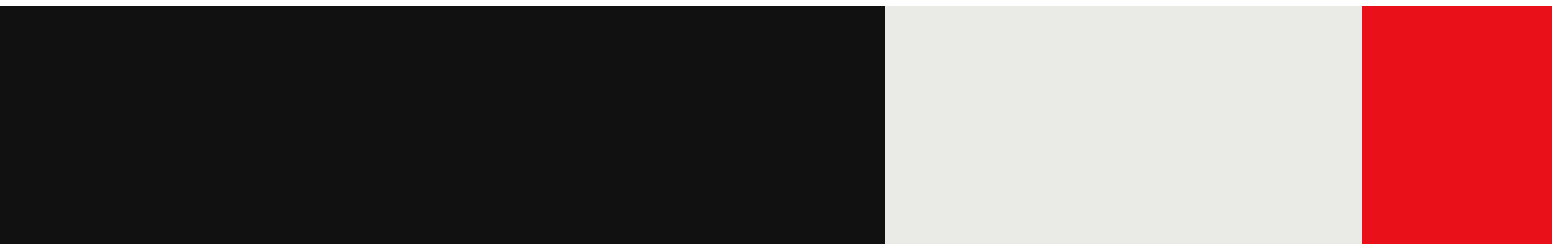


The Daily: What's next for YouTube as CEO exits, ads for Apple TV+, and improving ad measurement

Audio



On today's episode, we discuss why CEO Susan Wojcicki is leaving YouTube, the company's top concerns at the moment, and what the future holds. "In Other News," we talk about ads for Apple TV+ and a startup that is attempting to improve ad measurement. Tune in to the discussion with our analyst Evelyn Mitchell.



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Episode Transcript:

Marcus Johnson:

Hey gang, it's Thursday, March 9th. Evelyn and listeners, welcome to the Behind the Numbers Daily an eMarketer podcast made possible by Meltwater. I'm Marcus. Today I'm joined by one of our senior analysts covering digital advertising in media. Based out of Virginia it's Evelyn Mitchell.

Evelyn Mitchell:

Hello, Marcus. Hello, everyone.

Marcus Johnson:

Hello. Hello. Today's fact, why are black holes called black holes? Any ideas Evelyn?

Evelyn Mitchell:

Not a clue.

Marcus Johnson:

Me neither. I asked NASA. Not directly, didn't call them up. But according to their website, a black hole is a place in space where gravity pulls so much that even light cannot get out. The gravity is so strong because matter has been squeezed into a tiny space. This can happen when a star is dying because no light can get out. People can't see black holes. We can't see them. Scientists can't even directly observe black holes with telescopes that detect X-rays lights or other forms of electromagnetic radiation. We can, however, infer the presence of a black hole and study them by detecting their effect on other matter nearby. No one's actually seen these before.

Evelyn Mitchell:

How interesting.

Marcus Johnson:

We are just guessing they're there.

Evelyn Mitchell:

I think I missed an opportunity to make a Paul-esque joke.

Marcus Johnson:

Please don't.

Evelyn Mitchell:

When you asked me if I knew-

Marcus Johnson:

Let's move on. Bad enough when you say it. Anyway, today's real topic before everything can make the joke where Susan Wojcicki leaves YouTube and where it goes next. You've been spending too much time with Paul.

Evelyn Mitchell:

I have. It's true.

Marcus Johnson:

That's what happens when you're on the same team.

Evelyn Mitchell:

It is.

Marcus Johnson:

In today's episode, we'll first cover whether it's time for Google to spin off of YouTube and where Susan Wojcicki leaves YouTube, former CEO. Then for in other news, we will talk about ads for Apple TV Plus and a new startup adding to efforts to improve ad measurement.

We start though, Evelyn, with the question of whether it's time for Google to spin off YouTube. Well, let's talk about where YouTube is first. We talked about this briefly on last week's weekly listen in the story of the week, but we wanted to expand the conversation and talk a bit more about YouTube for its own episodes. And so according to the Economist, it could be worth more than Netflix. YouTube, that is. But folks are having a tough time appreciating its value. What with so much of the media coverage focused on Google and YouTube's parent company Alphabet in its defense against Microsoft's ChatGPT inspired Search and a bunch of legal cases that have... some of which have reached the US Supreme Court.

