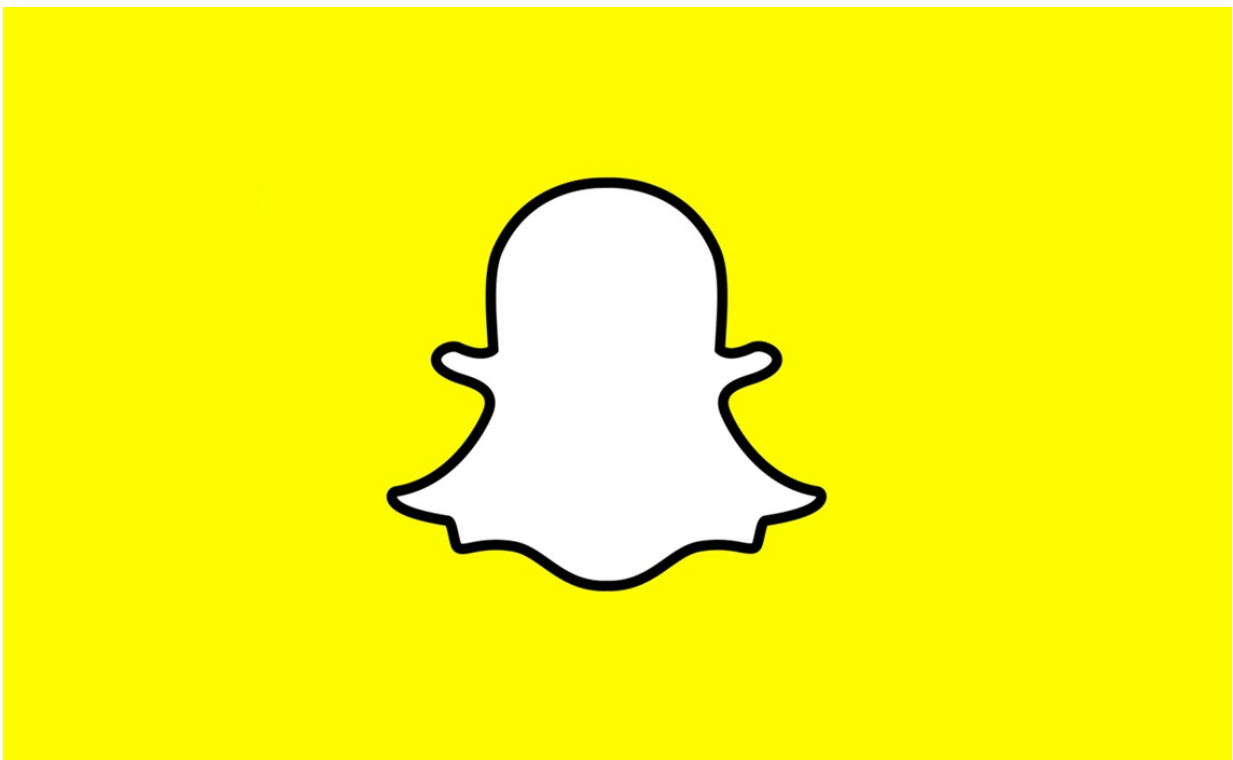


Snapchat's young users are at once its greatest asset and one of its biggest risks

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Kids don't use email any more. Facebook is for Mom and Dad. And Yik Yak is so 2015. When it comes to communication in 2017, Snapchat is where it's at.

Snap Inc.'s ability to court a young demographic with its ephemeral photo and video messaging app Snapchat has been one of its defining characteristics and the pillar of its success. But as the company prepares for its [stock market debut](#), its reliance on users under the age of 25 could also be one of its biggest liabilities.

"It's the rocks many ships have crashed on," said Erik Gordon, a professor at the University of Michigan's Ross School of Business, who has studied companies that staked their success on the loyalty of young customers.

