

# The Daily: Google's ad growth shows signs of life, replacing cookies, and Microsoft's future bets

Audio

On today's episode, we discuss what Google's Q2 ad growth is telling us, what to make of YouTube's recent performance, and how Google will fair in the second half of the year. "In Other News," we talk about Google rolling out the first step of third-party cookie replacement and what Microsoft is betting on for the future. Tune in to the discussion with our analyst Evelyn Mitchell-Wolf.

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## Episode Transcript:

Marcus Johnson:

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Evelyn Mitchell:

And that means that it took roughly a year since the US launch of shorts to bring in \$1.5 billion logged in monthly users worldwide, and then another year to expand just half a billion more. And my question is, is that really cause for celebration?

Marcus Johnson:

Hey gang, it's Thursday, August 3rd. Evelyn and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by Awin. I'm Marcus. Today, I'm joined by one of our Senior Analysts on the Digital Advertising and Media team based out of Virginia. It's Evelyn Mitchell-Wolf.

Evelyn Mitchell:

Hello Marcus. Hello everyone.

Marcus Johnson:

Hello there. Today's fact, there isn't one. Instead, it's time for our surprise question giveaway. It's back.

Every other Thursday, we will read a trivia question out. All you have to do is email us the correct answer and include a screenshot of a review of this podcast. It can be an odd one if you've reviewed us before. If you do those two things, you could win a free By the Numbers branded water bottle. So we've done this in the past, but it's back, the surprise question giveaway. So, correct answer, put to this question we're going to read out now, plus screenshot of your review equals free water bottle if you're the first person to email us. You might also be the only person to email us. That will also win you the bottle.

Okay, here's the question. Which US president was a licensed bartender? Which US president was a licensed bartender? Evelyn, do you know? If you do know, please keep it to yourself, but you can tell me, "Yes, I do know." Or, "No, I don't."

Evelyn Mitchell:

I don't know.

Marcus Johnson:

Okay. I will let you know, you the people, the winner next Thursday. So tune in next Thursday to hear the winner. We'll be doing this every other week forever, for a couple, we have a few water bottles. We'll do it for a very brief amount of time. But this, it's back. Today's real topic, Google's ad growth shows signs of life

In today's episode, first in the lead we'll cover why Google's ad growth may and may not be out of the woods. Then for another news, we'll discuss cookies going away and Microsoft's future bets. We start, of course, with the lead. Evelyn, talking Google, and as The Economist reminds us since going public in 2004, Google's revenue, 80% of which comes from online ads, has grown at an average annual rate of 28%. In that period, it has generated a total of nearly half a trillion dollars in cash after operating expenses. Virtually, all of it from ads.

Its share price has risen 50 fold, five-zero fold, making it the world's fourth most valuable company. But where are we today? We zoom in for a second on Q2. Google's advertising revenue grew around 3% in Q2. That's lower than last Q2's 12%, so from 12 to 3, but better than last quarter, Q1 that was stuck at 0% growth. But Evelyn, how would you characterize this 3% Q2 growth in ad revenue for Google?

Evelyn Mitchell:

I would characterize it as convenient.

Marcus Johnson:

Oh.

Evelyn Mitchell:

Google is facing increasing competition on every front and it's really helpful to have a good quarter of growth under its belt to bolster its position. And I'll put a little asterisk on good there, so we'll come back to that in a minute. But Google really needed a good quarter now as it prepares to defend its dominance. And just to kind of give a recap of what that competition looks like in search, Amazon is still Google's biggest rival for ad budgets and Amazon is arguably winning right now. Google search revenues are more than twice Amazon's, but Amazon will account for over a third of new search ad dollars this year. And generative AI is



reshaping competitive dynamics in search in big ways, with Microsoft chasing every opportunity to eat into Google's market share.

YouTube has had it rough for a while. It is fighting both streaming and social video platforms for consumer time spent and ad dollars. Google Cloud has always been playing catch up to Amazon Web Services and Microsoft Azure, and Google's ad tech business is under regulatory microscopes all over the world with a divestment very much on the table. So competition is holding steady in ad tech, but scrutiny is mounting. So, Google's good quarter puts it in a stronger position. But like you mentioned, this quarter is good only compared to the last few quarters of negative or flat growth.

Marcus Johnson:

Yeah.

Evelyn Mitchell:

And I think we really just need to readjust our expectations to learn to love, or at least respect mid to high single digit growth for Google and other big tech players.

Marcus Johnson:

Adjusting expectations, I think, is the phrase there, because it's been a very sobering four quarters for Google. From Q2, as you go back even further, so go back to Q2 2021, so go back eight quarters, Q2 2021 to Q2 2022, Google's ads growth, that's been on a pretty precipitous staircase downwards from 70% to 12%. Then, from Q2 2022 to today, it's gone, by quarter, 2.5+ to -4 to 0 to +3. So I think a just expectations is the right term there. You mentioned YouTube. YouTube grew 4% for Google in Q2. That's its first year-on-year increase in four quarters. What'd you make of this 4% figure?

