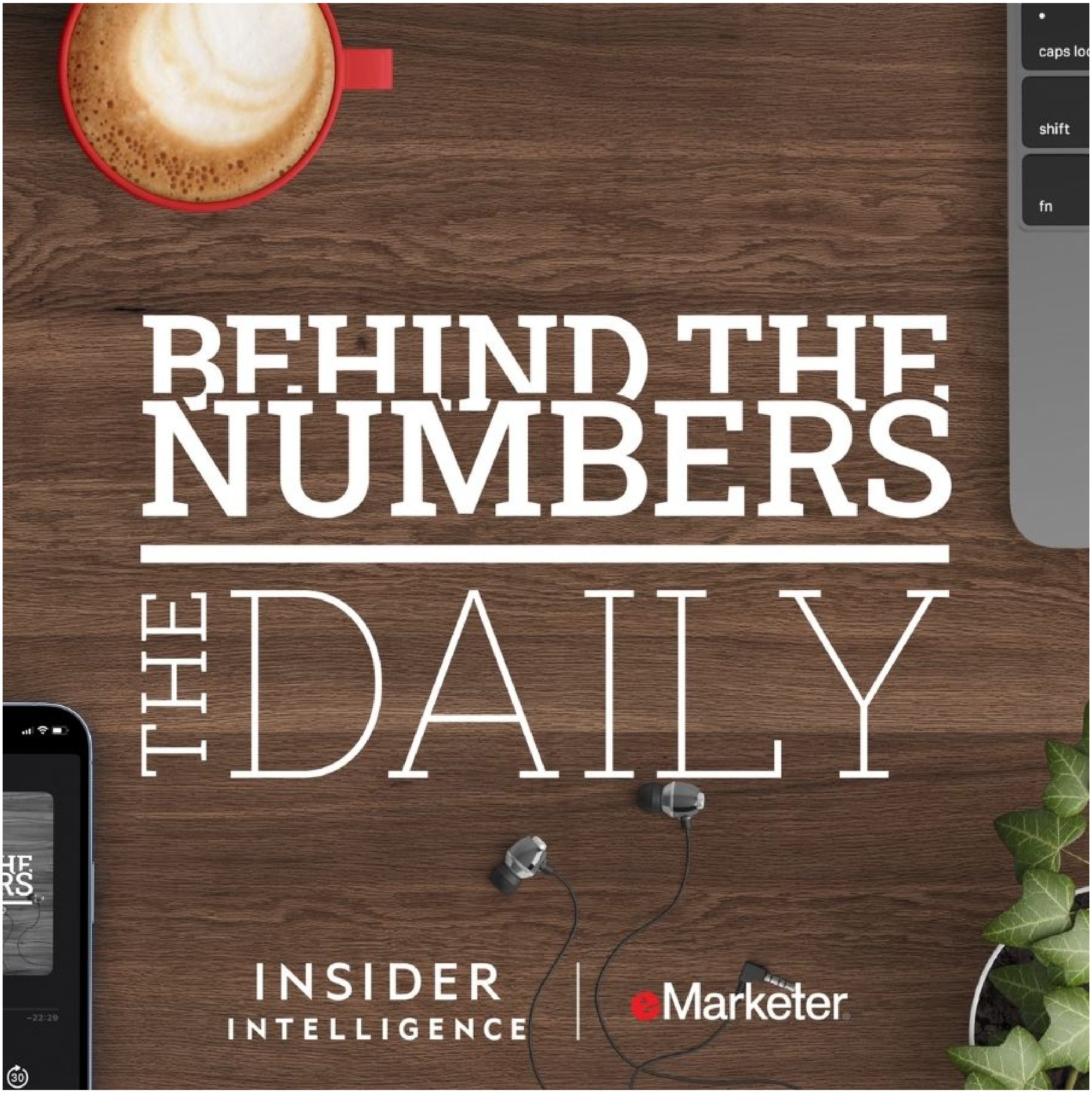
Paul Verna

The Daily: Is US ad spending about to hit the gas, a Spotify/Roku deal, and Amazon's NFL streaming

Audio

On today's podcast episode, we discuss how much ad spending will grow this year, whether there are more reasons to be optimistic or pessimistic about consumer spending, and what today's most interesting ad spending trends are by media and company. "In Other News," we talk about a deal to bring video ads to Spotify's app on Roku and how Amazon's second year of streaming Thursday Night Football is going. Tune in to the discussion with our analyst Paul Verna.

