

An Overview of the Social Media Industry – Part I

Social media refers to interactive technologies that facilitate the creation and sharing of content, ideas, interests, and other forms of expression through virtual communities and networks. From Facebook and Instagram to X (formerly Twitter) and YouTube, more than 4.7 billion people use social media, which is equal to roughly 60% of the world's population. The global Social Media Platform's market size was valued at \$49.09 billion in 2022 and is expected to grow at a compound annual growth rate of 26.2% from 2023 to 2030. By leveraging user data for targeted advertisements, where most revenue is derived, websites have been able to capitalize on the popularity of their platforms. As a result, industry revenue has increased at a compound annual growth rate of 16.7% over the past five years, including an increase of 15.0% to total an estimated \$95.2 billion in 2023 alone. The social media industry continues to play a pivotal role in shaping global communication, marketing, online interactions as well as remains a significant driver of business growth across industries. This article provides an overview of the current state of the social media industry. Further, this article identifies key trends that characterize the growth of the industry over the next few years and explores what the future holds for this rapidly developing sector.

Overview

The social media industry stands at the forefront of digital communication, characterized by continuous innovation and evolving user behaviors. Major platforms such as Meta (formerly Facebook), Instagram, X, and TikTok maintain their dominance, with a global user base spanning diverse demographics. Short-form video content, epitomized by platforms like TikTok and Instagram Reels, has become a central element of user engagement, while the integration of social commerce features is reshaping the e-commerce sector. The industry is exploring new frontiers, with the Metaverse gaining attention and audio-based platforms adding a layer of interactivity. Challenges persist, particularly in content moderation and data privacy, prompting platforms to adapt to increased scrutiny and enhanced regulations. The social media industry remains a dynamic force, shaping the way individuals connect, share, and engage in the digital realm.

Technology Advancements

The future of social media will be deeply influenced by advancements in technology. Artificial intelligence (AI) and machine learning will play a pivotal role in enhancing content personalization, enabling platforms to provide more tailored and relevant user experiences. Augmented reality (AR) and virtual reality (VR) technologies are set to create immersive environments, fostering new ways for users to interact with content and each other. Moreover, the introduction of the Metaverse has impacted the evolution of social media platforms. The Metaverse is an interconnected web of social, networked immersive environments in persistent multiuser platforms. It is based on the convergence of technologies that enable multisensory interactions with virtual environments, digital objects and

people such as VR and AR. Following Meta's announcement and the rebranding of Facebook to Meta, the industry is witnessing increased interest in virtual worlds, augmented reality, and immersive digital experiences. Users can enter a virtual world where they can explore, play games, and interact with other users and digital objects in real time. Furthermore, the rise of the Metaverse will likely change how consume content on the internet and introduce new opportunities for brands, advertisers, and creators to create more interactive and engaging user experiences. The Metaverse will enable new forms of advertising and marketing, such as branded virtual spaces, in-game sponsorships, and targeted advertising as well as give rise to new types of content, such as virtual reality films, games, and other forms of digital entertainment. The Metaverse represents a paradigm shift in how users engage with content and each other online, creating new opportunities for social interaction, gaming, and virtual commerce.

Social Commerce

The future of the social media industry driven by the convergence of social media and e-commerce. Social commerce is at the center of the evolving convergence of online retail and social interaction platforms. In the United States, social commerce retail earnings are predicted to reach nearly \$80 billion by 2025. Social commerce involves selling products and services over social media and encourages social shopping tools, such as forums and communities, where buyers and sellers discuss their online shopping experiences and compare notes. It is an evolving field of online marketing that works in conjunction with social media and online shopping growth. The most common form of social commerce is commerce driven sites launching social shopping elements such as marketplaces. Social commerce is estimated to reach approximately \$2 trillion by 2025, growing by around 18% per year between 2021 and 2025. In 2022, the number of consumers who purchased a product via TikTok grew by more than 72% year-over-year to reach 23.7 million. By 2025, shoppers on the TikTok platform are predicted to reach 37.8 million.

Social media's macroeconomic trends are intricately tied to digital advertising expenditures which reflect the industry's financial dynamics. Advertisers recognize the unparalleled reach and targeting capabilities offered by platforms like Meta, Instagram, and X, leading to continued growth in digital advertising spending. As these platforms refine their advertising tools and measurement capabilities, businesses are finding new avenues to connect with their target audiences, contributing to the robust economic standing of the social media industry. In December 2023, TikTok plans to invest more than \$1.5 billion in a deal with GoTo Group which will allow TikTok to resume retail operations in Indonesia, one of its most successful e-commerce markets. Additionally, the social media platform, X, is currently in the initial stages of conversations with Amazon to incorporate itself into the ad-buying software of the world's largest online retailer. The aim of the collaboration is to target small and medium-sized businesses in Amazon's marketplace and prompt them to advertise their products on X. Recently, X lost huge brands as a result of controversial reports on the platform and hopes to diversify its advertiser base and revamp the advertising landscape on the platform.

Video and Visual Content

The industry has witnessed a paradigm shift with the explosive rise of short-form videos, redefining the way users engage and share content. The rise of short-form content on social media on platforms such as TikTok, Instagram Reels, and Snapchat Spotlight offer a dynamic and succinct means of expression. Short-form videos, typically ranging from a few seconds to a minute, cater to the fast-paced nature of online interaction, capturing attention in a world saturated with information. This format has democratized content creation, empowering users to showcase their talents, humor, and storytelling skills in bite-sized, shareable snippets. The accessibility and virality of short-form videos have not only reshaped entertainment but also become a powerful tool for businesses and influencers to connect with diverse audiences in a visually compelling and engaging manner. In 2023, more than 1.5 billion logged-in users watched YouTube Shorts per month, similar to TikTok's 1 billion monthly active users.

