Minda Smiley, and Max Willens

The Daily: What's behind the upswing in social ad spending, can X claw back some share, and NYC sues the social giants

Audio

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On today's podcast episode, we discuss what's fueling the social ad spending upswing and what to watch from each of the major social platforms. "In Other News," we talk about advertisers' level of caution in returning to X (formerly Twitter) and why New York City is suing the social media giants. Tune in to the discussion with our analysts Minda Smiley and Max Willens.

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Episode Transcript:

Marcus Johnson:

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Max Willens:

This is a potentially really big move especially because the real big question floating over social media as a space is how integral can it be in digital shopping journeys?

Marcus Johnson:

Hey, gang. It's Monday, March 4th. Probably. It doesn't sound right now. You don't know. It could be. It's March 4th. Just don't check. Max, Minda, and listeners, welcome to the Behind Numbers Daily, an eMarketer podcast, made possible by Nielsen. I'm Marcus. Today, I'm joined by two folks. Let's meet them. We start with our senior analyst covering everything digital advertising and media based in Philadelphia. It's Max Willens.

Max Willens:

Yo.

Marcus Johnson:

What's good? He's also joined by one of our senior analysts who covers everything social media based one day in New York.

Minda Smiley:

Yes.

Marcus Johnson:

In New York. If you could hold up a sign, I'd appreciate it. It's Minda Smiley. Am I frozen?

Minda Smiley:

Hi.

Marcus Johnson:

Oh, no, you are there, but you said that you said nothing back. Nothing. No-

Minda Smiley:

I distracted by the thought of making a sign.

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Marcus Johnson:

I thought I'd frozen.

Minda Smiley:

No. You're good. You're good.

Marcus Johnson:

Minda is like, "I'm not talking to you right now." You never remember Marcus. It's fair. Today's fact, some people have said that this podcast is the best thing since sliced bread. No one said that, but there is an article in history.com that explains where sliced bread came from. There's evidence humans have been baking bread in some form for about 30,000 years, but sliced bread has only been around since the early 20th century.

The first automatically sliced commercial loaves were produced on July 6th, 1928, in Chillicothe, Missouri, using the machine invented by Otto Rohwedder, an Iowa-born, Missouri-based jeweler. In 1928, Rohwedder's power-driven, multi-bladed bread slicer, sounds dangerous, was put into service at his friend Frank Bench's Chillicothe Baking Company. That's where it came from. I thought it was going to be more interesting than that.

No offense, Otto, but, yeah, we're always, "Oh, what's the best thing since sliced bread?" Wow, this an amazing invention, and it just happened in the Midwest a hundred years ago.

Minda Smiley:

Didn't know that.

Max Willens:

Yeah. I will say, if it hadn't come to be that way, I think I would only consume bread as bread pudding because I find slicing it really tedious, but I love bread pudding.

Minda Smiley:

Yeah. It's hard to slice bread, too. I feel like, the first day when it's fresh, it's easy to slice, but then, after that, it's just, I don't know, I find it very difficult to slice.

Marcus Johnson:

Yeah. All right, Otto, we've decided, that is pretty cool.

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Minda Smiley:

Yeah.

Max Willens:

You can stay.

Marcus Johnson:

Today's real topic, how's social network ad spending is changing. In today's episode, first in the lead, we'll cover how ad spending on social media is changing. Then, for another news, we'll discuss where former X/Twitter advertisers are now spending those dollars, and what might come from New York suing TikTok and Instagram over alleged addictive design. We start with the lead, so social network ad spending, what does it look like?

Things seem to be looking up for social network ad spending. At the start of last year, we expected US social network ad spending to hit $75 billion this year, 2024. That was our forecast at the start of last year. We thought, this year, ad spending on social networking, 75 billion. A few quarters later though, towards the end of last year, we revised that figure up, from 75 to 83, so an upward revision of 8 billion over the course of a few quarters. Next year, we bumped that up by 10 billion, even better.

Max, in your recent research on this topic, social network ad spending, you answered the question of what is behind the upswing in the social ad spending market. We're playing slice of pie, so, Max, what does your pie chart look like as to the reasons why social network ad spending is on the upswing?

Max Willens:

Well, I think there's a couple of things that are all interrelated with one another. I think probably the most specific thing I could call out would be just this continued influx of spending from Chinese advertisers. The amount of interest in major brand building not just by big, big e-com players like Temu and Shein, but also lots of smaller, long tail advertisers has indisputably boosted the portions of Meta, of Pinterest and so on to the point that this has become a running topic of conversation on their quarterly earnings conference calls.