Subscribe to the "Behind the Numbers" podcast on Apple Podcasts, Spotify, Pandora, Stitcher, Podbean or wherever you listen to podcasts. Follow us on Instagram



Episode Transcript:

Marcus Johnson:

This episode is made possible by Intuit MailChimp. Have you ever heard of a customer? Well, it's the result of marketers grouping customers with different behaviors into one big mess. But with MailChimp, you can use real-time behavior data to personalize emails for every customer based on their browsing and buying behavior. Turning your customers into customers. Intuit MailChimp, the number one email marketing and automations brand. Visit mailchimp.com/personalize for more information. Based on competitor brands, publicly available data on worldwide numbers of customers in 2021, 2022. Availability of features and functionality vary by plan, which are subject to change.

Paul Verna:

A lot of the platforms that have pivoted to ads seem to have had very good timing because they are finding a lot of success there. So whatever holes there are in the ad market, particularly at the higher spending level, it seems are being filled in by other forms of ads.

Marcus Johnson:

Hey gang, it's Thursday, October 12th. Paul and listeners, welcome to the Behind the Numbers Daily, an e-Marketer podcast. Made possible by Intuit MailChimp. I'm Marcus. Today I'm joined by our principal analyst who heads up our digital advertising and media desk based, I always get this wrong, New Jersey.

Paul Verna:

You can say born in New Jersey, but based in New York.

Marcus Johnson:

Damn it. Let's do that. Born in New Jersey, based in New York. It's Paul Verna.

Paul Verna:

Great to be here.

Marcus Johnson:

Hello. Hello. Today's fact, Paul, do you know why we shake hands with people in parts of the west at least when we greet each other?

Paul Verna:

It's one of those things that I've always taken for granted, so I have no idea why we do it. So enlighten us, please. I'm sure I'm not the only one wondering.

Marcus Johnson:

You are. Everyone else knows. So just for Paul. Archeological ruins show handshaking practices being used as long ago as in ancient Greek times, so early fifth century BC. But why do we do it? Well, shaking hands is traditionally done with your right hand and it became a friendly greeting because it was proof that you came in peace and you weren't holding a weapon or about to draw your sword. So the scabbard where you holds your sword would typically be on the left side, and so you would go up to them with your hand open showing that you weren't going to, I guess, stab them immediately.

Paul Verna:

But what if you have your right hand out and you're doing a sort of sleight of hand where the magician trick, where you draw attention to that hand and behind your back and your left hand is that weapon?

Marcus Johnson:

This was my concern. All this shows that the person isn't going to kill you with their right hand. Because if their left hand is tucked behind their back, you'd be like, "What's going on back there?"

Paul Verna:

Yeah.

Marcus Johnson:

And they're like, "Nothing."

Paul Verna:

And if they're a lefty, even more dangerous.

Marcus Johnson:

Exactly. Looks like a second sword back there. No, no, no. No, it's not.

Paul Verna:

Well, may I share a fact of the day as well?

Marcus Johnson:

Always.

Paul Verna:

Today is the birthday of my firstborn daughter and one of the little boys across the street that I often talk about on this podcast.

Marcus Johnson:

Both of them?

Paul Verna:

They were born on the same day, not the same year, but happy birthday to both of them.

Marcus Johnson:

Happy birthday indeed. Very nice. That's way better than the shaking hands thing. You should have said that at the beginning. Could have moved on with our lives. Anyway, today's real topic is US ad spending about to hit the gas or not.

In today's episode, firstly we'll cover whether US advertisers are about to get their spend on and crank things up again. Then for another news, we will discuss the deal between Roku and Spotify and how Amazon's Thursday Night Football broadcast has started the year.

And we start of course with the lead and we're talking about ad spending, is it about to hit the gas? So agency giant Magna notes that US ad spend accelerated to 4.4% year-on-year in Q2 and was up nearly 3% when you zoom out and look at the first half of the year. Because of this, Magna raised its full year ad revenue growth forecast to just over 5% for 2023. And industry analyst and founder of Consultancy Madison and Wall Brian Wieser agrees. They also expect US ad revenue to reach 5% this year, excluding political ad spend. So Paul, according to these estimates from Magna and also Madison and Wall, US ad spending will grow around the 5% mark this year. What do our numbers say? Do we agree?

Paul Verna:

This lines up with our H1 forecast pretty reasonably. Our H2 forecasts are not out yet, so I can't specifically talk about those. But in general, I would say that the outlook as expressed by Magna and by Brian, it makes sense to me. It's a sign of an economy that is pretty strong and we just got job numbers last week that were robust. So there are obviously pain points across the economy. There are still supply chain issues, there are still a lot of uncertainty and global conflict and specifically within the economy, the interest rates are very high. Inflation is lowering, but still high. So there's a lot going on. But in general, as it relates to advertising, we've seen so many signs of small improvements compared to what we might've expected say a year ago that I think seeing these forecasts did not surprise me at all.

