

Social media companies in Silicon Valley - Some monetize, most do not

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Abstracts

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SUMMARY

Social media is dominated by Alphabet, through ownership of YouTube, and Facebook, both of which were created on the assumption revenues would flow once a large user base had been created. But other major companies, such as Twitter, have failed to monetize and posted losses which undermine the chances of eventually generating profits. The belief that social media companies can concentrate upon creating a popular product before choosing to only later work out how to generate revenues is now fatally flawed. However, rivals and potential new entrants face extremely tough challenges in competing against Facebook and Google, making the task of monetizing harder than would otherwise be the case.

KEY HIGHLIGHTS

Due to the dominance of Alphabet, through the purchase of YouTube, and Facebook in social media, rivals have are being squeezing out of the market because they cannot hope to compete seriously in terms of providing the best value to advertisers, undermining their business model.

Recent success stories have been dominated by social media companies which have been purchased by Facebook despite never having made money but are then monetized under the new owners. Facebook is primarily interested in data about user behavior to improve the offering to advertisers.

Losses incurred by Twitter and Snapchat have made big headlines. Both of these companies will struggle to monetize because they are predicated on the old model of building a user base and then working out how to make money later. As time passes, the chances of monetization taking place grow slimmer.

SCOPE

Explores how Facebook and Google shape the social media advertising market

Looks at how companies such as Twitter have failed to monetize

Analyses how some companies have performed much better after being purchased by either Facebook or Google

Seeks to explain why some companies will likely continue to lose large sums of money

REASONS TO BUY

How do Facebook and Alphabet dominate the social media market?

Can Twitter and Snapchat ever make money?

Is being bought out now the best route to success?

Contents

Overview

Catalyst

Summary

Google or Facebook takeover appears to be secret to success

Instagram was not making money when purchased by Facebook, but has since transformed

Severe doubts would be surrounding WhatsApp had Facebook purchase for data not taken place

YouTube needed Google to prevent a lengthy period of loss making

Potential losses from YouTube matter less to Google – gains are made in other areas

Tumblr lost out after Yahoo failed to pursue monetization vigorously

Facebook is dominant in social media advertising, squeezing out others

Facebook can provide what advertisers want – information about consumer behavior and personality traits

Facebook is more user friendly to advertisers, creating more opportunities than rivals have so far managed

Holding much of the growth in online advertising demonstrates dominance but rivals could emerge

Usability of Facebook will retain users, keeping advertisers onboard as others struggle to create monetized and user-friendly platforms

Having never made money, big losses will continue to blight Twitter and Snap

Failure to win advertising dollars and stagnating user engagement will cause further major losses at Twitter

Snap is attracting the wrong audience to attract advertisers as Facebook does

User numbers are stagnating for Twitter and Snap, likely extending losses into the future

Some social media companies have been overvalued, pushing expectations high

Snap revealed heavy losses before IPO but is still valued very highly by investors

Recent performance of Twitter evidences the dangers of overvaluing

After failing to monetize core products, Twitter seeks live stream diversification

Twitter gambles new users can be gained through online streaming, but the company has tried to diversify before

Conclusions

Building up a large user base and worrying about monetizing later is a flawed concept made tougher by existing market

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Figure 7: Average Snap Inc Share Price (\$) March 2017 – August 2017

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