



MARKET REPORT

UPDATED

06/15/2023

Reddit: the \$510M/year social libertarian superapp

TEAM

Jan-Erik Asplund

Co-Founder

jan@sacra.com

DISCLAIMERS

This report is for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal trade recommendation to you.

This research report has been prepared solely by Sacra and should not be considered a product of any person or entity that makes such report available, if any.

Information and opinions presented in the sections of the report were obtained or derived from sources Sacra believes are reliable, but Sacra makes no representation as to their accuracy or completeness. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a determination at its original date of publication by Sacra and are subject to change without notice.

Sacra accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to Sacra. Sacra may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect different assumptions, views and analytical methods of the analysts who prepared them and Sacra is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

All rights reserved. All material presented in this report, unless specifically indicated otherwise is under copyright to Sacra. Sacra reserves any and all intellectual property rights in the report. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of Sacra. Any modification, copying, displaying, distributing, transmitting, publishing, licensing, creating derivative works from, or selling any report is strictly prohibited. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Sacra. Any unauthorized duplication, redistribution or disclosure of this report will result in prosecution.

Published on Jun 15th, 2023

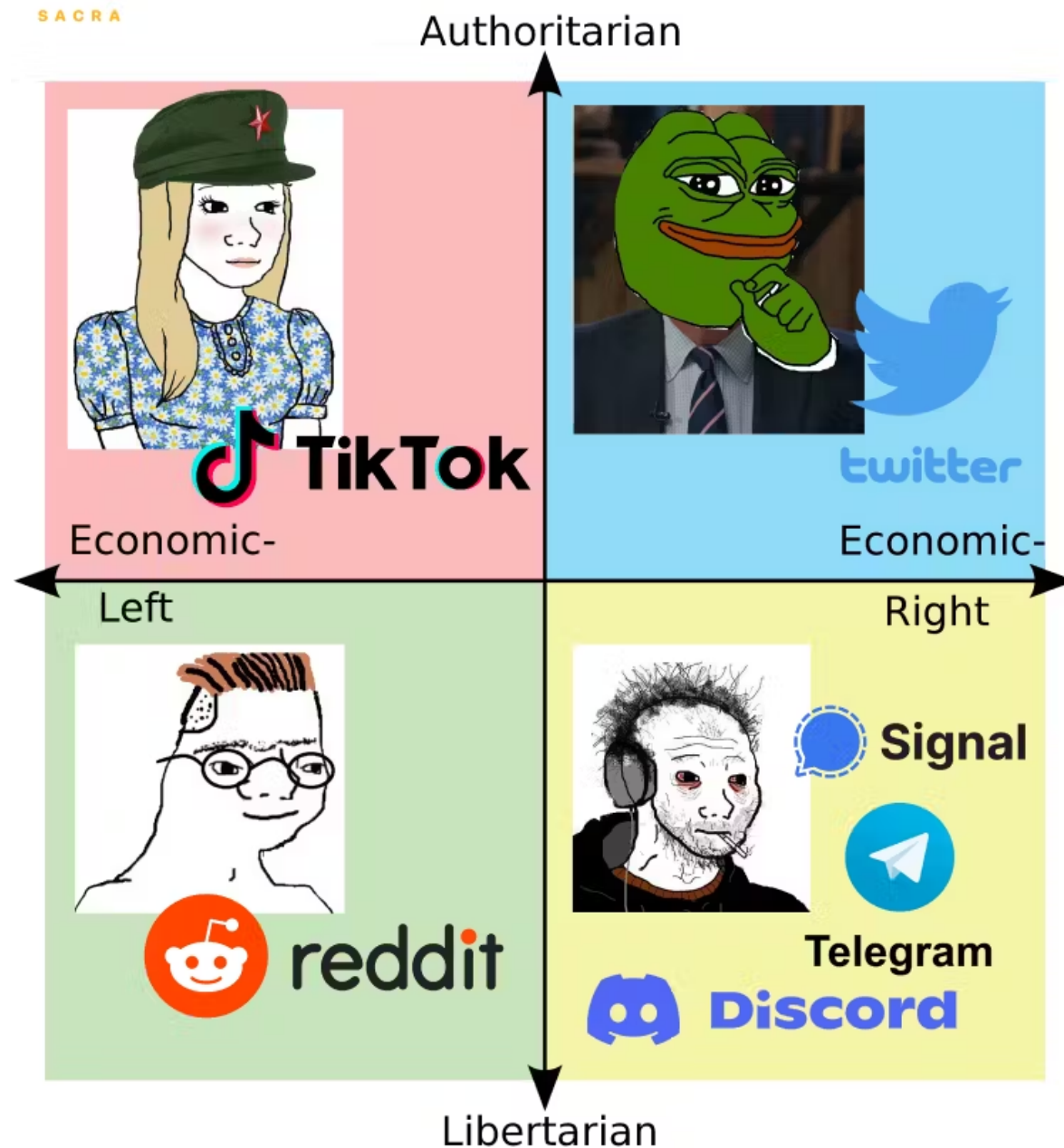
Reddit: the \$510M/year social libertarian superapp