"Think of all the teen retailers that were fabulously successful five to 10 years ago that are now in terrible shape. Look at Abercrombie and Fitch," Gordon said. "(Young people) are not as loyal as they move on. As they start to get older, they don't want to do what they did as kids."

And Snap Inc. knows this. In its S-1 - a form that companies planning to go public file with the SEC - the company pinpointed as a risk the fact that the majority of its users are between 18 and 34 years old, a demographic that "may be less brand loyal and more likely to follow trends than other demographics."

Worse, Snapchat usage appears to taper with age. Users younger than 25 opened the app more than 20 times a day and spent more than 30 minutes viewing photos and video. Users older than 25 visited Snapchat about 12 times a day and spent a total of 20 minutes in the app.

Whether the company succeeds in the long term or falls on the sword of youthful disloyalty will depend on whether it is touched by the "age effect" or the "cohort effect," Gordon said.

In the former, broad swaths of Snapchat users would lose interest when they reach a certain age.

"It would be like cheap beer," Gordon said. "I live in a college town, and the best-selling beers are cheap beers. But when these students graduate and they have income, they switch. They're no longer drinking what's on special."

The latter - and more desirable of the two - is the cohort effect, in which people stick with a product or service they've grown up with because it has become a habit.

"Each cohort and generation chooses what works for them, and then they stick with it," said Chi-Hua Chien, a partner at Goodwater Capital who led early investments in Facebook and Twitter. "People in their 40s use email, people in their 30s use text and Facebook, people in their 20s use Snapchat. People in their 40s aren't going to suddenly start abandoning email because something else has come along."

And that's what Snap Inc is banking on. Its S-1 is littered with references to "retention, growth, and engagement" - a sign that it understands the need to hang on to today's teens and millennials if it doesn't want to go the way of other flash-in-the pan apps.

But even just hanging onto its current audience could be risky, said Adam Brasel, associate professor and chairman of Boston College's marketing department. He said Snapchat faces a similar risk to many social networks: its mass popularity with current millennials might work against it in the next generation, much like how Facebook is not as popular with teens.

"To some degree, Snapchat is so popular right now with millennials that as millennials age, the generation that's coming up behind (them) may view Snapchat as not for them," Brasel said. "If it truly becomes this generational thing, they run this risk of being tied to the generation, rather than the age group. And that can be very risky."

Snapchat's popularity has already evolved from its initial appeal as a way to send disappearing messages. It now captivates users with a plethora of filters for photos and videos, and exclusive articles published by a select group of media companies. The trick, Brasel says, is to figure out what the next hook will be.

There are a number of brands that have aggressively marketed sub-brands to millennials, like Toyota Motor Corp.'s Scion brand, which was aimed at a younger demographic of car buyers that might not have otherwise been interested in Toyota vehicles. Last year, Toyota ended that brand. A majority of the market that found Scion attractive had aged up into the general Toyota market, Brasel said.

"Toyota was also smart in realizing the brand had done what it needed to do and kind of shuttered the brand before it began to gain negative equity," he said.

Some analysts believe that Snap might have the chops to pull a Toyota, hanging onto its current users while also appealing to tomorrow's tweens and teens.

"To do that they'll need to innovate, and we can see that Snapchat has already been able to hit a nerve several times," said Robert Lang, chief executive of social media analytics firm Socialbakers.

Lang noted that many of Snapchat's features have been such a hit with young users and advertisers that companies such as Instagram have added strikingly similar features to their own products.

"We can see that Snapchat is able to engage [users](#) at a very high level and at a very young age - that is something nobody has managed to do," he said.

Michael Pachter, a research analyst at Wedbush Securities, is similarly confident in Snap's ability to pull it off. He's seen Snapchat's appeal firsthand through his teenage children. He said they visit the app up to 18 times an hour.

"When my kids are 25, 35, or 45, they will still be using it," Pachter said. "So I actually think it might be built to last. It's just the way my kids chat with their friends."

"I don't think it's a fad," he said. "I think it's real."

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