

The Daily: Google Search in the face of AI, delaying cookies again, and what stands out about YouTube

Audio

On today's podcast episode, we discuss what to make of Google delaying the deprecation of third-party cookies (again), what was behind its most recent ad revenue growth, if it can

defend its search business from a wave of AI, and what stands out about YouTube's recent performance. Tune in to the discussion with our analyst Evelyn Mitchell-Wolf.

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Episode Transcript:

Marcus Johnson (00:00):

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Evelyn Mitchell-Wolf (00:24):

The reason that's worth saying is because that's not an assured outcome. There will likely be a lot of players, especially smaller players, that won't be able to prioritize this, that are going to have to wait until a lot more pieces fall into place to make some big moves here.

Marcus Johnson (00:46):

Hey gang, it's May 6th, Evelyn and listeners, welcome behind the numbers Daily, a eMarketer podcast made possible by Awin. I'm Marcus. Today I'm joined by one of our senior analysts who covers everything digital advertising and media based in Virginia. It's of course, Evelyn Mitchell Wolf.

Evelyn Mitchell-Wolf (01:04):

Hi Marcus. Hello everybody.

Marcus Johnson (01:06):

Hello there. Why are you laughing already?

Evelyn Mitchell-Wolf (01:09):

Mostly because you say sixth instead of sixth.

Marcus Johnson (01:13):

Oh, yeah. I didn't realize I spoke wrong until I came to America.

Evelyn Mitchell-Wolf (01:18):

It's not wrong. It's just different.

Marcus Johnson (01:20):

I know it's not wrong. I'm being generous. It's the right way to look. Talk. I didn't do it up though. Yes. How I say things is probably wrong. Anyway, today we're talking about Google. We start with the facts, and that is the most expensive manmade object ever created. What is it?

Evelyn Mitchell-Wolf (01:39):

Something in space?

Marcus Johnson (01:41):

Oh, oh,

Evelyn Mitchell-Wolf (01:42):

Is that right?

Marcus Johnson (01:44):

Yeah, yeah, kind of. That was broad. But you're in the right vicinity.

Evelyn Mitchell-Wolf (01:50):

Space Station. Yes.

Marcus Johnson (01:53):

Oh my God. Wow.

Evelyn Mitchell-Wolf (01:55):

Wow.

Marcus Johnson (01:55):

Come on a roll. Yeah. It's the International Space Station ranks. In the Guinness World Records is the most expensive thing ever created at 150 billion to develop and build according to CNBC. The Space Station costs NASA 4 billion a year to operate. Whoa. But yeah, I was thinking what are they doing up there? It's a lot of money to be spending, but what's happening? And it is a science lab apparently used for experiments in microgravity and space environments and to test spaceships systems and equipment for Mars and Moon missions. That's where they say they're doing

Evelyn Mitchell-Wolf (02:32):

Pretty cool stuff.

Marcus Johnson (02:33):

Who knows what they're up to? It's probably big or UNO tournament I want to get involved in. Anyway, I'm horrible at uno. Today's real topic, Google

Marcus Johnson (02:46):

In today's episode, first in the league, we'll cover Google knowing other news today. So we have to start Evelyn by talking about cookies again. I think Ann, a baller of search land said it best A few weeks ago on April 24th, Google delays third party cookie phase out to 2025. Maybe Google has postponed the deprecation of third party cookies in Chrome this year due to a couple of things. It says Google's proposed alternatives to third party cookies like privacy, sandbox facing criticism from other ad tech players, publishers and ad agencies. Secondly, increased concern from the UK competition and markets authority, CMA and thirdly, reservations from the UK's information commissioner's office or ICO the UK basically seems pretty concerned about the state of things. The concerns are Google's alternatives not being robust enough, things like Privacy Sandbox and also being confusing to use allegedly and potentially further entrenching Google's monopoly as well. But Evelyn, what's your takeaway on Google pushing the deprecation of cookies? Again, again,

Evelyn Mitchell-Wolf (04:01):

I have a lot of thoughts on this, but my biggest takeaway would be that more time to make this transition is only a good thing if at stakeholders use it. The industry has, well, that's the question because the industry has suffered from a lack of urgency when it comes to testing and adopting cookie list alternatives since this whole long drawn out process began. And there are some good reasons for that. Like you mentioned, the CMA has some very valid concerns as do other ad stakeholders. Chrome represents over half of the US browser market and its share is even higher worldwide. And until January, it was effectively impossible to test an individual cookie list solution in Chrome, much less get a handle on how an end-to-end cookie list strategy performed relative to the status quo. And even now, only 1% of Chrome traffic is cookie list.