By Jan-Erik Asplund

TL;DR: The latest Reddit (dataset) controversy is yet another conflict between the populist user base driving the content and experience and the authoritarian impulse to quell inconvenient speech to make it palatable to advertisers. All of this comes to a head as Reddit, generating \$510M in 2022, looks to IPO. For more, click [here](#) to check out our interview with Kavin Stewart, ex-VP of Product at Reddit.



The social media political compass

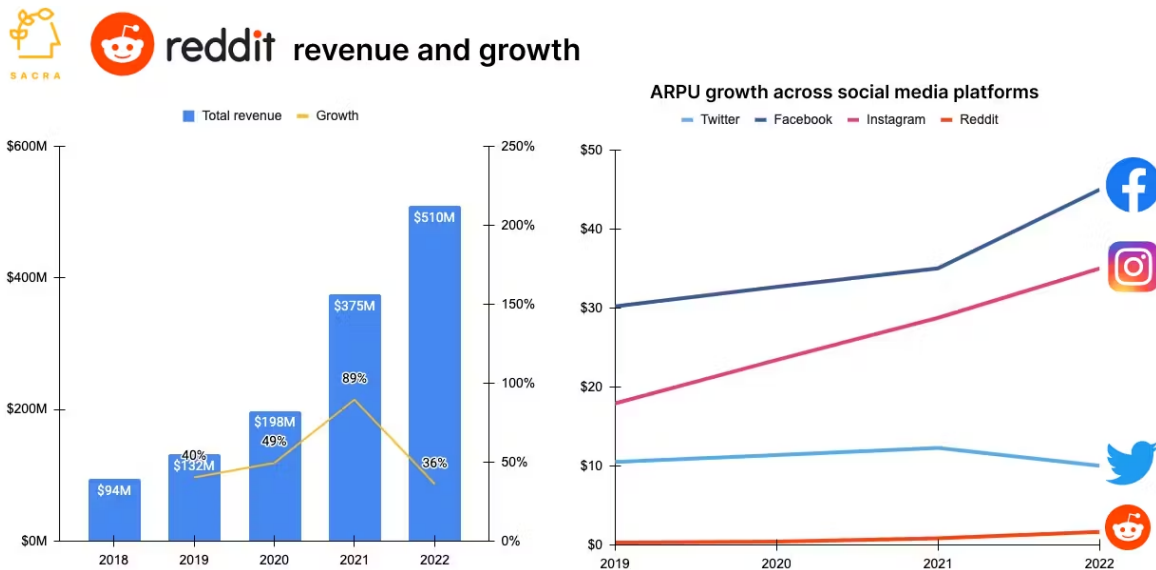




Key points from our research:

- **In 1997, Rob “CmdrTaco” Malda and Jeff Bates launched Slashdot.org, which became the top news aggregator and comments section for programming and computing news, hitting 3.7M uniques per month and 5,300+ comments daily at the height of its popularity in 2012.** Kevin Rose introduced Digg as a “Slashdot killer” in 2004—its key distinguishing Web 2.0 twist being that it allowed users themselves to “digg” (endorse) or “bury” (dislike) links on the site, vs. those submissions being rejected or approved by a team of moderators.
- **Against Digg’s infamous v4 update in 2010 which de-emphasized user-generated content (UGC) in the feed, Reddit positioned itself as the populist, grassroots alternative, with a recommendation engine built around “karma” points to incentivize users to share high-quality content, a comments section with deep threading to foster discussion, and a federalist system of “subreddits” for niche communities (akin to state governments) aggregated into one front page (akin to the federal government).** De-emphasizing UGC and promoting big publishers’ content in user feeds triggered a site-wide Tea Party-style rebellion, with users spamming links to Reddit all over Digg as they left—Digg’s monthly traffic would fall from 29M uniques to 7M over the course of 2010, while Reddit’s grew from 1.7M to 9.2M.
- **After acquiring a business model-less Reddit in 2006 for \$10M, Conde Nast spun it out as a private company again in 2014—sporting 2M daily active users (DAUs) and 9,000+ active subreddits—with Sam Altman and Andreessen Horowitz investing \$50M in an effort to monetize the site to compete with the big social networks like Facebook.** Today, Reddit monetizes the strong commercial intent of users by selling advertisers sponsored posts in targeted subreddit communities (~93% of revenue) and from their \$6/month subscription (~7%) to unlock ad-free browsing, awards, and other features.
- **Sacra estimates that Reddit made roughly \$510M in 2022, up 36% from 2021 when it made \$375M, with an average revenue per user (ARPU) of about \$1.19, up from \$0.81 in 2021, and roughly 430M monthly active users (MAUs).** Compare that to ~\$10 per monthly active user for Twitter

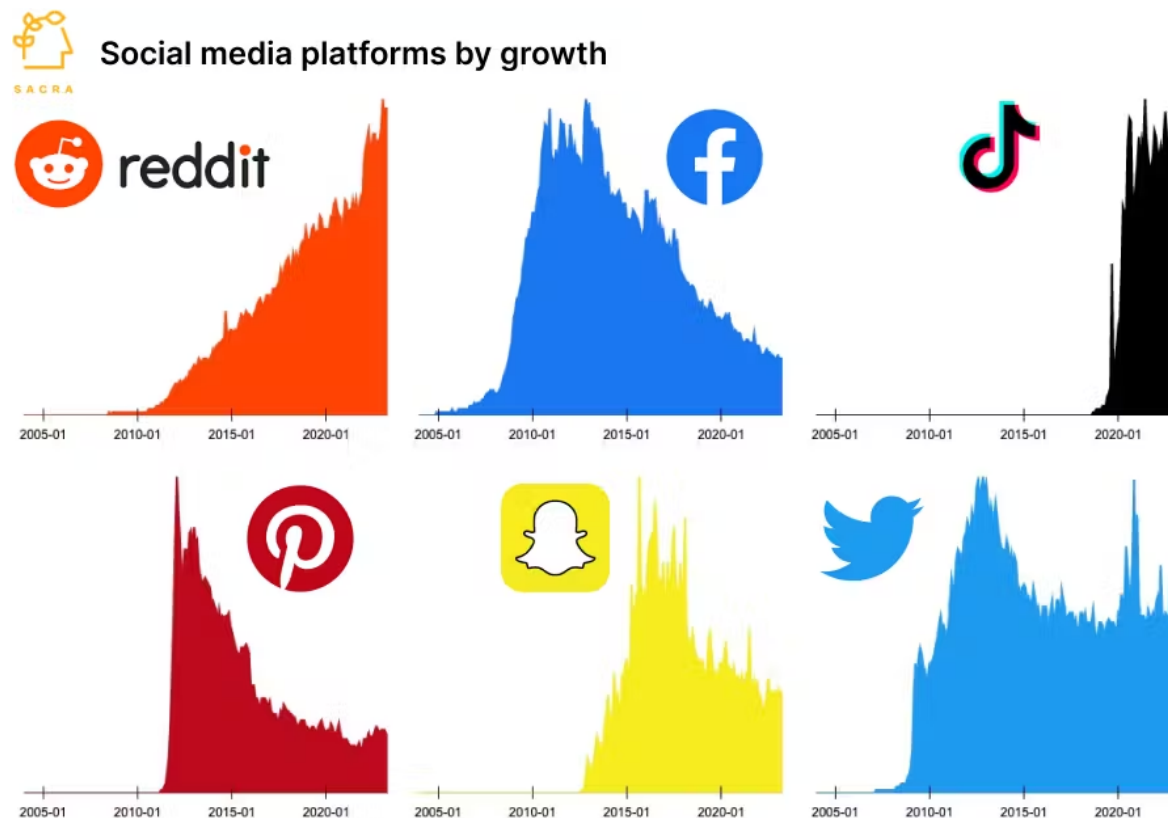
(about 330M MAUs), ~\$6 for Snapchat (750M MAUs), ~\$45 for Facebook (~3B MAUs), and ~\$35 for Instagram (~2.4B MAUs).



