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**Snap: Strong ROI for  
Collection Ads, Snap  
Ads Boosts Demand**

**SNAP**

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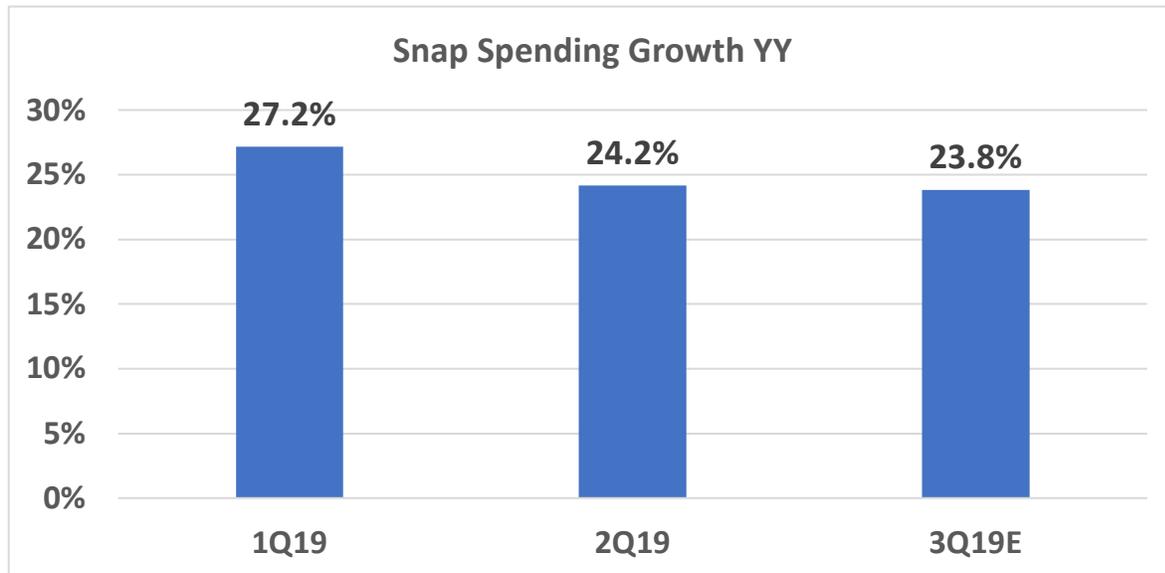
**Snap's new iteration of higher performance ad formats, including Collection Ads, Snap Ads and Stories-format ads, are generating growing interest from advertisers, who plan to spend more aggressively on the platform as inventory becomes available.**

- Spending on Snapchat rose 24.2% yy in 2Q19, slightly ahead of expectations thanks to improved ROI from new ad formats, which is relieving downward pressure on aggregate pricing.
- Snap Ad spending to drive app traffic and mobile website traffic has improved thanks to greater adoption of Collection Ads and iterative improvements to stories-format ads.
- Discover ads, Snap commercials, filters, and AR lenses continue to receive limited attention from advertisers..
- Emerging theme: Snapchat is aggressively marketing its Audience Network, set to fully launch by 4Q19, with sources expecting it to help level yy spending declines in 3Q19 and possibly reaccelerate spending growth in 4Q19.

### **2Q19 YY Growth Slightly Ahead of Expectations**

Sources saw overall spending growth of 24.2% yy in 2Q19 on all of Snap's ad products, ahead of prior expectations of 22.5% yy spending growth estimated in April. While sources noted limited improvements in analytics or targeting data on Snap, marketers are more aggressively adopting new, higher performing, more expensive ad formats, such as Collection Ads which are helping to relieve downward aggregate pricing

pressure. “We have found greater clickthroughs on Collection Ads, and that has driven the overall pricing we see as much higher than what we originally modeled for, and that’s driving us to spend more on the platform,” said a source.



Source: Vertical Market Intelligence, average, 7 sources, 2019

“Our spending is a little more aggressive on Snap than it’s been. We don’t see impression growth and we don’t see significant app usage growth, but we are seeing better performance, and that is driving us to invest more than what was frankly pretty minimal in 2018,” said another source.

### **Collections, Snap Ads See Strong Adoption**

Sources said Snap Ads, app install ads, and Collection Ads were gaining strong traction based on strong ROI and recent successful efforts to improve vertical-video creative for the platforms. Discover Ads, however, were said to be gaining less traction as they remain marginal to many advertisers’ campaign goals and overly expensive. “Discover ads were always overpriced, and we don’t see the kind of off-app engagement that would justify the spending. If we had a channel of Snap content that we wanted to use to keep audience attention, it would work, but we see that as too long and costly of a marketing funnel to even try,” said a source at a direct-response marketing agency.

Similarly, sources said other ad formats, notably Commercials, were of limited interest to brands, where interest on more aggressive in-app video spending remains limited to YouTube, with more consideration for Facebook and Twitter. “There are many social and mobile video plays outside of Snap, where we just don’t see the scale or the response rates to justify going back to the kind of experimentation we did a few years ago,” said a source.

## Emerging Theme

### High Hopes for Audience Network

With greater ROI on ads in the vertical video format, sources are very optimistic that demand for Snap's outbound Audience Network will grow as advertisers iteratively improve vertical video ad ROI. "We are slowly getting the hang of the ads, and learning how performance is different in Facebook and Snap, because they're very different contexts and usage cases. That should put us in a very good position to utilize the audience network and spend more aggressively on vertical video/stories creative that we can use at a larger scale. I think this will be very good for Snap, and if they allow programmatic players to boost ad performance with better targeting, it could be a massive win for them," said a source.

However, some sources remain cautious. "I am skeptical of Snap's decision to roll this out only on iOS and not Android—the different OSes are not that hard for a big company to design and execute for. That they are limiting their resources on this makes them still look like a two-bit player," said another source.

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