Evelyn Mitchell-Wolf (04:56):

Adweek released a very well-timed report a few weeks ago on how advertisers are wasting money testing alternatives because so little traffic is monetized that way and then those advertisers are reaching the same audiences over and over and you can look at that as wasted money or you can view it as part of the cost of mitigating future disruption. The reality is that preparing for the eventual deprecation of third party cookies and Chrome is a long game and it will require upfront investment like you mentioned. And there are a few larger players that can afford that upfront investment, but there are far more players that have to be shortsighted about this because otherwise they won't be able to keep the lights on between now and whenever. Cookies are eventually deprecated in Chrome and there are a million other priorities to consider. Gen AI is one of them. But just to bring it full circle, ultimately cookies are not the future of digital advertising. The tides turned in favor of consumer privacy a while ago. And while more time to get new targeting and measurement infrastructures up and running might be helpful in making sure this whole building doesn't blow over. It's only going to make a difference for folks that are in the building when the storm hits the storm being cookie deprecation.

Marcus Johnson (06:15):

Andy, it is hard though for folks to take Google seriously at this point, isn't it? Because I mean,

Evelyn Mitchell-Wolf (06:21):

I definitely don't blame folks that are skeptical for sure.

Marcus Johnson (06:24):

Yeah, they kicked the cookie can down the road for a while. I mean, Google's third party cookie deprecation was initially planned for 2020 the year that parasites swept the Oscars.

Evelyn Mitchell-Wolf (06:35):

It was actually planned for 2022. It was announced in 2020,

Marcus Johnson (06:37):

Right? They started talking about it Exactly, but it's been postponed three times now to early 2025.

Evelyn Mitchell-Wolf (06:44):

I do think though this time is different because the last couple of times the deadline was delayed before it had really been announced before it was a solid date, and this time Google had a solid date. It had announced by the end of 2024 cookies would be fully deprecated in Chrome. And so moving this one, it feels different because there was more to go on and now it kind of we're back in the, it'll be sometime in 2025 kind of camp. So I feel like this time is a little different. Also because these solutions were in market, they had been developed, Google has put significant investment into these APIs, into the privacy sandbox APIs that exist currently. So I think definitely there has been progress to indicate to advertisers that it is going to happen for real. It is only a matter of when at this point,

Marcus Johnson (07:40):

Right? I mean, it was supposed to be Q3 of this year. If you look at how prepared marketers are for cookies going away, Ariel Fager who writes for eMarketer noted two points. One under half of marketers worldwide said just under half said their companies were working on a plan to approach cookie free targeting. It was from September of 2023 according to HubSpot survey. And then the second point here is just over half have adopted an identity resolution to address cookie loss according to an October ID five report. Those numbers were higher than I expected, to be honest, in terms of getting things done and planning to get things done. We'll leave it there for now and talk a bit about Google's earnings, how they did in the first quarter of 2024. And we'll start by playing slice of pie. So Evelyn, how was Google able to grow its ad revenue by 13% in q1 and slice of pie is up to three reasons why a you attribute shares to each. They have to add up to a hundred percent.

Evelyn Mitchell-Wolf (08:44):

Okay, well the percentages were pretty easy here because there are three business segments that contribute to Google's ad revenues. So search ad revenues account for 75% of pie, which is to say 75% of Google's total ad revenues search had a really strong quarter and it's always impressive for a business the size of Google search to achieve double digit growth rates, especially compared to Q1 2023 when search ad revenues grew just 2%. There are clouds gathering over Google search and we'll dig into that momentarily, but for now, search is rocking and rolling. YouTube accounts for the next 13% of the pie. YouTube had an excellent quarter. It's had a lot of things going for it. Live sports investments and ad blocking crackdown improvements in shorts monetization and it achieved its highest growth rate in two years. So not too shabby from YouTube. And then Google Network accounts for 12% of

the pie and network is the odd one out here. It shrank 1% this quarter. It hasn't grown since Q2 2022. Network is lower margin than Google's other two advertising business units. It's also more reliant on third party cookies like we just discussed. And it's at the center of one of two antitrust cases. The US Department of Justice has brought suit against Google. So there's a lot that we could read into continued weakness from Google Network, but it still accounts for 12% of Google's overall ad revenues.

