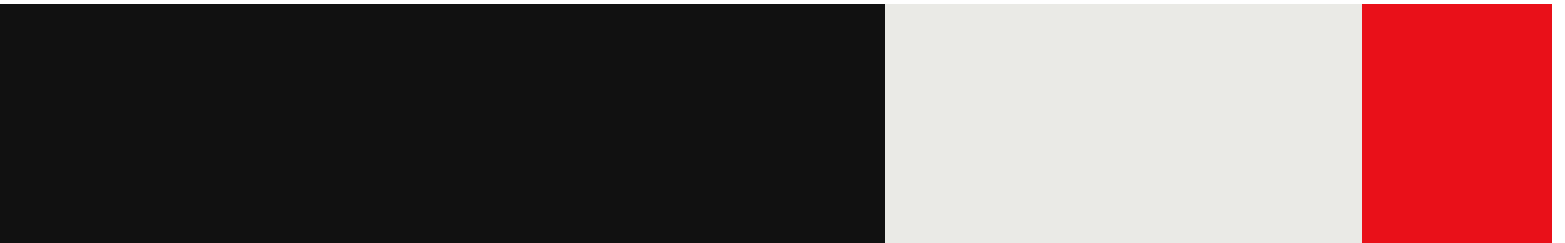


The Daily: How Google has turned ad growth around, AI's impact on the search giant, and more

Audio



On today's podcast episode, we discuss what was behind Google performing so well in Q2, why YouTube is doing so well, and ranking the impact of AI at the search giant. Tune in to the

discussion with host Marcus Johnson and analyst Evelyn Mitchell-Wolf.

Subscribe to the “Behind the Numbers” podcast on [Apple Podcasts](#), [Spotify](#), [Pandora](#), [Stitcher](#), [YouTube](#), Podbean or wherever you listen to podcasts. [Follow us on Instagram](#)



Episode Transcript:

Marcus Johnson (00:00):

B2B marketing teams rely on eMarketer Media Solutions to elevate their thought leadership and build meaningful relationships through exclusive webinars, guides, infographics, and so much more. If you want to learn about our proven approach, head to emarketer.com/advertise.

Evelyn Mitchell-Wolf (00:20):

Going to SearchGPT or any other generative search platform, those destinations add friction, and even if they didn't add friction, the generative response is unnecessary and unhelpful and it takes a long time. So for the time being, Google's still got the high ground.

Marcus Johnson (00:42):

Hey gang, it's Thursday, August 1st. Evelyn and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast. I'm Marcus. Today I'm joined by one of our senior analysts who covers everything digital advertising and media based in Virginia. It's Evelyn Mitchell-Wolf.

Evelyn Mitchell-Wolf (01:00):

Howdy, Marcus. Hello everybody.

Marcus Johnson (01:02):

Hello there. Hello, hello. Today we're talking Google. We start with the fact of the day. How fast can horses run?

Evelyn Mitchell-Wolf (01:10):

Ooh, are you asking?

Marcus Johnson (01:11):

In guesses. I am.

Evelyn Mitchell-Wolf (01:11):

I don't know. Really fast.

Marcus Johnson (01:14):

Come on, Evelyn.

Evelyn Mitchell-Wolf (01:15):

They have a lot of-

Marcus Johnson (01:16):

Know the answer.

Evelyn Mitchell-Wolf (01:16):

I know the words that correspond to the different running speeds I think, like canter and... Well, I guess maybe I only know canter.

Marcus Johnson (01:26):

A gallop.

Evelyn Mitchell-Wolf (01:26):

Gallop. There you go.

Marcus Johnson (01:28):

A saunter. The horses saunter.

Evelyn Mitchell-Wolf (01:30):

I don't think that's a, I think canter and gallop are like-

Marcus Johnson (01:32):

A trot.

Evelyn Mitchell-Wolf (01:33):

... formally defined speeds.

Marcus Johnson (01:36):

That's not the question I'm asking, but it's still interesting information. So they can run, the speed of which a horse can run, but it's highly dependent on its breed.

Evelyn Mitchell-Wolf (01:47):

And maybe the length of its legs.

Marcus Johnson (01:51):

That's also part of it. However, on average, horses can reach speeds of up to 25 to 30 miles an hour, so that's 40 to 48 kilometers per hour.

Evelyn Mitchell-Wolf (02:04):

Wow.

Marcus Johnson (02:04):

However, over a short distance, the record speed for a wild horse, no idea how they measured this, is 54 miles an hour, which was set by a Mustang. This is only slightly less than the record speed for a domesticated horse, a breed called the Quarter Horse, which is an American Breed, which stands at 55 miles per hour, 88 kilometers per hour.

Evelyn Mitchell-Wolf (02:31):

That's fast. I'm just imagining people with speed guns in the wild trying to clock horses.