As short-form videos continue to dominate social media, their influence extends beyond entertainment, reflecting a cultural shift towards concise, visually impactful communication in the digital age. The dominance of video content is expected to intensify, with short-form videos and livestreaming becoming primary modes of communication. Platforms will continue to invest in video creation tools and features, while catering to the growing preference for visually engaging and easily consumable content.

Data Privacy and Regulation

Regulatory trends in the social media industry are characterized by the emphasis on user privacy, content moderation, and accountability. Governments and regulatory bodies worldwide are responding to growing concerns about the misuse of user data, the spread of misinformation, and issues related to online safety. Stricter regulations are being proposed and implemented to enhance user protection, empower individuals with greater control over their data, and hold social media platforms accountable for the content shared on their platforms. In 2023, several states such as California, Virginia, Colorado, and Connecticut have implemented state level laws and data privacy regulations such as the right to remove personal data and the collection and storage of that data from websites and other applications. Moreover, policymakers at the federal and state levels have increasingly questioned TikTok's practices regarding user data in recent months, fearing that the Chinese government could access information about Americans. These concerns led to the banning of TikTok from federal government devices and from all devices in the state of Montana.

Additionally, there is a heightened emphasis on transparency in advertising, with regulations ensuring that users are informed about the origin and targeting criteria of advertisements. Driven by online privacy fears, Apple and Google have started updating the rules around online data collection. Apple, citing the mantra of privacy, has implemented tools that block marketers from tracking people. Google, which depends on digital ads, will continue to advertise without exploiting access to personal data.

When Elon Musk purchased Twitter in October 2022, experts warned that his proposed changes, including less content moderation and a subscription-based verification system, would lead to an exodus of users and advertisers. One year later, those predictions have largely been supported as advertising revenue on the platform has declined 55% since Musk's takeover, and the number of daily active users decreased from 140 million to 121 million in the same time period, according to third-party analyses. The evolving regulatory laws and policies reflect a collective effort to strike a balance between fostering innovation in the social media space and safeguarding user rights and public interests. Concerns surrounding data privacy will continue to shape the industry. Stricter regulations and increased transparency measures are expected as users demand more control over their data.

Digital Well-Being

With a heightened awareness of digital well-being, social media platforms will introduce features and tools to promote healthier online habits. The U.S. surgeon general warned in May of 2023 of the potential risks of social media to young people and urged policy makers and technology companies to strengthen standards for adolescents. The advisory report includes recommendations for addressing the issue, including for companies, families and lawmakers. The report asks policy makers to improve safety standards, including increasing data privacy for adolescents. The advisory also urges technology companies to take responsibility for the effects of their platforms, share relevant data with researchers and the public, and improve practices for responding to complaints swiftly. One 2019 study cited in the report found U.S. teenagers between the ages of 12 and 15 who spent more than three hours a day on social media are subject to twice the risk of symptoms of depression and anxiety.

Big tech companies will continue to play a significant role in shaping the digital wellness landscape, by providing the technologies that impact users' well-being and by taking steps to address concerns related to excessive device usage and the potential negative effects of technology. Numerous major technology companies, including Apple, Google, and Microsoft, have incorporated screen time management features into their operating systems. These features allow users to monitor and control the amount of time spent on various apps and devices, promoting awareness and encouraging healthier usage patterns. The tech industry is likely to continue implementing advanced solutions to support digital well-being including the development of AI-driven tools to analyze and provide insights into user behavior, as well as features that use machine learning to personalize recommendations based on individual preferences and habits. Additionally, the future will likely see an increased focus on educating users about digital wellbeing and providing them with the tools to make informed decisions about their technology use. More companies such as the "Digital Wellness Lab" at Boston Children's Hospital and Harvard Medical School will emerge and serve in mediating between tech companies and those concerned about their products' impact on young people. With sponsorship from major tech platforms, such as Twitch, Roblox, Snap, Discord and TikTok, the Lab is trying to address the concerns of parents, doctors and lawmakers without villainizing the companies involved. Companies are expected to take more responsibility for the impact of their platforms on users. Transparency about data practices, content moderation, and algorithmic decision-making will likely become key aspects of corporate responsibility within digital well-being.

Revenue Growth

The social media industry revenue has grown at a CAGR of 16.7% over the past five years, including an increase of 15.0% to total an estimated \$95.2 billion in 2023. Major market players, such as Meta and TikTok, have adopted growth strategies to enhance their market shares which include new product launches, product enhancements, and business expansions. Meta recently released Threads, a text-based conversation application connected to Instagram and Meta, to users in the European Union, and as a direct rival to X as a short-form text platform. In the United States, Threads grew to around 100 million monthly active users during the third quarter of 2023 and now anticipates adding another 40 million monthly users for the application in the European Union. Meta expects fourth quarter 2023 total revenue will be between \$36.5 to \$40 billion due to launches of Quest 3, Ray-Ban Meta smart glasses, and AI Studio. Similarly, TikTok reported an operating profit of nearly \$6 billion in the first quarter of 2023 and intends to expand in the United States by launching an e-commerce initiative called TikTok Shop. Further, TikTok is pursuing other applications like book publishing, music streaming, and messaging. TikTok is positioned to become the highest earning mobile application, approaching the \$15 billion milestone in 2024.

Conclusion

The future of the industry promises a dynamic and transformative landscape impacted by technological advancements, user behaviors, and ethical considerations. Social media has revolutionized the way users connect, share, and consume information. From its humble beginnings as a means of staying in touch with friends and family, social media platforms have transformed into powerful tools that influence everything from global politics to consumer behavior. Ultimately, with the advancements of AI, VR, the Metaverse as well as the shift of social media becoming less ‘social’, the constant and core function of social media is about three things: community, creators, and commerce.

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