Evelyn Mitchell:

I mean, it's heartening. Growth was nearly back to where it was, like you said, in Q2 of last year, which, for context, Q2 2022, YouTube pulled off 4.8% growth against an absurd year-over-year comparable of nearly 84% growth in Q2 2021, which of course further context was off of the pandemic doldrums of Q2 2020. So, lots going on there, but it's definitely a good sign for YouTube.

At the same time, there are questions swirling around in the wake of a report from research firm analytics. The cliff notes on that are YouTube has been selling advertisers TrueView inventory that it claims is always skippable, audible and viewer initiated, inventory both on YouTube and across the web. And analytics found that most TrueView inventory was not served on YouTube, and the inventory didn't meet those quality standards of being skippable, audible and viewer initiated.

So, of course, YouTube has refuted those claims including citing some faulty methodology on analytics part. But the study was released at the end of June and advertisers are understandably concerned about it. And if there is any fallout from that in terms of ad revenue, and there very well might be considering there's now a class action lawsuit from advertisers, we could see YouTube take a hit next quarter.

Marcus Johnson:

YouTube, it's kind of tough to get a read on because it's still definitely making billions of dollars every quarter. I mean, it made \$8 billion in Q2 even though growth was at just over 4%. But it stopped the growth in share, and it was accounting for more and more and more and more of Google's money or Alphabet's money, I should say. It was made up of about 10% of the money Alphabet made 2019 Q1, and had grown up to 15% of the total pie, and now is stuck at around 13%.

But on the other hand, and there's some very positive signs for YouTube, one is TikTok rival YouTube Shorts. They said that over 2 billion monthly active users for Shorts, that's up from 1.5 billion a year ago. So that continues to grow, which is promising. Also, Evelyn, if YouTube was a standalone company, it would be the fifth-largest digital ad player in America making a billion more dollars than sixth place TikTok. So I think important context there, it's still huge.

Evelyn Mitchell:

Yeah.

Marcus Johnson:

Let's move to what else caught your eye with regards to Google's recent performance?

Evelyn Mitchell:

Well, I actually wanted to dig into that 2 billion logged in monthly users watching shorts-

Marcus Johnson:

Oh, yeah.

Evelyn Mitchell:

... figure a little bit more. Shorts is something that I've been keeping my eye on for every quarter since it was rolled out globally. And without context, that 2 billion figure seems really impressive. But I've always been struck by how little we hear about Shorts in every earnings call. We usually hear something along the lines of, "Engagement and monetization are going in the right direction." Or, "We're encouraged by growth and engagement and monetization," plus one or two usage figures. And it's one of the clearest examples, I think, of the way that performance can be spun to look good. Just to look back on things, Shorts launched in the US in March 2021, and then went global in July 2021. Google executives used the same stats for most of 2022. Those were over 30 billion daily views and over 1.5 billion logged in monthly users.

Then in Q4 of 2022, they announced that daily views had gone up to 50 billion, but neglected to say anything about logged in monthly users. Then last quarter, they repeated the same 50 billion daily views figure, and this quarter they completely ignored the daily views and focused on that 2 billion logged in monthly users. And that means that it took roughly a year since the US launch of Shorts to bring in 1.5 billion logged in monthly users worldwide, and then another year to expand just half a billion more.

And my question is, is that really cause for celebration? We estimate that YouTube will have 2.3 billion monthly users logged in or not worldwide this year. And if we're approaching 90% of YouTube's total audience watching Shorts, I think we can move on from the usage conversation. Which begs the question, why haven't we heard more details about monetization? Like the 2 billion figure, yes, it's a milestone, but it's also Google choosing to focus on this stat, and it's crafting a narrative over the long term, choosing to deploy certain numbers at certain times to placate investors.

So, I really hope that next quarter, we hear more from Google on YouTube Shorts monetization because they've been pushing it for a couple years now, and it's a big part of this puzzle that just we don't have very much visibility into at all.

Marcus Johnson:



Yeah, and it's important context, especially when at face value, you say that, "Oh, it's two years old and there are 2 billion people using every month." Seems impressive, but you dig a little bit deeper and there are certainly some questions to be answered. The thing that caught my eye was a line in The Economist saying, talking about Bing and how Bing, which adopted or infused ChatGPT into its search, ChatGPT, which is a generative AI product from OpenAI, there was talk about how much share they could steal from Google.

Because of this, The Economist notes that Bing has taken, no discernible buys out of Google share of global monthly search queries, which remains above 90%. So I thought that was an interesting line, given how many headlines being received because of this move, this tie up with OpenAI over ChatGPT. Still early, so maybe that would change over time, but nothing has really moved quite yet. Evelyn, let's finish with this. As I mentioned, Google saw no growth in Q1 in terms of ad revenue, and then 3% plus three in Q2. What do you expect from the digital giant in the second half of the year?

