

In 2022, Apple planted seeds that could blossom into an advertising empire

Article

The news: Apple has long had a behind-the-scenes effect on advertising as the owner of iOS, but in 2022 it made a mark in a different way. The company known for sleek hardware and software made a full-blown pivot into digital services and advertising with it, launching a slate of ad channels and placements and toying with bringing ads to **Apple TV+**.

New category on the block: The iPhone has long been Apple's biggest moneymaker, and it still is, but the **Services** category took center stage in 2022 and is where Apple's advertising revenues reside.

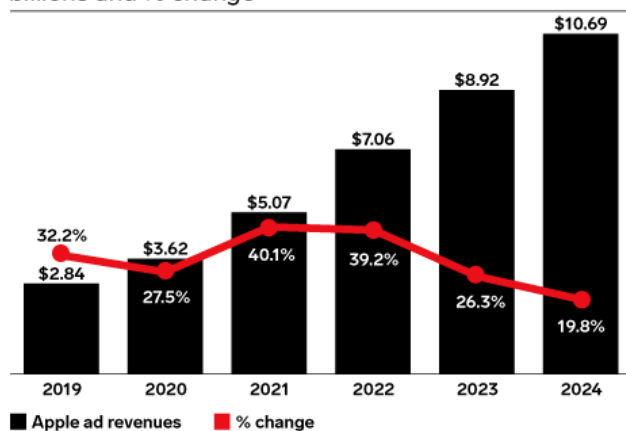
- The iPhone still reigned supreme in Q3 with revenues of \$40.6 billion. Services, meanwhile, brought in \$19.6 billion, making it the second-largest revenue category for Apple and the only other one to reach the double-digit billions.
- Much of Apple's ad revenues came from the App Store, where it debuted several ad placements including new slots on its home page and recommendations for other apps on download pages.
- In May, Insider reported that Apple was planning to expand the Services category—which includes products like Apple Arcade, TV+, Music, Fitness+, and its advertising business—to focus more on streaming and advertising revenues. Hence, rumors that Apple TV+ would soon be the last major streamer to fall to the ad-supported video trend.

Dawn of the new ad giant: With its walled garden of billions of iOS users and sleek brand, Apple stands to benefit tremendously from challenging **Google** and **Amazon's** search dominance, especially since the two leaders are facing more government scrutiny than ever.

- Google spent much of the year battling antitrust initiatives in the US and EU, where it's been subject to heavy fines and has let up some control of its ad empire. But Apple has felt pressure too—a Bloomberg report claims it may soon open up access to third-party app stores on iOS.
- “Search is the most uncertain opportunity in my estimation, but also potentially the biggest. Uncertain because there are a lot more regulatory and antitrust issues that likely come into play, and it would effectively be a declaration of war with Google,” said Insider Intelligence principal analyst **Andrew Lipsman**. “I can easily imagine a scenario in which Apple grabs 10% of Google's nearly \$150 billion search ad business, which would translate to a \$15 billion opportunity.”

Apple Ad Revenues Worldwide, 2019-2024

billions and % change



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites
Source: eMarketer, Oct 2022

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Challenges: Apple's shot at advertising dominance hasn't gone unnoticed by consumers and competitors. The company risks tarnishing its UX-first reputation by introducing too many ad placements, and companies hurt by its **AppTrackingTransparency** (ATT) change are eyeing legal challenges.

- The billboard-ification of the iPhone marks a major turning point. Apple has always prioritized appearance and user experience above all else, and advertisements could degrade those attributes. Users often find that advertisements detract from user experience—but the opportunity for revenue growth is too large for Apple to pass up.
- Competitors aren't happy about Apple's advertising windfall. Meta has challenged Apple through government channels, claiming that its ad revenue growth shows that ATT is a monopolistic policy.

Our take: Apple's impact on advertising is nothing new. As the creator of iOS, the company owns the keys to a user base of over one billion users; changes like ATT have had a ripple effect across the digital advertising world.

- Despite Apple's revenues growing while competitors shrink, ATT is unlikely to go anywhere. The policy, while controversial, falls in line with privacy demands from regulators.