

eMarketer Cuts Alibaba Ad Forecast, as Search Struggles amid Pandemic

Tencent surpasses Baidu as the No. 2 ad player in China

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eMarketer Editors

Despite a downgrade to our forecast, digital ad spending in China will still grow 5.0% this year. But there will be a power swap among the major platforms, as Tencent displaces Baidu and becomes the No. 2 publisher. And Alibaba will remain No. 1, but with lowered expectations.

BAT Performance

Alibaba's ad revenues are almost three times that of Tencent's, but its growth story will not be as rosy in 2020. In recent years, Alibaba has successfully leveraged its ecommerce platforms to generate a new line of search ad revenues, akin to the Amazon model in the US. In 2016 and 2017, Alibaba saw at least 40% growth rates in digital ad revenues across its various properties, and last year that rate was a still sizable 24.3%.

Net Digital Ad Spending in China, by Company, 2020

	Ad revenues (billions)	% change
Alibaba*	\$27.05	6.5%
Tencent	\$9.49	15.5%
Baidu	\$7.85	-14.3%
—iQiyi	\$0.53	-27.8%
Sina	\$1.50	-12.1%
—Weibo	\$1.32	-13.3%
Sohu	\$0.57	-17.5%

*Note: net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites; excludes Hong Kong; *includes ad revenue from Alibaba's core commerce operations and Youku Tudou*

Source: eMarketer, June 2020

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This year, however, with online customers pulling back spending and searching for basic staples instead of high-end products, we forecast Alibaba's net ad revenues will grow by only 6.5% (down from our pre-pandemic estimate of 19.3%). This decline will be driven by a dramatic deceleration in Alibaba's search ad business, which grew 41.2% last year but will grow only 8.9% this year. Still, Alibaba's combined ad revenues of \$27.05 billion will easily lead the pack and represent 35.9% of all digital ad dollars spent in China. We also forecast a strong rebound for Alibaba next year of 16.8% as China's macroeconomic conditions recuperate.

Baidu will bring up the rear among the BATs in 2020 performance, growth, aggregate revenues and long-term outlook. Although Baidu still towers over niche players like Sina and Sohu, we forecast that Baidu's net ad revenues this year will drop to their lowest point since 2016. Baidu's \$7.85 billion will represent a 14.3% drop year over year, coming after an 8.0% decline in 2019.

"Baidu has had trouble attracting search ad dollars, despite being free of competition from Google," said eMarketer forecasting writer at Insider Intelligence Ethan Cramer-Flood. "Advertisers are showing that

they increasingly prefer the reliability of Alibaba’s platforms for their search spend.”

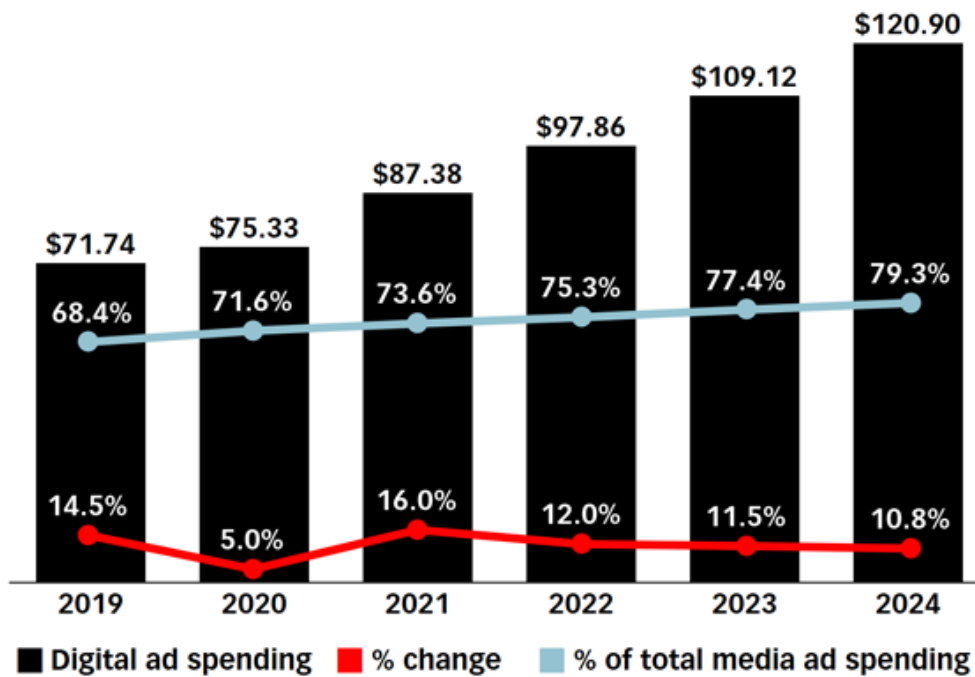
Baidu’s decline means that, for the first time ever, Tencent will move into the No. 2 position for net digital ad revenues, claiming 12.6% of China’s total spend vs. Baidu’s 10.4%.

Overall Digital Ad Spending

Although we forecast that digital ad spending in China will be \$5.73 billion less this year than anticipated, the \$75.33 billion total will still easily rank China as the second-largest market for digital advertising worldwide (behind only the US at \$134.66 billion). Also, China’s 5.0% growth rate in digital ad spending still ranks among the fastest globally despite the rapid slowdown.

Digital Ad Spending in China, 2019-2024

billions, % change and % of total media ad spending



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices; includes classifieds, display (banners/static display, rich media, sponsorships and video, including advertising that appears before, during or after digital video content in a video player), search (paid listings, contextual text links and paid inclusion) and email; excludes Hong Kong
Source: eMarketer, June 2020

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China will be one of only two countries where advertisers grow their digital ad spending at double-digit rates every year from 2021 through 2024, leaving China with \$120.90 billion in digital ad spending by 2024. (India is the other such country.) This will put China far ahead of the UK (\$29.18 billion), but far behind the US (\$225.66 billion).