The reason that they are all spending dovetails nicely with my second slice, which is just the overall advertising ecosystem's obsession with performance. There's lots of need to spend on

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upper funnel initiatives like brand building and so on, but if you can put a dollar into a machine and get a dollar and 25 back, you're going to keep doing that over and over and over again. Advertising across lots of social platforms has really become quite efficient and quite effective, and people have figured out how to put up with the fog that was initially dropped on this ecosystem by Apple when they implemented app tracking transparency a couple of years ago.

As people have figured that out, the spending has followed, and then a third wild card, which I don't think I mentioned in my report, but which I think is worth paying attention to is just the acceleration of cord-cuttings. A lot of the money that was going into linear television and made linear television one of the biggest sources of ad spending is now starting to come out of linear television. Granted a large, large chunk of that money is just going into CTV, so ads on Hulu, ads on Netflix and so on and so forth, but the fact that it's now all of a sudden in the digital bucket means that a TikTok, which spent quite a lot of time trying to style itself as an entertainment platform rather than a pure-play social media brand, is effectively boosting the fortunes, I guess you would say, of this channel in a way that is worth thinking about.

Marcus Johnson:

All right, let me take some shares quickly. You've got spending from Chinese advertisers, ad ecosystem's obsession with performance, and cord-cutting acceleration.

Max Willens:

Performance advertising and its focus gets the biggest slice.

Marcus Johnson:

Okay, 50?

Max Willens:

Sure. 55%.

Marcus Johnson:

55, generous, and then for the other two? Equal-ish?

Max Willens:

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I would say the Chinese ad spending. It's a bigger piece of it. I would reserve cord-cutting. Let's call it 20%.

Marcus Johnson:

Okay, perfect, so ad ecosystem's obsession with performance, 55%, spending from Chinese advertisers, 25, and then core-cutting acceleration, 20.

Minda, what would your pie chart look like?

Minda Smiley:

Yes. Mine looks quite different actually, which should be interesting. About a half of my pie, 50% I attributed to just a better, rosier economic outlook. I feel like, at the start of last year, fears of a recession were stronger. We did see some marketers pull back, and I do think, as the year went on and as we're seeing this year, some of those concerns cooled off. It still does feel like we're in a limbo regarding that, but I do think a big part of why we saw ad spend go up a bit is because people are just feeling better about the economy.

That was my big one, and then my second one, which I gave a 30% to, is AI. Of course, I think Meta probably is the biggest platform that we've really seen. Max talks about this in his report, but we're really seeing Meta lean into AI and really talk about how those investments there are impacting advertising effectiveness and helping users stay in the platform longer. I think Meta is maybe the poster child for that right now, but we're certainly seeing the other social platforms, even some of the smaller ones, invest there as well, and then the last one, I did say the same as Max, which is the influx of Chinese advertisers, and that's just providing another boost, so that's 20%.

Marcus Johnson:

Okay. Okay, so 50%, rosier economic outlook, 30%, AI, in particular Meta, and then 20%, similar to what Max said, was spending from Chinese advertisers. You gave it a little bit more, but you still had it as part of your pie chart.

All right, folks, so that's overall. We're going to look at some specifics now, look at what's going on with the specific players.

Max, you cover a ton of them in the report. We're not going to get to every one, but we're going to try to get to a handful. We'll start with Instagram. You're each going to give me the

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main thing to watch with these different social players in 2024. Max, the main thing to watch with Instagram in 2024 is what?

Max Willens:

I think the big piece is really just going to be what happens to reels and whether they can continue building momentum around monetizing it. Meta finally turned a corner with monetizing that format. They took pains to emphasize in the early stages that they were going to take their time with monetizing it. They weren't going to flood it with ads right away, but what's really going to be interesting to watch this year is just how much of a major moneymaker it can be for them because they still do get most of their money from feed ads, which is understandable because it's a much more established ad format and canvas, I guess, for advertisers, but just the extent to which they can really prove that this pivot into vertical video is going to pan out is the one I'm watching most closely.

Marcus Johnson:

Yeah, they were making way more often feed than I thought they were. I thought it shifted over more to stories, but that does seem to be the cash cow feed at least for now.

Minda, what's the main thing you are watching for Instagram?