Marcus Johnson (10:21):

Yeah, it fell 1% in q1, but last Q1 it fell eight points,

Evelyn Mitchell-Wolf (10:25):

Right? It's better than that. It's

Marcus Johnson (10:27):

Better than that. Alright, I see what you've done. You've basically cut up your slice of pie into the same shares as what is literally makes up Google advertising, which is very clever. I'd be mad if I wasn't so impressed, but you're right. 75% of Google advertising is Google search and other it was up 14% versus the 2% from the previous q1. But Miles Krupa, the Wall Street Journal had this quote saying Google has faced questions about defending its business model that relies heavily on search ads referencing the emergence of gen AI and whether it can stay ahead as that starts to impact the search world and how people look for things. How much can they out of 10 defend their tried and true search business?

Evelyn Mitchell-Wolf (11:18):

Okay, this is a very complicated question. I have several answers for different scenarios, which is classic Evelyn move. First, let's talk about search queries. Google isn't likely to be dethroned here. For one thing, Google is still the default search engine across major browsers and mobile devices and going to a chat bot or even another search engine for answers just adds friction for end users. And that's not to say non Google chatbots don't pose a threat at all, but it does mean that they only make a huge difference for a certain type of query. Since search was incorporated into the navigation bars in browsers, navigational queries have comprised a majority of total query volume. That's people trying to get to their email inboxes or typing YouTube instead of youtube.com and then getting routed through the Google search landing page and then to YouTube. So chatbots tend to provide a lot of useless information when it

comes to navigational queries and they take a long time providing that useless information. So in this respect, I'll give Google a nine out of 10 in its ability to defend its dominance when it comes to where consumers go to ask their questions of the internet. However, oh,

Marcus Johnson (12:40):

There's more.

Evelyn Mitchell-Wolf (12:41):

There is. Well, I have a couple more scenarios and for that particular scenario, Google's status as the default search engine across most browsers and mobile devices is in jeopardy. You might've been about to bring this up, but we should hear the verdict in the US DOJ's other antitrust trial related to search sometime in the next month or so. Great point. And if the judge rules in favor of the government, that could potentially be disastrous for Google depending on the remedy involved. Google is still a verb here, so even if it's no longer the default search engine, there's a good chance a lot of users will still choose it because it's what they're most familiar with. But for the sake of moving on, let's just say that if an unfavorable ruling in this case comes about, that would reduce my score to a five out of 10.

Marcus Johnson (13:32):

Okay. And for folks, this is the case where basically Google being slapped on the wrist because they've been paying Apple to be the default on Apple devices, which gives them a huge leg up. And will they have to stop that and will they not be able to be default searched on a lot of devices that could change things?

Evelyn Mitchell-Wolf (13:51):

We have a whole, Marcus and I discussed this trial in a whole separate episode that I'm still very proud of. So if you're curious, you can go back and listen to that one.

Marcus Johnson (14:01):

Yeah. The episode is from October 2nd of last year titled how the Google antitrust trial could reshape the internet, the DOJ's case and Google's defense. Do you have more scenarios?

Evelyn Mitchell-Wolf (14:13):

One more.

Marcus Johnson (14:14):

Okay, guys,

Evelyn Mitchell-Wolf (14:15):

Let's do it. Yeah, finally we have to talk about self-inflicted challenges here. Google plans on incorporating AI generated components into its general search interface. And there are a lot of questions that still need to be answered before Google can or frankly should be confident in how search ads will be monetized in the future. And for this one, I don't have enough information to put a number on Google's ability to defend its business model. There are simply too many variables like how search ad formats will look, how much they'll cost, how success will be measured, how consumer behavior will change, how many publishers with ad supported business models will be able to keep creating the content that feeds Google's large language model. We know it's going to be a massive change, but we won't know how any of the chips will fall until Google pulls the trigger and makes its search generative experience more broadly available.

