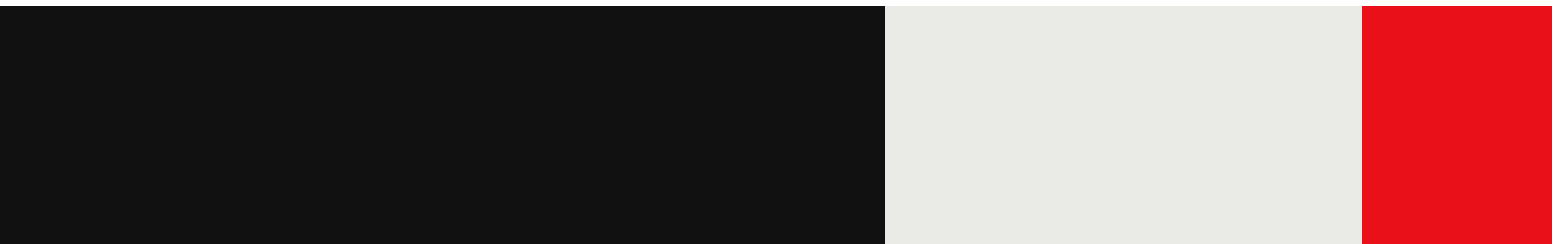


The Daily: Should we be worried about YouTube, are we still in an ad downturn, and cookie deprecation sentiment

Audio



On today's episode, we discuss what to make of Google's start to the year, whether it can defend against AI-infused competitors, and how worried we should be about YouTube. "In Other News," we talk about whether ad spending is actually doing just fine and check in on how folks feel about cookies going away. Tune in to the discussion with our analyst Evelyn Mitchell.

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Episode Transcript:

Marcus Johnson:

Hey, gang, it's Monday, May 8th. Evelyn and listeners, welcome to the Behind the Numbers Daily: an eMarketer Podcast made possible by InMobi. I'm Marcus. Today I'm joined by one of our senior analysts who covers digital advertising and media for us based out of Virginia. It's Evelyn Mitchell.

Evelyn Mitchell:

Hello, Marcus. Hello, everyone. Happy Monday.

Marcus Johnson:

Hello. Hello. You'll be pleased to know, Evelyn, that Virginia is apparently the number one state to retire in in the country according to Wallet Hub. They looked at affordability, quality of life and healthcare, and Virginia came out on top. It was close to the top 10, it was top 15 in all of those categories, but it was number one overall.

Evelyn Mitchell:

Wow. Well, I did not know that when I chose to relocate here, but-

Marcus Johnson:

So just another what? 60, 70 years, you'll be great.

Evelyn Mitchell:

Yeah, exactly.

Marcus Johnson:

You're set. No-

Evelyn Mitchell:

Starts pay off. Yeah.

Marcus Johnson:

Yep. Exactly. So today's fact, that's not my fact. That's just a thing. That's just a thing.

Evelyn Mitchell:

Just an extra fun.

Marcus Johnson:

You're welcome, Virginia. Florida too. Florida and Colorado joint second, well-played. Okay. Who invented the seat belts? The seat belts was invented by George Cayley, an English engineer in the late 1800s, who created them to keep pilots inside their gliders. The first patented seatbelt was created by... Who was flying a glider before seat belts?

Someone just came tumbling out and they were like, "No, we've got to fix that." The first patented seatbelt though was created by an American Edward J. Claghorn in February 1885 to keep tourists safe in taxis in New York City. Fast-forward to 1959, Nils Bohlin, an engineer at Volvo, created the familiar three-point seatbelt we use in cars today. Check this out. This is why the Swedes are the best people in the world.

Volvo who Mr. Bohlin worked for gave the invention to its rivals for free to encourage other manufacturers to install seat belts in their own cars. Why? The company said lives saved were worth more than any amount it could have earned by selling the design.

Evelyn Mitchell:

That's nice. Yeah.

Marcus Johnson:

I like that kind of capitalism. Yeah. Can we have that flavor? Oh, man. Anyway, Volvo, well-played. In today's lead, we'll cover the good, the bad, and the new normal maybe at Google. Then for in other news, we'll discuss whether there's an actual ad downturn and how advertisers and publishers feel about cookies going away.