Marcus Johnson:

So just for the folks listening, when you say our H1 numbers and our H2 numbers, that's when we put the forecast out. So our last forecast came out in March, which is in H1, so that's last time it was updated and we have, I think, it's 3.8% for the full year, 4% call it 4 for the total year and spending 2023, but we put that number out in March and as Paul was saying, our forecasting team currently working on updates to that which will come out in the second half of the year, which will be sometime I believe this month, Paul, in the next month or so.

Paul Verna:

Yes.

Marcus Johnson:

So we'll see whether they are going to change. You mentioned a couple of reasons why things might be looking down. I want to tuck into some of the reasons why folks might have reasons to be optimistic or pessimistic regarding consumer spending and the outlook for the rest of the year. So according to Vincent Letang, head of Global Market Intelligence at Magna, both inflation and GDP were two reasons for landing on this 5% figure. But digging into why advertisers and Americans at large should be optimistic and why maybe not so much, we're going to do that now. So we'll start with the optimistic, Paul. What in your mind are some reasons for optimism?

Paul Verna:

One is that there is a great appetite for ad supported media and a lot of that has to do with the pivots by big platforms from either entirely subscription-based or predominantly subscription-based approaches and seeing the light that advertising makes sense in that context. It's also a sign that retail media is still on a rocket ship. So retailers, digital platforms and a lot of their off platform advertising are very robust right now and that I think will remain the case. It's a form of advertising that has a lot of benefits to advertisers from the point of view of attribution or at least the potential for attribution and for being very close to the point of purchase. So there's a performance aspect that is very valuable. So the whole spectrum of advertising is very broad, but within certain areas like Retail and like CTV, they're both still in a very healthy place.

Marcus Johnson:

Yeah. Yeah. The US ad market has also just recently jumped. So according to Standard Media's US ad market tracker, US ad spending jumped 6%, over 6% in July. That's the largest gain in about 15 months, actually bounced back from negative 6% in June. It was up in May as well. May was the first time it had been positive in 11 months. So in the last couple of months it's gone up, down, up, down, but it's landed up in the most recent month of July and up, as I mentioned, higher than any gain in the last 15 months. Now, Insider Intelligence retail analyst Zak Stambor does note that or does remind us that July's figures did benefit from Prime Day, which drove two of the highest days of sales volume in Amazon's history fueling ad spend, and also benefited from major broadcast events like the Women's World Cup, which I don't want to talk about right now.

Paul Verna:

Understandably. Those are important indicators and looking at the standard media numbers, they are month to month and there's going to be a lot of ups and downs because of the types of events you mentioned. But seeing that six plus percent growth in July is pretty telling because I don't know this for sure because I'm not looking at the data in a granular way, but I would imagine that even if you subtract Prime Day and the World Cup from those, it would still probably be growth.

Marcus Johnson:

Yeah, yeah. It does seem like we're a bit stuck trying to decipher whether we should be happy about how things are or majorly concerned. I'll give you a couple more reasons to be optimistic though, Paul. Well, one is another Prime Day in October, so that will certainly help. Second is high level US economy grew 2% each of the last two quarters, Q1 and Q2 according to the Commerce Department, so that's good. Another one is inflation. It's not beating folks to a pulp anymore. It did tick up to 3.7% in August. So something to keep an eye on, but that's a far cry from the 9% people were dealing with last summer.

Paul Verna:

Yeah. And remember also on inflation specifically, inflation actually raises the price of advertising. So in a perverse way, it's a sign of a bad economy, but it can drive up prices and maybe artificially inflate the forecast a bit.

Marcus Johnson:

Yep, that's a good point. As long as it's not too high. It does mean more dollars. On the inflation front as well, gas prices, however, they have been creeping back up since the start of this year. So something to watch, even though they've come down from the five bucks a gallon from last summer and then people have jobs. You mentioned healthy job market, US unemployment rate remains below 4%. It's been below 4% at or below for the last two years, every month for the last two years. So that's a good thing as well.

Reasons for caution, Paul. Mixed messages on spending. Some numbers, Bank of America are saying that total card spending by household was up 0.4% year-on-year in August. That's up from July. Other numbers say household spending grew just 1% and it's actually down from 4% in Q1. So a few different sources saying a few different things when it comes to spending, but moving over to reasons for pessimism. One, you could look at inflation pool and you can say, well actually that's the reason for optimism, but also reason for pessimism because inflation's still double what folks have been used to for the last 10 years prior to 2021. We're used to 2% inflation, it's closer to four and that's double what we're used to, but way down from what last summer did to everybody. So that's one reason. What else are you looking at when you think about reasons for pessimism wrapping up this year?