"As long-term YouTube, CEO Susan Wojcicki steps down, reflection on her nine year tenure notes the following," says The Economist, "YouTube has become an all in one DIY handbook, childminder, jukebox, yoga instructor, et cetera." "It's a platform that reaches 2.6 billion monthly active users." "A simple but effective revenue sharing model that millions of creators rely on." "And a YouTube Shorts product in response to TikTok that averages 550 billion views a day." But Evelyn, what do you make of the position Ms. Wojcicki is leaving YouTube in?

Evelyn Mitchell:

Well, right now, YouTube is dealing with more headwinds than it has dealt with in recent memory. And I actually see a lot of parallels between how things are going for YouTube and how they're going for Google Search. Neither had a particularly stellar second half of 2022 in terms of growth in ad revenues. YouTube's, Q3 and Q4 were especially disappointing. And both YouTube and Google Search are experiencing a sea change in the market that they operate in.

For Google search, that's obviously AI and we're still early days there, but it's clear that AI will revolutionize the way that consumers interface with the internet through search. For YouTube the sea change is more consumer driven. Consumers are spending more time streaming and they're spending more time with short video. And neither of these trends are new. We've gotten to see things unfold a bit. And for YouTube's part, it's meant getting Shorts off the ground and making sure that it's ad offering stands up to competition from a still growing number of streaming platforms.

And that leads to my second parallel. Both YouTube and Google Search are facing a rising tide of threats to its market position, but both are still winning in terms of user numbers. Google's biggest challengers are Microsoft and the new Bing, Amazon and TikTok. But Google is still far and away the most popular search engine, and it has a very real edge over its competitors

in its status as the default search engine on Chrome and Safari, which are in turn the default mobile web browsers on Android and iOS devices respectively. And that's a huge advantage.

YouTube is fending off competition from streaming platforms like Netflix and Disney Plus on one side and short video destinations like TikTok and Instagram on the other side. But YouTube will have 236.1 million monthly viewers this year, according to our forecast. Netflix will achieve about 70% of that. And TikTok just a little over 40%. And time spent is also an important building block of success here. But YouTube's ubiquity among consumers is very powerful. And all that said, I think Ms. Wojcicki is leaving YouTube in a relatively strong position given external forces. The tools to navigate these challenging circumstances are there. Now it's just a matter of applying them and continuing to improve them.

Marcus Johnson:

Yeah, her being instrumental to the growth of Google and YouTube is probably one of the biggest understatements you could possibly make. Because way back then, Ms. Wojcicki, she rented out her Silicon Valley garage to co-founders Larry Page and Sergey Brin in 1998. She joined Google as the 16th employee a year later. She was there right at the very beginning of this. And then insider intelligence director of briefings, Jeremy Goldman notes, "She ran their marketing, then helped build its online ad business." "And then in '06, she was instrumental in advising Google's founders to buy YouTube for just one and a half billion dollars." Which is now as you can see is a frigging steal. She's been a huge part. Her leaving is a really big deal. It's now a company that's 29 billion in ad sales. It's about 1/10 of Alphabet's revenues.

And just behind Netflix. Netflix is 32 billion a year. YouTube just behind that. And data published by tech commentator Benedict Evans shows off YouTube site, it says "Number one in the US YouTube share of TV viewing recently eclipsed Netflix." "Number two, in 2022 it paid creators almost as much as Netflix paid for big budget productions." "And number three, star YouTubers like Mr. Beast command similar audiences to top Netflix hits as well."

Evelyn, you mentioned the two consecutive quarters of negative growth for YouTube, Q3, Q4. Despite that though, they made the same amount of money in 2021 as they did in 2022. You zoom out and that's not doing too bad. And she's also, Ms. Wojcicki is leaving it in very capable hands. Neil Mohan, he is YouTube's number two. Has been for eight years, helped develop YouTube TV, YouTube Music, premium Shorts, so been very involved in a lot of their different projects.

Also with her leaving Evelyn, Nico Grant of the New York Times made a really good point, which is that, "Ms. Wojcicki's exit from YouTube's top job further thins the ranks of women running large tech companies." Sheryl Sandberg, Meta's former COO, stepped down last year. Meg Whitman, who led HP, Hewlett Packard, is gone. Ginni Rometty of IBM, Marissa Mayer of Yahoo. But Mr. Grant was pointing out that Safra Catz remains chief executive of Oracle and Lisa Su leads chip maker AMD. But there have been a lot of women leaders who broke barriers who are no longer there and fewer obvious female successes in sight as well.