Marcus Johnson (02:39):

It's a fun job. Anyway, today's real topic. Google doing literally everything. In today's episode, first in the lead, we'll cover Google. No in other news today. Let's get to it. Evelyn, we have to start with cookies or at least a quick mention because of how big the news was. A lot of people probably already know what's going on, but to summarize, Google's decided to keep cookies, making quite a significant U-turn over its long-running plans to get rid of them. Third-party cookies that is, from its Chrome browser.

(03:17):

It's said it was going to get rid for the last four years. It now says that it will give users an informed choice that applies across their web browsing. However, it'll still be working on the Privacy Sandbox solutions as well. Evelyn, we're going to be talking about this on a separate episode, me and yourself, next Tuesday, August 6th, so there'll be a lot more detail there. You've already written a piece on this, some research on this, on Google deciding to not get rid of cookies, so we'll talk in more depth then. But a quick initial reaction from you for the listeners of this episode.

Evelyn Mitchell-Wolf (03:48):

Yeah, I have written a piece on it. It's in editing now, so I don't want anyone to expect that it's there on our pro site. Stay tuned because it will be, but just as an FYI, we are still making sure.

Marcus Johnson (03:59):

"Where the hell is this research?"

Evelyn Mitchell-Wolf (04:02):

I know. Well, it's a hot topic, so I wouldn't be surprised if people were looking for it.

Marcus Johnson (04:02):

Very soon.

Evelyn Mitchell-Wolf (04:04):

But I mean, big takeaway here is just that this is cookie deprecation by another name, so it's not going to have a huge effect on the trajectory of the market and certainly doesn't have a huge effect on the earnings that we're going to discuss today since these are Q2 earnings and Google announced this change in direction on Monday before reporting earnings on Tuesday. Big week last week. But yeah, I mean, it is a big deal and we'll go into the details next week.

Marcus Johnson (04:34):

Okay, very good. Stay tuned folks for that one. But as Evelyn mentioned, they did release earnings, so we're going to have a look at Google's performance in Q2. And we're going to play a Slice of Pie, Evelyn, which is something we do on these earnings episodes to get a look at, basically Evelyn is going to create a pie chart for the reasons, three max, why Google was able to grow ad revenue in this instance, 11% in Q2, and for context, that's up significantly from just 3% in the same period a year ago. So Slice of Pie, Evelyn, how come?

Evelyn Mitchell-Wolf (05:10):

Well, I'll just use this as an opportunity as I do I feel like every time we do this to address each of Google's three advertising units. First, Google Search. It grew 13.8% accounted for three quarters of total advertising revenues, but I'm going to give it 80% of this pie, so it's 80% responsible for the growth of Google's ad business.

Marcus Johnson (05:33):

Oh, interesting.

Evelyn Mitchell-Wolf (05:33):

Yeah, and I'll tell you why in a minute here. Second, I want to go over YouTube. YouTube missed investor expectations, which it was certainly disappointing, but I think expectations aside, YouTube is killing it. It's got more users than any of its streaming or social video competitors. It's miles ahead of its competition. In terms of ad revenues, we forecast YouTube will rake in over 8 billion dollars this year, and that's a much smaller sum than Meta will make from Reels on Facebook and Instagram, but it's basically neck and neck with TikTok and huge compared to streaming platforms. We spend so much time talking about Netflix and Disney plus, but neither of those companies will break a billion dollars in ad revenues this year according to our forecast. So YouTube gets two thumbs up and 20% of this pie.

Marcus Johnson (06:23):

And it's also, really quickly on that, it's a very positive outlook for YouTube as well going forwards. Our forecasting team expects the platform to grow US ad revenue even faster next year at 15% versus the 12% we are expecting them to record this year for the full year.

Evelyn Mitchell-Wolf (06:37):

Yeah. I mean, this is why I give it two thumbs up, not just one. It gets two thumbs up.

Marcus Johnson (06:43):

Oh, okay. Slow it down.

Evelyn Mitchell-Wolf (06:43):

10% per thumb, so 20%. If you'll notice though, that is a hundred percent of my pie, 80% and 20%. I did want to mention Google Network. It gets 0% of the pie.

Marcus Johnson (06:55):

That's fair.

Evelyn Mitchell-Wolf (06:55):

It is actually shrinking, it's dragging down the ad segment, but I did want to mention it because it's Google's ad tech business, which Google will be defending against antitrust

allegations from the US Department of Justice in court in September, which is this quarter. So it's before we will meet again to discuss Google earnings, and I wanted to make sure that it got its due time in our discussion today,

Marcus Johnson (07:20):

And it's not just shrinking, it's its eighth consecutive quarter of negative growth. So it's a bit of a trend here.