Marcus Johnson (15:14):

Evelyn, let's close the leads today's episode by talking about YouTube, who you mentioned before in your initial answer in terms of how Google was able to grow 13% ad revenue that is in q1. We've mentioned search that accounts for 77%, network is 12 and YouTube is the other slice at 13% they made YouTube that is 8 billion in q1, that's up 21% in the quarter. That's quite the turnaround as last Q1 2023, it was negative 3%. So from negative three to plus 21, this quarter's growth is the fastest since the end of 2021. But what's your take on where YouTube is at this point?

Evelyn Mitchell-Wolf (15:59):

Yeah, like I mentioned a few minutes ago, YouTube's got a lot going for it. It is still facing competition on one side from streaming platforms and on the other side from short video platforms like Instagram and TikTok. But YouTube leaves everyone else in the dust in terms of number of users, so it's well positioned to keep crushing it. It's worth a comment though, if a TikTok ban were to materialize that YouTube would get a windfall and shorts doesn't have the same kind of cultural cachet as TikTok, even if it has a lot of the same content, but at least some of the ad budgets earmarked for TikTok would very likely go to YouTube

Marcus Johnson (16:40):

On how well it's doing, especially versus some of the other streaming platforms. YouTube's share of TV time gains. I said this last Friday's weekly listen episode according to Nielsen's gauge, YouTube, Maine, so excluding YouTube tv went from accounting for 9% of all the time we spend watching TV to 10% in just two months, January to March. So put another way, YouTube, the main app makes up nearly half of the amount of TV time that folks spend watching broadcast tv. Yeah, it's doing pretty well. Other parts of YouTube also doing well, YouTube TV has over 8 million subscribers. YouTube premium and music together have over a hundred million subscribers, so that is doing remarkably well. The share of YouTube though, YouTube share of Google advertising hasn't grown in the last five years. Its

Evelyn Mitchell-Wolf (17:27):

Been, yeah, it hasn't.

Marcus Johnson (17:28):

13% as we mentioned in Q1 of 2024 and was 13% at the end of 2019 still making way more money.

Evelyn Mitchell-Wolf (17:35):

Yeah, it probably dipped for a second there. So yes, and it also as of I think Q3 of 2023, it contributes more ad revenues than Google Network does. So that's an interesting inflection point. Yeah,

Marcus Johnson (17:49):

Good point. Alright, Evelyn, we end with a grade. What grade would you give Google's q1?

Evelyn Mitchell-Wolf (17:54):

I think it deserves a solid a, I mean it beat expectations pretty much across the board. Investors were very happy with the dividend and seemed to be pretty confident in Google's AI prospects. And speaking of ai, one bright spot we didn't touch on was Google Cloud. There's a symbiotic relationship there, right? Cloud is fueling AI and AI is fueling cloud. Cloud has been a consistent growth driver for Google's parent alphabet and it's got great momentum to carry it through the rest of this year, if not beyond. So like we've mentioned,

there are still a lot of question marks looming over Google's future, particularly where search is concerned. But Q1 is in the past and it was a very good one, so I'll give it an A.

Marcus Johnson (18:36):

Seems fair. I mean it's back to seeing growth in Q1 and Q1 2023, Google ad revenue grew just 0.2%, 0.2, so flat basically versus this Q one's 13, 13% is its best quarterly growth in two years as well. The net income was just astonishing up nearly 66 0% as the digital giant pulled in 24 billion in Q1 in profits alone enough to buy multiple space stations. I'm kidding. It would get you just one eighth of a space station. That's what we've got time for this episode. Thank you so much for Evelyn for hanging out today.

Evelyn Mitchell-Wolf (19:17):

Thank you, Marcus. This was a good one.

Marcus Johnson (19:18):

Yes indeed. Thank you to Victoria. Why did you say it like that? Like the others aren't? What was that?

Evelyn Mitchell-Wolf (19:23):

No comment.

Marcus Johnson (19:26):

That's a fair point. Thanks to Victoria who edits the show, Stuart, who runs the team and Sophie who does on social media. And thanks to everyone for listening in. We hope to see you tomorrow for the Behind the Numbers Daily and e-Marketer podcast made possible by Awin. Well, me and Jasmine Emberg will be talking all about meta.