Evelyn Mitchell:

Yeah, when you list them off like that it seems a little bit overwhelming, doesn't it?

Marcus Johnson:

Yes, yes. And Silicon Valley Bank, according to report from them, "More than half of American startups, half lacked women in leadership roles in 2020 as well." Yeah, her leaving is going to leave a big hole, but they're in a pretty good position looking sideways. YouTube's other businesses though, in November the company had 80,000,000, eight zero million paid subscribers of music and premium services. That's up from 30 the previous year from 30 to 80. And YouTube TV, it's streaming TV offering has over 5 million subscribers.

That's where it is, Evelyn. It seems like a pretty valuable property. And The Economist was writing that Tim Mulligan of research firm midyear thinks Alphabet may in fact be hindering YouTube more than helping it. Questioning is it time for a spinoff? This was one of the questions we were speaking about on last week's weekly listen. Is it?

Evelyn Mitchell:

In short, no. It is not.

Marcus Johnson:

Tell me why.

Evelyn Mitchell:

Well, some of the arguments for spinning off YouTube, from Alphabet's perspective, the first one is Sundar Pichai's image, spinning off YouTube might give investors and the public a reason to trust that he's focusing on AI like he says he is. And then regulation. Spinning off YouTube would enable Alphabet to get ahead of the Department of Justice, which is suing

Alphabet for anti-competitive practices in the ad tech sector. And then from YouTube's perspective, the arguments for spinning off include that it would give YouTube more focus because Alphabet has too much else on its plate to give YouTube the focus that it deserves. Another reason, Google's ad reliant business model, YouTube would have greater freedom to experiment with subscription revenues. And then again, regulation, YouTube would be less likely to draw regulatory scrutiny if it wasn't a part of Google.

And I mentioned all of those arguments for because it is an interesting kind of possibility to consider. But as Paul pointed out on last week's episode of the Weekly Listen, this question is really a reflection of YouTube's poor performance over the last two quarters. But YouTube is not really the only mature platform that's struggling right now. Macroeconomic instability, a return to more modest growth rates after the pandemic ad spending boom, and then ongoing issues riding the ship in the wake of Apple's app tracking transparency policy. These are all issues that everyone in the digital ad space is contending with.

To untangle YouTube from the Google machine, sure it might free it of Google's troubles as is discussed in The Economist article, but it's also unlikely to appease regulatory scrutiny from the Department of Justice or the Supreme Court. And it would also mean YouTube navigating a challenging period without the resources of Google, which it has come to rely on. Resources that take the form of money and talent sure, but also first party consumer data, which is a critical component of many privacy preserving, targeting, and measurement solutions. And YouTube has been a part of Google for almost two decades. While it may not be growing like it did in 2021, it's still responsible for over 10% of Google's revenues in 2022, like you mentioned. And that's quite a chunk. It would be risky for Google to give up a source of its owned ad inventory.

Marcus Johnson:

It would seem like a bit of a knee-jerk reaction, wouldn't it?

Evelyn Mitchell:

Yeah. It would.

Marcus Johnson:

Because if you take a second, zoom out, yes, two negative quarters of growth back to back Q3, Q4, however, as I mentioned, 29 billion made last year, same as they made the previous

year. Poor performance, air quotes or not as good performance still equates to about 60 billion made in two years from this platform. And because of that, it is worth a lot. Laura Martin of Investment Bank Medium was... She thinks that YouTube could be worth at least 300 billion dollars. That would be nearly double the market cap valuation of Netflix and nearly that of Disney as well. They would get a lot back for it if they were to sell it, but still they're incredibly valuable property. Final few questions here, Evelyn. We've covered some of this, but just to kind of put them down on paper for folks in a nice bulleted list, if you had to rank YouTube's top three concerns at the moment, what would they be?

Evelyn Mitchell:

I'll go in reverse. I'll start with number three and end on number one.

Marcus Johnson:

Oh, suspense.

Evelyn Mitchell:

I know. Number three is regulation. Google is facing regulatory scrutiny from a number of entities in the US and the EU, but YouTube in particular is at the center of a case the Supreme Court just heard oral arguments for, Gonzalez v. Google. And it'll be a hot minute before a ruling comes down, but it's definitely something to keep an eye on.

Marcus Johnson:

And this one's a huge deal. Supreme Court case in the US looking into whether YouTube violated anti-terror laws by using algorithms that recommend extremist videos. And then obviously, as you mentioned, they're being looked at for their digital ad dominance as well. As well as I'm sure other cases going on, but there's some pretty big ones right there.