Evelyn Mitchell:

In terms of ad revenues, I'm optimistic. Google has long been a bellwether for the industry, and like you mentioned before, growth was on kind of a long descent from Q2 2021 to Q4 2022. But there's a clear upward trend now, and I think this, taken along with other early signs of ad market recovery bodes well. But things aren't all roses. There's the YouTube TrueView scandal like I mentioned, and that's still unfolding. And Google is going to court in September to face the DOJ, which alleges that Google has engaged in anti-competitive practices to maintain its dominance in search.

So we'll have to see on how that unfolds alongside, like you mentioned, consumer behavior in the search ecosystem as generative AI is, it gets further integrated into search products, whether Google is even able to maintain that dominance with consumers, given very worthy competition from Microsoft on that front.

Marcus Johnson:

That's it for the lead. Time for the Halftime Report. Evelyn, what you is most worth repeating from the first half?

Evelyn Mitchell:

I think that readjusting of expectations that we mentioned upfront, that we really should come to expect mid to high single digit growth from Google moving forward, that to be the norm. The era of consistent double-digit growth may have come to an end. So-

Marcus Johnson:

Yeah.

Evelyn Mitchell:

... keep your eyes peeled for how that unfolds.

Marcus Johnson:

That was my takeaway as well.

Evelyn Mitchell:

Yeah.

Marcus Johnson:

This is where you live now, at Google, in terms of ad revenue, single digit growth land is where you've found a home.

Evelyn Mitchell:

Welcome.

Marcus Johnson:

We expect Google and Meta to both grow actually at 3% in the US this year. They are the largest digital ad players in the US. But Amazon in third place, quite a distant third, but still, it's about half the share of Google in terms of US digital ad dollars will grow six times as fast. So yeah, this just seems like it could be the new normal. Also, worth noticing net income for Google was up for the first time since the end of 2021, so another positive sign for the company. That's what we've got time for the first Halftime, for the second today.

In other news, Google is rolling out the first step of its cookie replacement, and what's Microsoft betting on for the future?

Story one. One year out from the end of third party cookies on Chrome, and Google is rolling out the first step of cookie replacement, Privacy Sandbox. Note's Insider Intelligence's Briefings Analyst, Daniel Constantinovich, he explains that Privacy Sandbox APIs will be enabled for about one-third of Chrome users, two-thirds in August, and nearly everybody by the year's end. But Evelyn, the most interesting sentence in this article from Daniel, who was on the show on Tuesday talking about Netflix, the most interesting sentence in this piece about Google is what and why.

Evelyn Mitchell:

The two prior delays have led nearly half of advertisers to believe that there will be yet another delay per double verify. And that exact figure is 47.8% of advertisers thinking that the deadline will get pushed again, and it's not all that surprising. I've come across other data that supports the idea that many advertisers aren't letting go of cookies until they're forced to, but it's quite the gamble. It's one thing to have your post-cookie strategies sorted and keep spending on cookie inventory until you can't, but it's another thing to wait and bet that the timeline will get longer, especially after we have now this pretty concrete timeline from Google. So my advice is to get some Privacy Sandbox tests in now. The learnings won't be perfect until cookies can be fully eliminated from targeting and retargeting and measurement, but it's better than nothing.

Marcus Johnson:

Yeah. My favorite line in that same vein from Daniel was, "Cookies may be effective for now. It's better to learn the new systems with a year of runway instead of a few months."

Evelyn Mitchell:

Absolutely.

Marcus Johnson:

Story two. Microsoft is betting on AI advertising and gaming for its future growth. [inaudible 00:16:44] Senior Director of Briefings, Jeremy Goldman, "In Q2, the company grew revenue 8% to \$56 billion. Net income up even more at 20%. Owned property, LinkedIn, saw revenues up 5%, Xbox content services up five." And search and news ad revenues excluding traffic acquisition costs, Jeremy notes were up eight. But Evelyn, the most interesting sentence in this article from Jeremy on Microsoft's future bets is what and why.

Evelyn Mitchell:

I have that Microsoft expects moderate growth, and its search and news advertising business with X tech revenues to be in the mid to high single digits is back. Microsoft also expects mid to high single digit growth for LinkedIn ad revenues. So it just goes back to what we were saying earlier, that mid to high single digit growth is the new strong growth in ad revenues for big tech, even if there is an AI revolution afoot.

Marcus Johnson:

We think Microsoft's going to make \$10 billion this year from ads in the US digital ads in the US. Good enough for a very distant fourth place in the digital ads sellers race, behind, of course, Google, Meta and Amazon. That's all we've got time for for this episode. Thank you so much to my guest. Thank you to Evelyn.

Evelyn Mitchell:

Thank you, Marcus.

Marcus Johnson:

Thank you, thank you. Thank you to Victoria who edits the show, James who copy edits it, and Stewart who runs the team. Thanks to everyone for listening in. You can of course enter our surprise question giveaway if you want. All you have to do is answer, which US president was a licensed bartender? Send in the correct answer plus a screenshot of a review of this podcast for your chance to win a free Behind the Numbers branded water bottle. We'll see you tomorrow hopefully for the Behind the Numbers weekly listen, and email to podcast made possible by an Awin.