Evelyn, we start with the lead with Google, and the headline numbers seem to be alphabet and the fact that they grew 3%, but zooming into Google advertising just under 80% of alphabet's, its parent company's business. So we're going to focus on Google advertising. 80% of its business that ad revenue, Google ad revenue was flat in Q1. It was negative 0.2% to be unnecessarily exact. What's your take on this figure?

Evelyn Mitchell:

So I think we're starting to see Google and even big tech overall enter a new stage of maturity where consistent double-digit growth across most business units is just no longer a reasonable expectation. And there are, of course, a lot of factors at play here. We have tough comps against last year, a confusing macroeconomic environment and downward pressure on ad spending changes to the fundamentals of digital advertising from the deprecation of legacy identifiers to generative AI, and one can craft an explanation for these results based on any combination of these factors.

Google itself is choosing to focus on that economic narrative and the effect of foreign exchange rates. And it makes sense for Google to center the story on that because those are temporary influences. But perhaps, the remarkable growth that we saw in 2021 obfuscated a slowdown that was bound to occur at some point and the tumult of the past few years has brought that about sooner than later.

Marcus Johnson:

Yeah, it does feel like we're in a new normal. So if you look at the growth negative 0.2% dimensions, tiny drop in ad dollars in Q1. It's the third drop in ad sales since Google went public 2004. So it's not a common thing for Google.

Evelyn Mitchell:

No.

Marcus Johnson:

But it's the second consecutive quarterly decline after falling negative 4% last quarter in Q4. The quarter before that was 2.5%. So it's been just above just below zero for the last couple of quarters. To your point, about 2021, it was over 40% on average for the year, and so falling from that to 7% in 2022. So those single digits we should expect going forward one could argue. The good part of this, Evelyn, is that the company's still made over \$50 billion. It's not too overlooked, right?

Evelyn Mitchell:

Right.

Marcus Johnson:

In the quarter they've made over \$50 billion for each of the last eight straight quarters. So they're fine.

Evelyn Mitchell:

Yeah. I think the reality is that Google is in a really tough position if you're grading it against itself. Historically, it has-

Marcus Johnson:

Great point.

Evelyn Mitchell:

... always been an A student, so a couple of Bs and Cs here and there, it's not really a good look, but against the whole class of ad reliant competitors, it's doing fine. It's still the biggest fish in the pond. And maybe single digit growth is okay if that single digit growth still supports Google's dominant position in search and ad tech, at least from Google's perspective.

Marcus Johnson:

Yeah. It's not the only company quote, unquote, "Underperforming." Miles Cooper of The Wall Street Journal saying Microsoft said in Q1 revenue was up 7% year-on-year, but that marks

the second straight quarter below the company's year long trend of double-digit percentage growth. So it's not just Google.

Evelyn, the New York Times recently reported that Google is not resting on its laurels though. The company is not expecting to maintain that dominant position forever just because it is trying to fend off potential competitors. And no matter how small they are, and they're working on a new AI powered search engine. Under the name Magi, they plan to expand access to 330 million users by the end of the year as our briefings analyst, Daniel Konstantinovic points out.

Magi is part of a broad initiative at Google to rapidly launch AI powered products and add AI features to existing services to protect its market share against competitors who were earlier out of the gates with their own offerings. The question, Evelyn, can Google defend its search share against these AI infused competitors?

Evelyn Mitchell:

I think it can. It certainly is defending its share. Whether or not it will be entirely successful remains to be seen. And like you mentioned, it is working on infusing AI into its search offerings and AI is certainly at the center of emerging competitive dynamics in search, but there are plenty of other areas where Google clearly has the advantage. Its search Index is still a lot larger than Microsoft, which is Google's biggest competitor when it comes to AI assisted search. And I think what's working hardest in Google's favor is the delicate balance of agreements that keeps Google as the default search engine on most browsers and mobile operating systems. So Google has a lot going for it.

Marcus Johnson:

Yeah, things could get real bound real quick-

Evelyn Mitchell:

It's true.

Marcus Johnson:

... because of those contracts, but they haven't yet. So if there is that crack in the dam, it could really unravel really, really fast. There's a Samsung contract, they could choose Microsoft's Bing to replace Google as a default search engine. There's been some reporting on that. That

switches a \$3 billion loss for Google potentially. And then there's the 20 billion Apple contract to be the default browser on their operating system, and that contract is ending this year. So questions about that as well.