Paul Verna:

Well, I think inflation is interesting because it can cut both ways. Interest rates are also a big factor, and this speaks to how when we talk about the ad market, it is so vast and so complex that there could be areas within it that are doing fantastically well and others that are not. So for example, with interest rates being as high as they are, big ticket items like home purchases or car purchases are definitely not an area of strength because spending is slowing down. People are not as ready to commit to those big purchases as they used to be. So that would impact, for example Zillow or Carvana in terms of ad spending.

But on the other hand, some of the areas in which consumers are still engaging, for example, entertainment is something that can pull in a more positive direction. So you have to look at the ad market and zero in on spending by industry and across all the different sectors. But I would say interest rates are definitely a concern and something to be wary of because it really, not only does it stifle consumer spending, but it also stifles investments and corporate growth.

Marcus Johnson:

Yeah. Yeah. They're spending how much money people are willing to give away, but there's also how much money people have to spend and it seems that people have less money to even consider spending in the first place. US consumers, inflation adjusted median household income, it's a lot, fell for the third straight year in 2022 according to the US Census Bureau and Zack, Zak Stambor who we mentioned earlier, noting part of the reasons people are finding it harder to get access to credit. A record number of folks saying it's harder to get loans, credit cards, mortgages. According to the New York Federal Reserve, the rejection rate for credit applicants just reached its highest level in five years. People are turning to credit because their pandemic era savings, which we heard a lot about, are starting to dry up. Not even starting to, they're almost completely dried up. US households' excess savings, which peaked in August 2021, will run out this quarter according to the Federal Reserve Bank of San Francisco.

Also, we've heard a lot about student loan payments, poor bad timing for those as they kicked back in or have kicked back in start of October, and half of those were student loan debt. So they were extremely concerned over their ability to maintain their budgets according to a survey by 84.51.

So finally, Paul, let's close out the lead by talking about a few trends going on by media and by company because we're already in October. Next time we talk about ad spending, we'll probably be having a look at how Q3 went for a lot of the big advertising companies, Google, Meta, Amazon, et cetera, and also looking ahead to 2024. And so what to you has been the most interesting ad spending trend going on this year by media?

Paul Verna:

Well, I think on a macro level, one of the interesting things has been in addition to all those public company reports or inputs that you mentioned, is the holding companies. Some of them have done much better than expected. In terms of industry, I think it gets back to the idea that retail media has all this potential and performance oriented ads. They're always going to rise to the top in an economy that's a little shaky and where people are not making those automobile purchases necessarily. So I think we're looking at a situation where a lot of the platforms that have pivoted to ads seem to have had very good timing because they are finding a lot of success there. So whatever holes there are in the ad market, particularly at the higher spending level, it seems are being filled in by other forms of ads.

Marcus Johnson:

I'll continue to be fascinated by the resilience of television and now spending on TV. The cognitive dissonance around TV is very unsettling. So both of these things are true. A, the share of advertisers budgets that are spent on traditional TV will fall from 17% of their budgets to 12% from today to 2027. From 17 to 12. B, advertisers will spend just over $60 billion on TV ads this year and 57 billion, which isn't far off 60 by 2027. So the share is falling quite significantly from 17 to 12. The dollars are going from just over 60 to 57, which doesn't feel like they're moving much at all, and the pie is getting bigger. So that's why you see the share going down and you're seeing certain years like next year with the Olympics or with the election, which allows TV to get its head above water for a second before it gets plunged back down. And so that's why it's able to maintain this in and around 60 billion mark, which has been stuck out for the last, I don't know, like a hundred years. But I just think that's a fascinating story by media and continues to be, for me at least.

Paul Verna:

It is. And also keep in mind that CTV advertising, which continues to push its share of total, say sound and picture advertising, it's really TV by another name and it's serving a lot of the same audience and it's being played on the exact same screen. So there's that as well. I think soon we're going to start getting away from delineating between linear and digital TV because the lines are blurring and that's why we show a chart that combines linear TV and CTV, because we think that the whole market, particularly from the ad agency and marketer perspective, is both of those combined.

Marcus Johnson:

Yep. Paul, final question here. What's been the most interesting ad spending trend going on this year by company?

