

# Microsoft's Bing Chat ads —and their impact on the search advertising industry

Article

**The news:** Microsoft is “exploring placing ads in the chat experience,” Consumer CMO Yusuf Mehdi wrote Wednesday, confirming user reports of seeing ads within the tech giant’s AI-

powered **Bing Chat** platform.

- The **ads appear within chat responses, highlighting businesses or products** related to a user's search query.
- While Microsoft has not disclosed specifics regarding revenue sharing for its new ad feature, it has confirmed that **it will share a portion of the ad revenues** generated with its partners.
- At present, Microsoft has not released any figures on the success of its advertising tests within Bing Chat.

**Why it matters:** The integration of advertising within Bing Chat is a significant move by Microsoft, as it **represents the first time that the company has experimented with advertising in its chatbot platform.**

- The move is part of the company's broader strategy to monetize its AI-powered search engine by offering more personalized and relevant advertising to its users.
- **Google**, currently the dominant player in the search engine market, could be prompted to consider similar monetization strategies for its chatbot, Bard.

**Yes, but:** Concerns are rising about the integration of advertising within chatbots. This new feature may not be welcomed by all Bing Chat users, as it could be perceived as a disruption to the user experience.

- Microsoft will be using machine learning to ensure that the ads are relevant and non-intrusive—but details are sparse.
- The rush to launch AI innovations has already gone awry a few times: Google's chatbot, Bard, shared inaccurate information in a promotional video, causing Alphabet to **lose \$100 billion** in market value on the day of the video's release. Could Microsoft be moving too quickly—and damage its long-term chatbot advertising revenues in the process?

**Our take:** Yes, Microsoft needs to learn from ads within its chat interface, but it's unwise to engage in a widespread rollout anytime soon.

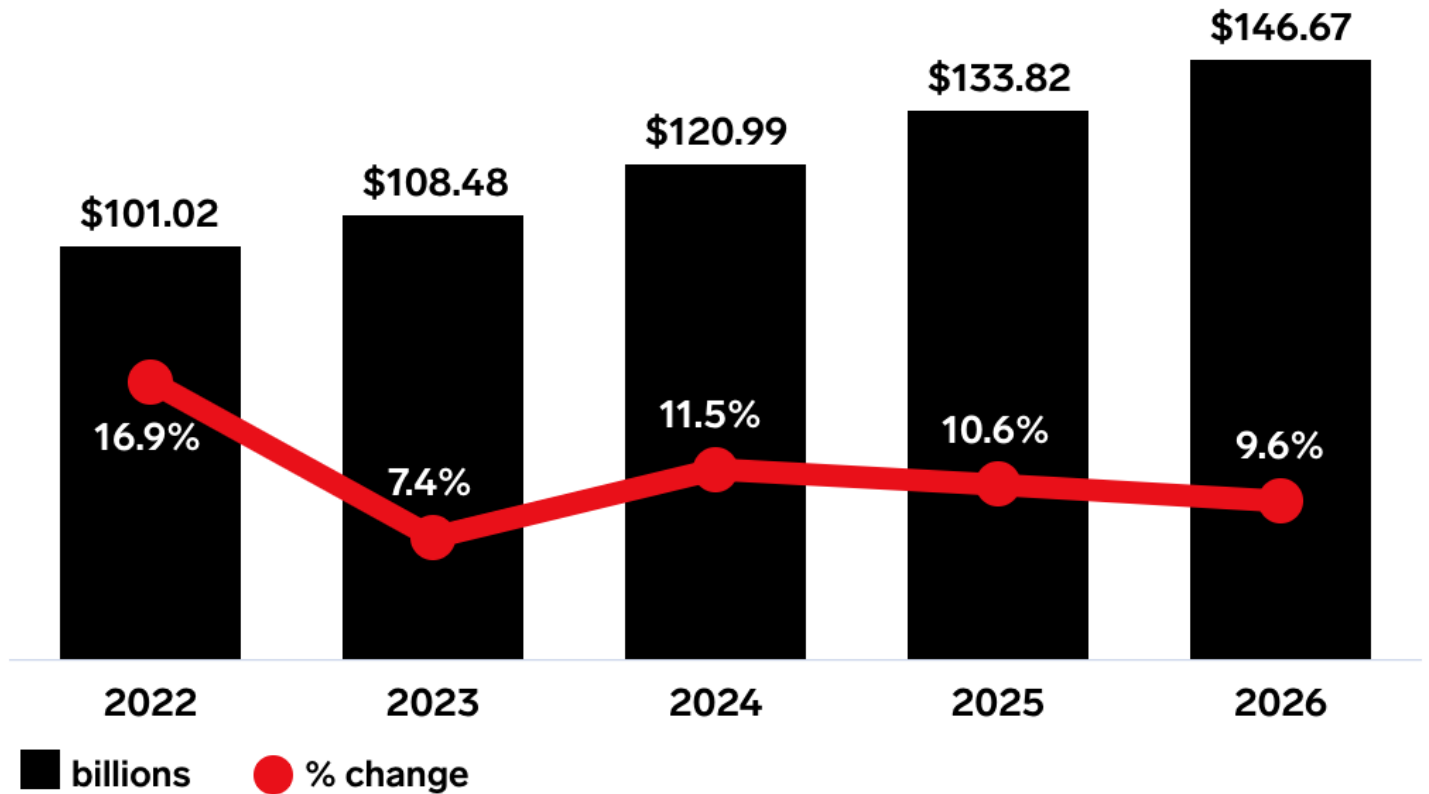
- Bing is so far behind Google Search that it needs to bank market share gains from the incumbent before venturing wholeheartedly into Chat ads.

- Bing has over 100 million daily active users and more than 100 million chat interactions, with a third of the millions of users in preview being new to the platform. Given that it is **making inroads** into Google's lead, Microsoft is likely going to take it slow rather than turn off those new users at a critical juncture.
- **Facebook** waited to launch ads on its platform until users were fully engaged with the product, then gradually increased the number of ads to balance monetization with user experience. That was a formula for success.

**Final thought:** How much might the search advertising industry (\$108 billion in US) contract with the introduction of ads in Bing Chat and Google Bard, along with the growth of OpenAI's ChatGPT and similar models cropping up as search alternatives?

# Search Ad Spending

US, 2022-2026



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices on all formats mentioned; includes contextual text links, paid inclusion, paid listings and SEO

Source: eMarketer, October 2022

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