What We Learned About the State of Display Advertising from April Earnings Calls

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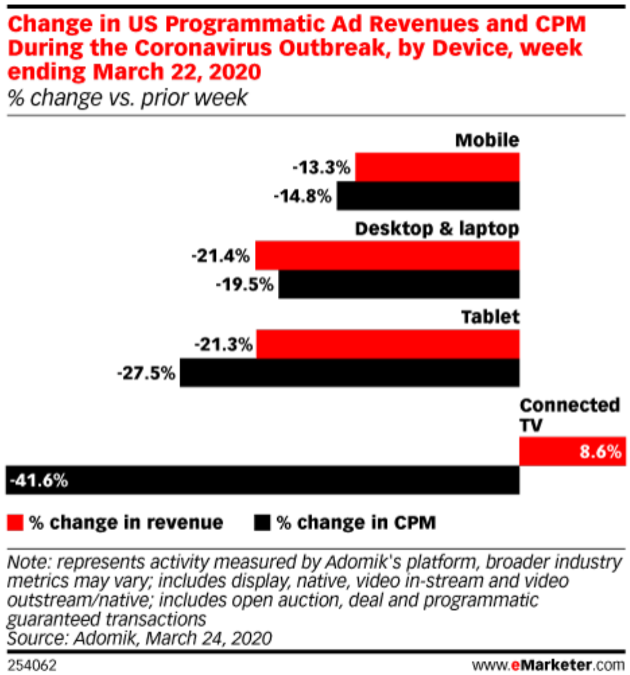
When US advertisers pulled back spending dramatically in March, one of the earliest noticeable effects on the display ad market was falling CPMs. At the same time as marketers were lowering their demand for ads—either to take spending cuts as savings or merely pause and rework their messaging—consumers were spending more time on social and traditional media properties, increasing the supply of impressions. A decline in prices was the natural outcome.

Sell-side ad technology provider Adomik reported that CPMs were down by double-digit rates across devices during the week ending on March 22. The downward trend continued through at least April 1. Agency Gupta Media released data showing Facebook and Instagram CPMs cratering from March 10-15. And AdExchanger reported on YouTube creator chatter about falling CPMs, referring to VidCon co-founder Hank Green saying his eCPMs were down 28%.



Ad-buying technology provider Kenshoo reported that CPMs on social properties (including Facebook, Instagram, Pinterest and Snapchat) were down 7% in Q1 year over year. That included a period of dramatically falling prices from March 1 to about March 22. But after that, prices began to stabilize.

In display, thanks to the nature of audience targeting, when some verticals pull or pause spending, others can benefit from low prices. And executives from major digital ad sellers, including Google and Facebook, noted on Q1 earnings calls last week that that's exactly what has happened. Direct-response advertisers are now able to run acquisition campaigns at low prices that make those campaigns profitable. That includes advertisers in verticals where the conversion event is digital in nature, like gaming, ecommerce, digital entertainment and distance learning.

- Facebook chief financial officer Dave Wehner said, “Where we're getting the demand right now is from people who are driving sort of more online conversions, direct response, so it's not like we're seeing a shift of reach and frequency dollars (which I think of as being television dollars) to us. I think what we're seeing is people who are driving the kind of direct-response actions taking advantage of low prices.” He later elaborated and said, “The strongest [companies are] probably the gaming companies, which are taking advantage and doing app installs.”

- Alphabet chief financial officer Ruth Porat explained that at YouTube, “Direct response continued to have substantial year-on-year growth throughout the entire quarter,” as opposed to brand spending, which pulled out in March. CEO Sundar Pichai also pointed to gaming as an example of a vertical where YouTube direct-response advertising has gotten good traction, along with other types of app install ads.
- Jeremi Gorman, chief business officer at Snap, emphasized throughout her company's earnings call that direct-response advertisers were a growing part of Snapchat’s revenues, including gaming and app install advertisers. Asked about what verticals were seeing return on ad spend (ROAS), she explained that “the price per impression has dropped, and that is allowing both our existing advertisers as well as new advertisers to see highly performant advertising and really strong ROI [return on investment]. So, while we are seeing new advertisers come in, we are actually really focused on growing the categories on which we’ve doubled down during this period, such as gaming, home entertainment, ecommerce and CPG [consumer packaged goods], but helping our industries that have outsized impacts build long-term road maps to recovery.”

Digiday has also reported that the media is another category of direct-response advertisers benefiting from the low prices, especially on Facebook. News and other publishers are snatching up cheap ads to drive subscriptions, including to newsletters. “In the first half of April, the cost of acquiring a newsletter subscriber through Facebook fell from 75 cents to 25 cents, thanks to a combination of lower CPMs and significantly higher clickthrough rates,” one news executive told Digiday.

The upshot is that direct-response advertisers seem to have set up a floor on the market for display advertising, which has buoyed revenues at publishers with ad products that serve lower-funnel goals. Some of those advertisers are likely still relying on a simplistic view of ROI and last-click attribution. But others, including gaming advertisers, other app install advertisers and data-driven D2C firms, require products with more sophisticated attribution and effectiveness metrics (and the ability to target those ads to the right audiences at scale). These offerings especially benefitted the likes of Facebook and Snapchat, while others like Twitter have lost out on this spend.

The big question is whether that situation is sustainable over the long term, as the economy continues to take a severe hit from the pandemic. The more sophisticated direct-response advertisers that have jumped on the opportunity have done so based on calculations of customer lifetime value (LTV) that may not hold up in a world of double-digit unemployment. And at least some of the players in this space continue to be the venture-backed D2C firms that will have to closely watch their burn rates as IPOs remain off the table for the foreseeable future.

Another potential headwind: Using customer data to make these LTV and ROAS determinations is becoming more challenging in the new environment following the General Data Protection Regulation and the California Consumer Privacy Act. Facebook has warned that targeting-related headwinds are still in its future—and it's unclear whether the signals that remain available to advertisers for targeting, tracking and attribution will be enough to continue these campaigns profitably.