And then it's also just the balance walking a fine line. Daniel Konstantinovic, who are just referenced, we're saying, "Google trying to find the delicate balance between staying ahead of competitors that are advancing new technologies and calming advertisers who are used to the established ways of doing business."

Evelyn Mitchell:

Yeah. And antitrust enforcers as well trying to-

Marcus Johnson:

That too.

Evelyn Mitchell:

... keep them also in their peripheral. Yeah.

Marcus Johnson:

Throw them the mix. Yep, absolutely. Two things which positives in this space. One is Alphabet just consolidated its main AI teams into one unit called Google DeepMind to make quicker progress in the field. And then second, it seemed everything like IT search business bounced back a little. Google search was up 2% in Q1 after falling 2% the quarter before. They pointed to travel and retail as the reasons why. And Google search and other that line item still accounting for 75% of Google's total ad revenue. So the numbers look pretty good.

However, let's talk about another line item. YouTube experienced its third consecutive. You sound furious with it. Yeah, let's talk about that.

Evelyn Mitchell:

I need a middle name for YouTube.

Marcus Johnson:

I know. They're in that much trouble. A YouTube experienced its third consecutive quarter of negative growth. What have you been up to down 3% in Q1, but it was down negative eight,

Q4. Negative two in Q3. Evelyn, how concerned should we be from your tone vary?

Evelyn Mitchell:

Well, I might have unintentionally sounded a lot more concerned than I actually am because my answer is somewhat concerned. It is facing competition from streaming platforms and social video platforms, and there are only so many ad dollars to go around and it's nothing to sneeze at, but YouTube has a lot going for it. It's behind Netflix and Hulu in terms of average time spent by users, but it has a lot more users than either Netflix or Hulu, or any streaming platform or any social network including TikTok for that matter.

And the advertising opportunity is defined by both audience size and time spent, but I don't think that any of YouTube's competitors would necessarily be able to fully usurp its position in the consumer's media diet. The YouTube use case for the consumer is still very strong. It's got over 85% penetration across all age cohorts. It's moved into the short video space and momentum. It's been slower than TikTok, but there is still momentum there. It's work to cultivate strong relationships with creators. So overall, declines in ad revenue aren't good by any stretch, but it's not a death sentence for YouTube.

Marcus Johnson:

Yeah. So two things that concern me, again, they're making decent money, \$7 billion, there's nothing to sneeze at, but the first concern is that it's been stuck at that \$7 billion. Evelyn, for a minute now, YouTube made \$6.7 billion to be precise Q1. It's been stuck around \$7 billion north or south each quarter since the end of 2020. So they haven't been able to balloon that revenue much at all since then.

And then the second thing is that TikTok and Instagram Reels are eating YouTube shorts launch, short form video ad platforms. US ad buyers say their largest clients are advertising on the platforms that their largest buyers are advertising on short form video from December. According to Cohen, 75% are on TikTok, 67% on reels and then shorts quite far back with 43%. So trying to make up that shortfall.

Evelyn Mitchell:

Go on.

Marcus Johnson:

All my best work. Yeah.

Evelyn Mitchell:

So Evelyn, final question for you. What was the other most interesting part of Google's performance? What people perhaps overlooking that you are paying attention to?

Marcus Johnson:

I don't know if it was necessarily overlooked, but Google Cloud turning a profit. That's of course always been the goal. It's usually the goal for most new products, but the past few quarters it's been an area of focus on earnings calls and to see it achieved and against a backdrop of so many challenges facing its advertising business, it's pretty impressive. Of course, Google is still behind Amazon and Microsoft, and the cloud services area and growth has been slowing down over the past few years. So it's not all roses, but definitely notable.

Marcus Johnson:

Yeah. One of the things that jumped out to me was Google profits falling 8% to \$15 billion. It's not total. But it was the fifth consecutive quarterly decline. So it does feel like, "Yeah, this is probably what's going to be happening going forward." If you have two consecutive quarters of negative economic growth, negative GDP, it's a recession and so I think five consecutive quarters of anything is worth paying attention to. That's what we've got time for the lead, time now for the halftime report. Evelyn, your takeaway from the first half.