Evelyn Mitchell:

Yes. Great review, Marcus.

Marcus Johnson:

I got you. I got you. Marcus with the assist.

Evelyn Mitchell:

Number two is privacy changes. And regulation is a part of this. In the EU GDPR enforcement is heating up. In the US there are various state laws that are coming into play and potentially regulation at the federal level as well. Browsers and operating systems are also making changes. And Google itself is a big part of this, but regardless of who is behind the changes, YouTube, like other digital ad purveyors, is having to revamp targeting and measurement infrastructures and convince advertisers of their efficacy.

And the number one is competition for ad dollars. And this one had several facets to it. Consumers are a big piece of the puzzle, making sure that YouTube keeps up with and exceeds consumer expectations for quality of content, amount of content and overall user experience. Because if consumers aren't there, advertisers aren't there. And of course, creators are YouTube's lifeblood. Keeping creators happy and providing them with ample resources, including a sustainable source of income, is key to maintaining the robust repository of content that YouTube is known for.

Marcus Johnson:

That's it for the lead. It is time now for the halftime report.

Evelyn. We will take a ultra fast takeaway from you from everything we've talked about in the lead.

Evelyn Mitchell:

All right, YouTube isn't going anywhere. Both YouTube and Google have a tough road ahead, but they are stronger together and that's how they'll stay for the foreseeable future.

Marcus Johnson:

Very nice. Time of course for the second half of the show today. In other news, ads for Apple TV Plus and efforts to improve ad measurement.

Story one, "Ads for Apple TV plus are all but confirmed with Apple's new hire," writes Insider Intelligence's briefings analyst, Daniel Konstantinovic. According to the information, "Apple just hired Lauren Fry, former chief revenue officer of ad tech firm Simulmedia to build out an ad service for Apple TV Plus. Daniel points out that Apple's own ad business has grown tremendously, jumping from over 5 billion to over 7 billion from 2021 to 2022. That growth has propelled the traditionally hardware focused company's services revenue category to

become its second largest after the iPhone. But Evelyn, the most interesting sentence from this article is what and why?

Evelyn Mitchell:

Well, you just said it, Marcus.

Marcus Johnson:

Yes. I did it. Sorry.

Evelyn Mitchell:

I was going to say that the growth from just over 5 billion dollars in 2021 and ad revenues for Apple to just over 7 billion last year.

Marcus Johnson:

Tell me why.

Evelyn Mitchell:

Apple has the potential, more potential than any other player in the digital advertising space, to disrupt. It's set up in such a way that if it were to enter any market and advertising, streaming, search, ad tech, it would almost immediately become a force to be reckoned with. And we do see it going that way. But it's also a giant red flag for antitrust enforcers. That the momentum behind Apple's ads business is so directly attributable to app tracking transparency.

Marcus Johnson:

Story two. "Former Facebook executives who helped build Meta's ad system, launch startup adding to efforts to improve ad measurement," writes Salvador Rodriguez and Patience Haggin of the Wall Street Journal. The new company, Anonym, aims to help marketers measure the effectiveness of their ads whilst maintaining user privacy. Its first product is a privacy conscious data attribution tool that lets advertisers more effectively measure which ads led users to install an app or buy something.

The journal article notes that later this year, Anonym hopes to launch a second service that lets ad platforms deliver relevant ads to users whilst maintaining data privacy. But Evelyn, the most interesting sentence in this article is what and why.

Evelyn Mitchell:

US marketers are expected to spend 21.9 billion on third party data and related services this year, according to management consulting firm Winterberry Group.

Marcus Johnson:

Why?

Evelyn Mitchell:

Yeah. It's a particularly interesting figure in the context of how much advertisers are spending on digital. It'll be almost 250 billion dollars this year according to our latest forecast. Which means that for every \$10 advertisers spend on digital ads, they will spend about a dollar on third party data and related tools and services.

Marcus Johnson:

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

Evelyn Mitchell:

Thank you, Marcus. It's been a pleasure.

Marcus Johnson:

And thank you of course to Victoria who edits the show. James, who copy edits it, Stuart who runs the team. And thanks to everyone for listening in. We'll see you tomorrow hopefully for the Behind the Numbers Weekly Listen, an eMarketer podcast made possible by Meltwater.