Evelyn Mitchell-Wolf (07:27):

It is, and I'm surprised it doesn't get a lot of discussion during earnings calls. You would think that investors would ask questions about it, but nobody really cares, and that's, yeah.

Marcus Johnson (07:39):

Yes. Still making, I mean, if you rewind two years, it was making just over 8 billion a quarter. Now it's closer to 7 billion a quarter, so it's still making a significant amount of money. However, it is trending in the wrong direction as you can tell.

Evelyn Mitchell-Wolf (07:54):

And it's now smaller than YouTube is before this sort of long decline that it's been on, it was making more, contributing more ad revenues to Google's top line ad revenues than YouTube was, and now they've swapped places.

Marcus Johnson (08:09):

That's a good point, yeah. Yeah, share of dollars, total ad dollars, that's a really good point. On YouTube for a second, I mean, it grew revenue three times faster this Q2 as it did the same period last year similar to Google's overall ad revenue growth close to basically three times faster this Q2 than a year ago in the same period. Looking at the biggest challenges facing YouTube at the moment, Jeremy Goldman who is our senior director of briefings, he had an interesting comment. He was saying, short form video competition from Instagram Reels and TikTok remains a risk to the business, saying the platform's emphasis, YouTube's, on Shorts suggests it's vulnerable to social video competitors and knows the medium will be more important in the future. You mentioned Netflix and Disney Plus as some other competitors as well. Any thoughts on the challenges that YouTube's staring down at the moment?

Evelyn Mitchell-Wolf (09:00):

Well, I think in terms of Shorts monetization, we still don't have a ton of concrete information from Google on how it's doing, and Shorts is its product that competes directly with the social video competitors with Reels and TikTok. So I would love to have a more substantive conversation about it every quarter. The Google executives are like, "We're pleased with Shorts monetization progress," and it's like, great, glad to hear you're pleased. So there's not really much that we can, not much concrete that we can comment on there.

(09:34):

We know that Shorts viewership is pretty good, and I think part of that is because I personally have noticed that Shorts are creeping into, whenever I'm on YouTube, often there will be a random Short that pops up while I'm in part of the, when it introduces more content after my video feed or the current video I selected is finished, it's putting Shorts in front of me. And so that'll juice user numbers pretty nicely for YouTube. But in terms of monetization, I haven't heard anything new that would suggest that it is really putting the pedal to the metal there. So I think it's still a TBD.

Marcus Johnson (10:08):

Yeah, that's a good point. Zooming out from YouTube for a second just to look at Google ad revenue in its entirety, which was the slice of pie question, as I said, 11% in Q2, up significantly from just 3% a year ago. But that, Evelyn, suggested that Google has really turned ad revenue growth around because if you zoom right out, mid-2022 to mid-2023, quarterly growth went three, negative four, zero, and then three. So low to bad numbers. Since then, it's gone 10% growth, 11, 13, 11 in its most recent quarter. So it's easy to forget that Google hasn't just been crushing it for years and years. It did have a bit of a lull not so long ago.

Evelyn Mitchell-Wolf (10:54):

Yeah, and I think it is important also though to mention that that lull was sort of industry-wide. Google was still doing pretty solid compared to the rest of its ad supported competitors, so it was a slump that affected all boats with it. Lowering tide lowers all boats. How do we flip that phrase around? That was what was happening too. So I think although Google was not blowing expectations out of the water, it was holding its own.

Marcus Johnson (11:22):

So earnings have come out. Google said that it's going to be holding on to cookies. The cyber security company, Wiz, it tried to buy for over \$20 billion. It's not allowed to have that. So a ton of news coming out from Google, but something that came out from one of its potential competitors, which we've kind of talked a little bit about being a potential competitor, OpenAI, maker of ChatGPT, now introducing SearchGPT. We'll be talking about this in the story of the week on tomorrow's episode that Evelyn will be on alongside Max and Susie. But Evelyn, any initial reactions to a SearchGPT product coming out of the ChatGPT maker?

Evelyn Mitchell-Wolf (11:58):

Yeah, I mean, in the short term, SearchGPT will be like a fly buzzing around Google Search's head. It'll be annoying, but I think harmless in the grand scheme of things. I'll save most of my comments for our discussion about it tomorrow. The big takeaway as it applies to Google is that Google's biggest strength is its status as the default search engine across most devices and major browsers in the US and globally. Google Search is the path of least resistance to search in most cases, it's also the best, or at least the most widely used option for navigational queries, which are the most popular type of search. That's when users search for YouTube, Facebook, Hotmail, New York Times, they're just trying to get around the internet.

Marcus Johnson (12:45):

Get me to the page.