Minda Smiley:

I think one thing I'm going to be paying attention to is how they approach private messaging, or DMs, this year. One quote that got tossed around quite a bit last year was when the head of Instagram, Adam Mosseri, said that, "If you look at how teens spend their time on Instagram, they spend more time in DMs than they do in stories, and they spend more time in stories than they do in feed." We're clearly seeing like they really identified that DMs are a big part of how these younger users are using the platform, but it's a tough space to monetize. There are certain ways they've done it, but not really directly. You're not seeing ads in your DMs, but they have these click-to-message ads that you can buy and, basically, users can click out and talk to a brand if they want to by clicking on an ad.

Marcus Johnson:

Yeah. For me, Meta's growing reliance on Instagram over Facebook I think is fascinating. 52% of Meta's revenue coming from Facebook today, so 48 for Instagram. By next year, those shares are basically identical and, the year after that, you can see them flipping, so Instagram

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becomes the dominant source of revenue just for Meta over Facebook, which I think would be quite the tipping point. If Instagram was a standalone company, it'd be the fourth-largest ad player according to our forecast, behind only Google, Amazon and Facebook for right now, but could overtake them in the next year or two. Despite its size, Instagram, growing ad revenue, 17% this year, which is remarkable.

Now, let's talk about TikTok. We have to. Minda, for you, what's the main thing to watch for TikTok in 2024?

Minda Smiley:

Yeah. This probably won't come as much of a surprise, but TikTok Shop is the big thing I think we're all paying attention to. We're seeing some success. Depending on what you read, but a lot of users are frustrated by it. Sellers are frustrated by it. Yeah, it's still pretty new. I mean, it's only a few months in in the US, but I think this year will be really pivotal to see really how those capabilities play out.

Max Willens:

Yeah, I agree 100%. It's the extent to which they can make shops feel less like an invasive species and more like a native part of the ecosystem. Really, the big problem that they have, I think, is going to be convincing larger, reputable brands to invest in it because, right now, everyone's experience of it is lightly different, but I feel frequently, when I am hit with TikTok Shop ads, like I am being shown stuff I don't need that's suspiciously low-price and whose quality just seems far from assured. It just makes me disengaged from the whole process, and that's not a feeling I have occasionally. It's a feeling I have regularly.

Marcus Johnson:

TikTok, they'll take one of every 10 social network ad dollars this year, but it was interesting looking through the numbers. It's going to be hard to unseat the giants. TikTok quite quickly grabbed a healthy slice of the social networking ad spending pie, going from no share before the pandemic to 8% in 2022, but then its share gains have been much harder to come by, going from that 8% in 2022 to 12% this year. I thought that was quite interesting.

Let's quickly talk about Pinterest before we close out the lead. Max, the main thing you're watching for Pinterest this year?

Max Willens:

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I think the big thing is just how these partnerships that they've forged with Google and Amazon go, and I guess a related matter is can those succeed enough to drive more integrations? Whether it's with, I don't know, a Walmart or an Instacart or a Shopify or someone else, this is a potentially really big move especially because the real big question floating over social media as a space is how integral can it be in digital shopping journeys? I think Pinterest's partnerships with those two giant companies are potentially a big piece of helping us answer that question. It's going to be interesting to watch those evolve over the next 12 months.

Marcus Johnson:

Minda?

Minda Smiley:

Yeah, I said the same. Just looking at their social commerce and ambitions and really just paying attention to what extent they're actually successful with those this year.

Marcus Johnson:

Yeah, looking to continue the positive gains from last year, two things jumped out. Net income, 200 million in Q4, that's way up from the 18 it made last Q4. Full-year net dollars were down though and, the second thing, global MAU is nearly 500 million, setting a record, so some positive gains there from Pinterest to carry forward. That's what we've got time for for the leads. If you want to read the full report from Max, it's called Social Network Ad Spending and Trends Q4 2023, Robots, AI and Ad Spending from China Invigorate the Markets. You can click the link in the show notes or head to insiderintelligence.com if you're a pro subscriber.

We move, of course, to the second half of the show today, In Other News. Are small to medium-sized businesses ready to return to X, formerly Twitter, and what to make of a recent lawsuit from New York City against the social media giants.

Story one. "SMBs are still cautious about advertising on X," formerly Twitter, "despite lower CPMs. They're down 60% in the past six months," writes Trishla Ostwal of Adweek. She notes that X has been ramping up efforts to court small and mid-sized businesses to offset some of the ad revenue declines it has faced as brands have quit the platform. Our forecast ranks X as 17th in terms of US digital ad revenue in 2024, sandwiched between Instacart and IAC. 17th

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place means that they're making half as much as Snap and five times less from ads than Walmart. The question is can Twitter claw back some digital advertising market share?

Minda?