- **As Reddit scaled its ads business in 2014-15, its model clashed with users' unfettered freedom to start new subreddits—which, like /r/FatPeopleHate, repulsed advertisers—triggering a “freedom of speech” controversy over changes made to make Reddit more palatable to advertisers, resulting in interim CEO Ellen Pao stepping down. Under co-founder Steve Huffman as the next CEO,** Reddit would continue Pao's policies around content moderation, necessary to every ads-based social media business, going from \$8.3M in ad revenue in 2014 to ~\$94M in 2018.
- **Launching in 2017, TikTok (1B MAUs) hit 100M users in 9 months using short-form video and algorithmic feeds en route to building a \$10B per year advertising business (up 155%) with Instagram Reels (2.4B MAUs, \$3B annual revenue run rate, 140B+ Reels played daily) fast following behind.** The totalitarianism of the algorithm draws content from across the graph, narrowing it into a hyper-personalized feed by ingesting usage data, while Reddit's approach revolves around delivering content from the subreddits that users choose to subscribe to.
- **While Reddit enforced stricter moderation standards, Discord (\$445M revenue in 2022, up 44%) and Telegram (~700M MAUs, growing 47% YoY) leaned into social libertarianism and a user supported model based on paid subscriptions to be free of the pressures of big advertisers, with their un-moderated, real-time, pseudonymous spaces for discussion pulling gaming, crypto and other “free speech” communities away from**

Reddit. Reddit launched their own chat in 2020—and started testing a more direct Discord competitor in 2023—to try and own both the synchronous and asynchronous chat function for communities.

- **Reddit’s latest controversy hinges on its move towards a totalitarian super app construct with the elimination of 3rd-party apps—enabling it to own all engagement and intent signals to build a multimodal TikTok.** By owning all the engagement signals for 830,000 posts per day from more than 50 million daily users, Reddit layers hyper-personalized algorithmic feeds on top of its social experience and sells access to those feeds to big brand advertisers.
- **In a world where the biggest driver of LLM training is recycled web content, the bull case for Reddit is being the biggest source of net new content on the internet, powered by the most passionate and knowledgeable people in the world on hyper-specific niches.** Google searches appending “reddit” have grown 30x over the last decade, as Reddit reliably returns more expert conversations than Google itself—now, Reddit’s future lies in monetizing by becoming the conversational GPU that powers AI.



Each graph shows platform’s relative growth and peak on Google Trends; y-axes not comparable

For more, check out this other research from our platform:

- Reddit (dataset)



- Kavin Stewart, Partner at Tribe Capital, on Reddit's 10x opportunity.
- ByteDance (dataset)
- Discord (dataset)
- Discord: the \$15.2B WeChat for the metaverse
- Edo Liberty, founder and CEO of Pinecone, on the companies indexed on OpenAI