Evelyn Mitchell-Wolf (12:46):

Exactly. And in those cases, going to SearchGPT or any other generative search platform, Perplexity is one that comes to mind. Those destinations add friction, and even if they didn't add friction, the generative response is unnecessary and unhelpful and it takes a long time. So for the time being, Google's still got the high ground and then we will talk about the long term tomorrow.

Marcus Johnson (13:11):

Yeah. Yeah, at what point am I going to be able to just say, press, I mean, computers are now starting, is it the Microsoft device is starting to introduce an AI button? A dedicated key on the machine? And how long is it going to be until I can press that and say, "Open YouTube," and so I don't have to navigate through Google anymore, open whatever site, and that does

get rid of all those navigational as opposed to typing in Y because it knows my search history. That's typically going to be YouTube, and it comes up and that's how I get there.

(13:41):

If there's a way around, what does that do to the traffic, let alone how SearchGPT might function versus a Google Search functionality. Speaking of AI, we had search AI overviews, which we're still testing. Google rolled these out to a small subset of search using folks, basically putting a summary at the top of an answer to your question, and then further links below that. Sundar Pichai, CEO of Google saying the search AI overviews despite significant early hiccups are improving users...

Evelyn Mitchell-Wolf (14:15):

That's one way to put it.

Marcus Johnson (14:17):

Yeah. Yep. Improving user engagement and satisfaction. How would you rank AI's impact at Google out of 10 on the significance meter?

Evelyn Mitchell-Wolf (14:28):

So I'm going to zoom out a little bit from just AI overviews and talk about AI overall, and I'm going to give it an eight because it's a big deal. It's not a massive revenue stream on its own, but it's the growth narrative of the moment and it seems like AI is driving or at least factoring into every decision Google makes, and most of its products too. Like you mentioned, AI Overviews were introduced into search this quarter. It continues to incorporate Gemini into Performance Max and its other programmatic advertising products. It has rolled out several AI-powered tools for YouTube creators.

(15:07):

Google Cloud has built excellent momentum on the back of Alphabet's AI ventures, and it doesn't just play a major role in how Google makes money. It plays a massive role in how Google spends money. AI was cited as rationale for layoffs and reorgs. Capital expenditures related to AI are skyrocketing, and this is why this is eight points. It's got a lot of different facets to this. AI is also affecting Google's image. As we mentioned, AI Overviews went sideways immediately, telling people to eat glue and rocks and stare at the sun. So that was a

fun time. We all remember it fondly. More recently, Gemini's Olympics commercial was, well, it missed the mark. Did you see it?

Marcus Johnson (15:50):

No.

Evelyn Mitchell-Wolf (15:51):

Okay. Well, basically it was supposed to be a touching story of a little girl who's a big fan of an Olympic athlete and they, together with her father, she uses Gemini to write this athlete a fan letter, and everyone has sort of just reacted with a big yikes. Fan letters are a great way for kids to learn how to actually write themselves and to express themselves genuinely. And no famous person wants a million AI-generated fan letters, so it didn't really do what Google expected and wanted it to do. Anyway, suffice it to say, AI is working its way into Google's public reputation. All that considered, I'd say impact is at an eight. I will reserve the final two points for if and when AI is contributing so much revenue that all the other stuff doesn't even matter.

Marcus Johnson (16:42):

Yeah, yeah. That's a great take. Evelyn, let's end with a grade for Google and its Q2 performance.

Evelyn Mitchell-Wolf (16:49):

All right. Well, I give Google a solid B+. I think it's on the brink of top marks. Not quite there. Its growth was not as strong this quarter as last quarter, so it's mostly a vibe though I think that it just didn't feel quite as great as I gave it an A last quarter. I think it deserves a B+ this time.

Marcus Johnson (17:07):

Okay, down a little bit from the last quarter, but still relatively impressive. And a lot of the things, as we mentioned, we touched on, didn't get into too much detail because just don't have the time. SearchGPT we'll be talking about tomorrow in the story of the week alongside two more of our colleagues. And then next Tuesday, you can hang out with me and Evelyn and whoever else we rope into that episode for August 6th, talking more in depth about what Google hanging on to third party cookies on its Chrome browser will mean for everyone.

That's what we've got time for this episode. Thank you so much, Evelyn, for hanging out with me today.

Evelyn Mitchell-Wolf (17:40):

Thanks, Marcus. It was a pleasure.

Marcus Johnson (17:42):

Yes, indeed. Pleasure's all mine. Thank you so much to Victoria, who edits the show, Stuart, who runs the team. Sophie, who does our social media, and thanks to everyone for listening in. We hope to see you tomorrow for The Behind The Numbers Weekly listen. That's an eMarketer video podcast, so head to YouTube and search for eMarketer if you want to watch us, or you can listen to us the regular way, the usual way.

Evelyn Mitchell-Wolf (17:43):

The regular way.

Marcus Johnson (18:05):

The regular way. What an insane thing to say.