or even initial public offerings of stock, according to Chowdhry.

Snapchat—especially popular with teenagers who like the fact that the chat messages disappear—has declined to comment on what it thought was powering its rapid growth in video.

"It is a huge number for them," analyst Rob Enderle of Enderle Group said of the staggering six billion video views.

"But you have to be concerned about the nature of the videos and if they are illicit in nature, a huge number could go away."

Enderle also cautioned that it is challenging to make money from videos that vanish after being sent from one person to another, instead of lingering for a large number of people to watch—the way they do at YouTube or Facebook.

Facebook revealed during a quarterly earnings call last week that more than eight billion videos are viewed daily at the leading social network, jumping to a level twice as high as it was early this year.



Evan Spiegel, co-founder and CEO of Snapchat, a mobile app that is especially popular with teenagers who like the fact that messages disappear

Risk or value?

"Now Snapchat is a vanishing-video service, though it makes you wonder what kind of videos they are," Enderle said.

"Given the nature of the medium, I'd say they were less valuable and more risky. I'm not really sure how you would monetize it."

He noted that it is tough for Internet communications products to make money, citing the challenge Twitter has faced on that front.

Snapchat's appeal has been the premise that messages disappear shortly after being viewed, providing users a sense of being able to keep pictures or videos private and ephemeral.

Snapchat rocketed to popularity in the United States, especially among teenagers, after the initial app was released in September 2011.

Last month, Snapchat introduced a "replay" feature for those disappearing messages, giving users an option to get another look at three "snaps" for a fee of 99 cents.

The app also makes money from ads and lets users in the United States send money to friends with "Snapcash" messages.

Shooting stars

"The key is the fact that this disappearing messaging app has gained a lot of traction with the millennial audience and shows no sign of slowing down," said Forrester analyst Erna Alfred Liouas.



Analysts caution that it is challenging to make money from videos that vanish after being sent from one person to another, as they do on the app Snapchat, instead of lingering for a large number of people to watch

"Now they need to be responsible to the people who invested in them."

Forrester classified the millennial crowd as people between the ages of 18 and 26 years old.

Alfred Liouas saw the surge in Snapchat video viewing as a promising indicator for its future.

"If it doesn't lose users and still grows, and video views increase, it should tell you that its got a special sauce that really interests the people who go there," Alfred Liouas said.

However, marketers face the challenge of coming up with kinds of ads that play to Snapchat audiences in style and content.



Snapchat has become popular in many countries outside the United States and is used more by females, reports say

Audi and General Electric are among major companies that have used creative approaches at Snapchat to promote their brands.

The analyst Chowdhry reasoned that Snapchat could still follow in the footsteps of Internet startup shooting stars such as Groupon, Box, and Zynga.

"It wasn't long ago that Groupon was going to take over the world, Box was going to revolutionize storage and Zynga was going to destroy

(console video game titan) Electronic Arts," Chowdhry said, noting none of those predictions held true.

"The problem is there is a big disconnect between something that is cool and something that is durable."

He noted that while advertising money is shifting online, it is being pegged to performance and spread over an increasingly wide array of venues from YouTube and Facebook to Instagram and mobile apps.

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