Evelyn Mitchell:

My colleague Max Willens summed things up very well.

Marcus Johnson:

Oh, that guy.

Evelyn Mitchell:

I know. He said while Google exceeded expectations, reasons for investor optimism are modest. Google's core business is facing the most serious challenges it has encountered in quite some time. And the only thing I'll add there is to expect more humble growth rates from Google in the future.

Marcus Johnson:

Yep. It's time for the second half of the show today. Today, in other news, we figure out whether there is still an advertising downturn and how do people feel about cookies going away today versus last year?

Story one. What downturn? In real terms ad spending is doing just fine suggests a recent digit day article written by Seb Joseph, Crystal Scanlan and Ronan Shields. In it, they argue that this is the ad market correcting itself after the pandemic. They point to Google the largest seller advertising, which we just discussed, posting constant currency ad revenue in Q1 of 3% year-on-year. Meta was up around seven. Ad spending on Microsoft grew around six. Amazon's ad business grew at over 20%. Evelyn, the most interesting sentence in this article about whether there is still an ad spending downturn is what and why?

Evelyn Mitchell:

So the following quote from Matt Ferrel of TickPick is really what jumped out to me, and it's probably because of exactly what we discussed today. The quote is both Meta and Alphabet's earnings calls are an indication that these organizations are quick to respond to challenges and changes in the market, and are tremendous revenue driving machines that quarterly earn the equivalent of many small countries GDPs.

And I think quick might be a subjective analysis, Meta's recovery from Apple's privacy changes probably hasn't not felt quick to Meta, and it's not over yet. But it never hurts to be reminded of how massive Meta and Google are. We talk so much about the challenges these companies face and we should because that's how we can anticipate disruption. But even as they falter, Google and Meta still generate a small country's worth of revenue.

Marcus Johnson:

Yes, they do. Yes, they do. Excellent point. Story two. How has cookie deprecation sentiment shifted in the last year? A recent business wire article citing a recent double verify survey notes, number one, overall publisher concern about the impact of cookie deprecation on their business remains consistent with 60%, 60 of them saying they were very or moderately concerned. That's not changed.

However, the share of those who say very concerned fell. So those who said very or moderately was the same. But when you zoom into very concerned that is lower than it was before. Number two advertisers said multiple browsers phasing out third party cookies was their main concern amidst recent privacy changes. And a third takeaway from this article was

that just a quarter of publishers had a post cookie solution in place. Evelyn, the most interesting sentence in this article about cookie deprecation sentiment is what and why?

Evelyn Mitchell:

It's one that you said, I think it's publishers who stated-

Marcus Johnson:

Yes, points to me. Where's the bell?

Evelyn Mitchell:

Did you find it?

Marcus Johnson:

I win.

Evelyn Mitchell:

Okay. It's that publishers who stated that they were very concerned decreased year over year by one quarter. And as a little bit of context, it was about 25% of last year's respondents were very concerned, and about 14% of this year's respondents are very concerned. And I think it's interesting because it's not because the threat is any less dire, right? It seems like it's a combination of some publishers actually feeling prepared or more prepared, and therefore less concerned and other publishers feeling like it's increasingly likely that the can will get kicked down the road again.

In fact, double verify asked respondents whether they thought Google will delay cookie deprecation again in Chrome, and just over 44% of publishers said yes, and almost 48% of advertisers said yes. So sentiments are skeptical for Google.

Marcus Johnson:

That's also fair. Principal analyst, Paul Verner, same team as Evelyn. Just put out a report on the ad industry getting serious about cookie free diets. It's on insiderintelligence.com. It's called ID resolution H1 2023. And that is all we have time for. Evelyn, thank you, of course, for hanging out today.

Evelyn Mitchell:

Thank you, Marcus. It's been a pleasure.

Marcus Johnson:

Yes, indeed. Thank you to Todd who's editing today's show, Victoria, who edits the show is out. We miss you. Thank you to James who copyedited it, and Stuart who runs the team. Thanks to everyone listening. We'll see you tomorrow for the Behind the Numbers Daily: an eMarketer Podcast made possible by InMobi.