Minda Smiley:

Yeah, I mean, maybe a little bit, but I'm not really feeling super optimistic about their prospects even as they chase these smaller businesses. I think, even when you consider the fact that maybe there is an audience there for some of them or the costs are lower, I just think the platform itself has had such a brand identity issue almost that I think people might be putting some dollars there, but I can't imagine it's anything super substantial just because of the platform's general chaos, I guess, you could say.

Marcus Johnson:

Max?

Max Willens:

Yeah. I think that Minda is on to something here about just how challenged they are from a brand safety perspective, which is a major reason why they're now courting SMBs. Small business owners don't have brand budgets. They have performance budgets, and pivoting from being a platform that is aiming at upper funnel advertising dollars to lower funnel advertising dollars is a costly, time and resource-intensive process. I mean, just look at the wilderness that Snap has been in. There's nowhere to go but up, but how high up they can go? I think I would not bet on a significant readout in this particular way.

Marcus Johnson:

Yeah. Our forecasting team agrees with you. Some positive signs in Q4, SMBs on X grew almost 10% according to X's head of business operations, but, when you zoom out, X is still struggling after ad spending was cut in half last year, ad spending revenue on the platform. We expect a further 2% drop this year, a further 4% next year.

Story two. New York City recently announced a lawsuit against the social media giants, Facebook, Instagram, TikTok, Snapchat, and YouTube, blaming their, quote, unquote, addictive and dangerous platforms for fueling a childhood mental health crisis that is disrupting learning and draining hospital resources, notes a recent article from British

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newspaper, The Guardian. The suit says, "Children and adolescents are especially susceptible to harm because their brains are not fully developed. In responses to the filing, the tech companies said they have and continue to develop and implement policies and controls emphasizing user safety. The Guardian piece points out that, "The legal action is the latest of numerous lawsuits filed by states, school districts and others claiming social media firms exploit kids by designing addictive features."

Max, what is the significance of this suit against social platforms?

Max Willens:

I think it's the thing that you alluded to last, which is that this is yet another example of public officials putting social media in its cross-hairs and essentially saying, "We do not like the effect that we perceive these technologies to be having on our kids." This is not the result of a couple of shrill, hypervigilant or maybe over-reactive people seizing control of the legislative levers and pulling on them. A bill that quickly made its way through Florida's legislature in late February, which would effectively bar people under the age of 16 in Florida from using social media, that passed in their House of Representatives by a vote of 108 to seven. That's about as big of a slam dunk as you can have in attempting to craft legislation.

I am not super sure how this lawsuit is going to fare in the court system, but the fact is that we are, I think, maybe inching closer to something like a critical mass of scrutiny and suspicion of social media and the role it plays in minors' development.

Marcus Johnson:

Minda?

Minda Smiley:

Yeah, I certainly had a similar reaction to Max. I mean, when I saw the lawsuit, it's New York City, so, of course, that's a big one. At the same time, we saw dozens of states file a very similar lawsuit in the fall. We've seen school districts sue. There's nothing really super novel here. It's just adding to the criticism of these platforms and the role they play in child safety and children's mental health.

One thing that I was thinking about was we're obviously seeing the platforms respond in different ways, and I think, recently, we saw Snapchat come out with a pretty big campaign, really distancing itself from social media saying, "We're not social media. We're Snapchat."

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They've always had messaging a little bit like that, but this was clearly a big investment to really push in that direction. It'll be interesting to see this year how the platforms react to these concerns and this issue.

Marcus Johnson:

I thought it was interesting that they're attacking this from a different angle than we used to. Lauren Feiner of the Verge is pointing out two things, one, saying, "A ruling by a federal judge late last year suggests these kinds of lawsuits may survive early challenges, saying that claims dealing with the defects of the platforms rather than speech could move forward and would not be considered in conflict with tech's legal liability shield known as Section 230." Whether those arguments hold up in court is a separate issue, and then, two, these online safety suits may have some momentum after the Senate hearings of last month featuring several tech CEOs where there was Democrats and Republican lawmakers expressing similar anger towards the companies' handling of child safety, and so maybe there's a bit more momentum than normal.

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

Max Willens:

Always a pleasure, Marcus. Thank you.

Marcus Johnson:

... and to Minda.

Minda Smiley:

Yes. Thank you.

Marcus Johnson:

Thanks to Victoria who edits the show, James Stewart and Sophie, the rest of the podcast crew, and thanks to everyone for listening in. We hope to see you tomorrow for the Behind the Numbers Daily, an eMarketer podcast made possible by Nielsen.

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