Paul Verna:

I would say Amazon, because of their outsized share of retail media, it's still around 75%, and that's the fastest growing ad format in our forecast starting next year. And also because Amazon just made a big announcement around ads on Prime video, and I think that's going to kickstart a whole other conversation about their ad business, which is basically at around $40 billion a year, which is bigger than many companies' entire businesses. So yeah, it's not exactly like a huge revelation, but it's definitely in terms of market strength, there's no arguing about Amazon being the big elephant in the room and the 800 pound gorilla. So you got two animals there for the price of one.

Marcus Johnson:

Yeah, and that Amazon story is one of an out with the old, in with the new, and that was my trend for most interesting ad spending trend going on this year was this idea of out with the older and in with the new-ish. Because if you look at the share of how much all these companies have of the US ad pie, Facebook, Instagram, Twitter, some of the older guard down in terms of their share, they're actually down collectively by one and a half percentage points. Amazon, TikTok, Walmart, some of those newer folks coming into advertising, they're actually up by 1.6 points. So they're almost taking that share from those other folks. And Walmart, I'm surprised to hear 1.2% of the pie, small, but that's double Twitter's share of the US ad spend pie.

Paul Verna:

Right. Yeah.

Marcus Johnson:

So I think that's significant in that regard.

All right, Paul, we've got time for the lead. As Paul mentioned, we are currently updating our US ad spending figures for this year, and of course our forecast, which stretches four years out into the future. So keep your eyes open for those. Pro subscribers, you can find those at insiderintelligence.com. No time for the halftime report. Time for the second half of the show today in other news.

Video ads coming to Spotify's app on Roku. And how's Amazon's second year of streaming Thursday Night Football getting on? Story one, Roku and Spotify announced they were teaming up to bring video ads to Spotify's app on Roku writes Bill Bradley of Adweek, he notes that "According to the companies this new innovation is the first step toward the launch of Spotify CTV Partner Network. Spotify says that Roku is a launchpad for its video takeover ad experiences on CTVs with video podcast ads coming in the future." But Paul, the most interesting sentence in this article is what and why.

Paul Verna:

I think the most interesting aspect of it, not necessarily a sentence in the article, is-

Marcus Johnson:

Unbelievable.

Paul Verna:

Always looking for a loophole.

Marcus Johnson:

You have one job, Paul.

Paul Verna:

Is that, well, actually I'll say this sentence. So Roku and Spotify are uniquely positioned to make the largest screen in the home work harder for brands.

Marcus Johnson:

Nice.

Paul Verna:

So that's good marketing speak. But the reality is Spotify users who are accessing the app on Roku or any connected TV device are probably listening passively as opposed to watching actively. So I don't see a lot of potential for this. As it is, I don't know how many people listen to Spotify that way. I don't get the sense that it's a huge number. I think most people will listen on their phones or connected speakers, but the idea of launching it from your TV is probably a minority use case. And within that use case, I think a lot of people are not going to be sitting on their couches seeing these ads in any kind of attentive way.

Marcus Johnson:

Story two, Amazon's second year of streaming Thursday Night Football sets records for its season opener both for Prime Video and for NFL game streaming overall. Our senior director of briefings, Jeremy Goldman notes that this includes viewership metrics, not only from Prime Video, but also from Twitch and NFL plus. He explains that according to Nielsen's panel only ratings, the game between the Philadelphia Eagles and the Minnesota Vikings drew an average of just over 15 million viewers across all digital and linear platforms. That's a jump of over 16% from last year's opener between Kansas City Chiefs and the Los Angeles Charges. When you take into account Amazon's internal data, the viewership tally climbs to 16.6 million. But Paul, the most interesting sentence in this article is what and why.

Paul Verna:

The age demographic data provided by Nielsen highlighted that the total audience had a median age of 47, which is seven years younger than the standard NFL TV audience. That sentence, I think, speaks to the fact that any CTV stream is going to attract a younger audience than any linear TV broadcast in general terms. And I think this highlights that because if the median age was a lot younger, it means that the streaming numbers or the streaming audience being younger is pushing down that median age.

Marcus Johnson:

That's what we've got time for this episode. Thank you so much to my guest. Thank you to Paul.

Paul Verna:

Always a pleasure. Thank you.

Marcus Johnson:

Yes, sir. Thank you to Victoria who edits the show, James, who copy edits it, and Stuart who runs the team. And thanks to everyone for listening in. We moved house on Instagram. You can now find us on Instagram. Oh, actually in the office too technically, but I'm talking about Instagram. We moved house on Instagram. You can now find us on Instagram at InsiderIntelligence, one word. So we hope to see you there and also hope to see you tomorrow for the Behind the Numbers Weekly Listen, an e-Marketer podcast made possible by Intuit MailChimp.