

# 2022's ad downturn is carving space for new leaders

Article

**The news:** 2022 was a historic year for advertising. The pandemic-driven boom in impressions slowed down, prompting a dramatic pullback in ad spending that many were unprepared for. But out of the downturn, new trends and leaders are beginning to emerge.

Don't be fooled by the panic: While slower than expected, ad spending still grew in 2022, , and will continue to grow moving into 2023. **GroupM** is forecasting a 5.9% increase in 2023, down from 6.4% in June. **Magna** had a steeper drop of 6.3% to 4.8%. Our own October forecast predicts growth of 6.9% to **\$929.95**.

**The big downturn:** An adjustment from pandemic-level highs collided with economic uncertainty and persistent issues with advertising addressability to throw the ad industry into disarray, disrupting long-established norms.

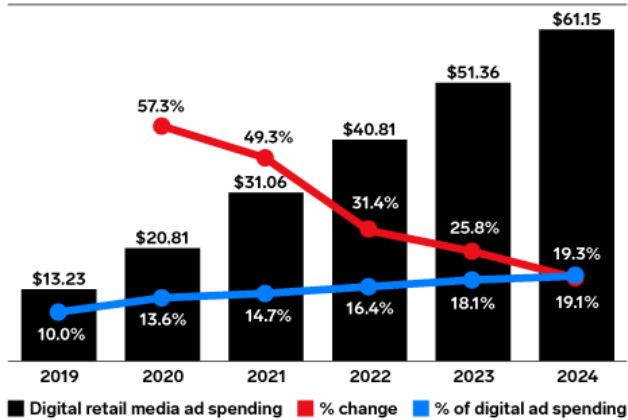
- Advertisers became precious about their budgets, causing long-time relationships to falter. Automakers, for example, one of the top TV advertisers, reduced budgets for months in a row and instead pivoted to post-purchase and direct-to-consumer advertising.
- It wasn't just old relationships like automakers and TV that suffered. Companies pulled social media spending dramatically as a response to customer distaste for the ad channel and issues with social media addressability brought on by **Apple's AppTrackingTransparency policy**.
- These dramatic shifts led to significant changes in advertising spending forecasts. We cut our social advertising forecast by an unprecedented **\$9.25 billion**. The long-term outlook shrank as well: We now expect social advertising to reach **\$79.28 billion** by 2024, down from **\$99.92 billion**.

**The staples:** Amid all this, some advertising channels proved resilient.

- Search advertising is the best example, and will account for **28.6%** of total ad revenues in 2022: Advertisers shifted more of their budgets toward search, an essential if unsexy way to ensure that limited budgets have the greatest impact.
- The stalwart effectiveness of search marketing kicked off a race in Big Tech to capitalize on search revenues. **Microsoft, Apple**, and others made aggressive pushes into the search marketing space in order to capture revenues from the titans **Amazon** and **Google**.
- Even though advertisers were less likely to spend on unproven channels, one relatively new trend thrived: retail media networks. Eager to capture growing search revenues, countless retailers from **Michaels** to **Instacart** launched ad networks, and the market is rapidly surging. US retail media ad spending will grow 25.8% next year to **\$51.36 billion**, making up 18.1% of total US digital ad spend.

## US Digital Retail Media Ad Spending, 2019-2024

billions, % change, and % of digital ad spending



Note: digital advertising that appears on websites or apps that are primarily engaged in retail ecommerce or is bought through a retailer's media network or demand-side platform (DSP); examples of websites or apps primarily engaged in retail ecommerce include Amazon, Walmart, and eBay; examples of retail media networks include Amazon's DSP and Etsy's Offsite Ads; includes ads purchased through retail media networks that may not appear on ecommerce sites or apps  
Source: eMarketer, March 2022

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**Streaming's AVOD craze:** Eager to grow revenues and subscribers, streamers turned to ad-supported subscription tiers, opening up new channels for advertisers and claiming share from TV.

- Over 33% of US consumers were cord cutters in 2022, a historic shift that placed advertising power in the hands of streamers. The new kids on the block like **Netflix** and **Warner Bros. Discovery** charged record-high CPMs, driven by their brand power and a tight spending market.
- Early efforts have struggled, though. Netflix vastly underdelivered on its viewership estimates for its first slate of advertisers, which may cause CPMs to dip down at the next upfront period or may restore some advertiser faith in older channels.

**Our take:** Out of a downturn comes opportunity for new ad tech players, for brands to establish themselves with consumers, and for new ad channels to stake their claim. 2023 will see slower growth than the industry had become accustomed to during the pandemic years, but the downturn is giving way to new normals that will define the industry going forward.