

Google misses the mark in Q4, setting up a challenging 2023 for digital advertising

Article

The news: Google missed expectations on nearly all fronts in the fourth quarter, signaling the start of a difficult chapter for the internet giant whose dominance has defined the digital

advertising and media landscape.

- Q4 revenues grew 1% year over year (YoY) to \$76.05 billion, below expectations of around \$76.5 billion.
- Advertising revenues took a hit across the board; **YouTube** ad revenues were **\$796 billion** versus an expected **\$8.25 billion**, **Google Search** revenues fell by nearly **\$700 million YoY**, and **Google Network** revenues fell more than \$800 million YoY.
- **Google Cloud** revenues jumped 32%, accounting for most of Google's gains in the quarter.

On the bright side: Google was quick to highlight sectors with promising prospects for future growth.

- The most prescient is its investment in AI, which CEO **Sundar Pichai** framed as a technology that is positioning Google for strong growth. Pichai also boasted strong YouTube subscription, Google Cloud, and Pixel growth.
- Alphabet chief business officer Philipp Schindler also announced that Google will debut new connected TV (CTV) advertising tools to go along with its [recent multiyear deal](#) to distribute **NFL Sunday Ticket**.

The ad giant trembles: Google's rough Q4 earnings report follows the company's [historic layoff of 12,000 employees](#) in an attempt to slim down as interest rates rise, legal challenges pile up, and a possible recession looms. In its earnings call, **Alphabet CFO Ruth Porat** said the company will be "slowing the speed of hiring significantly."

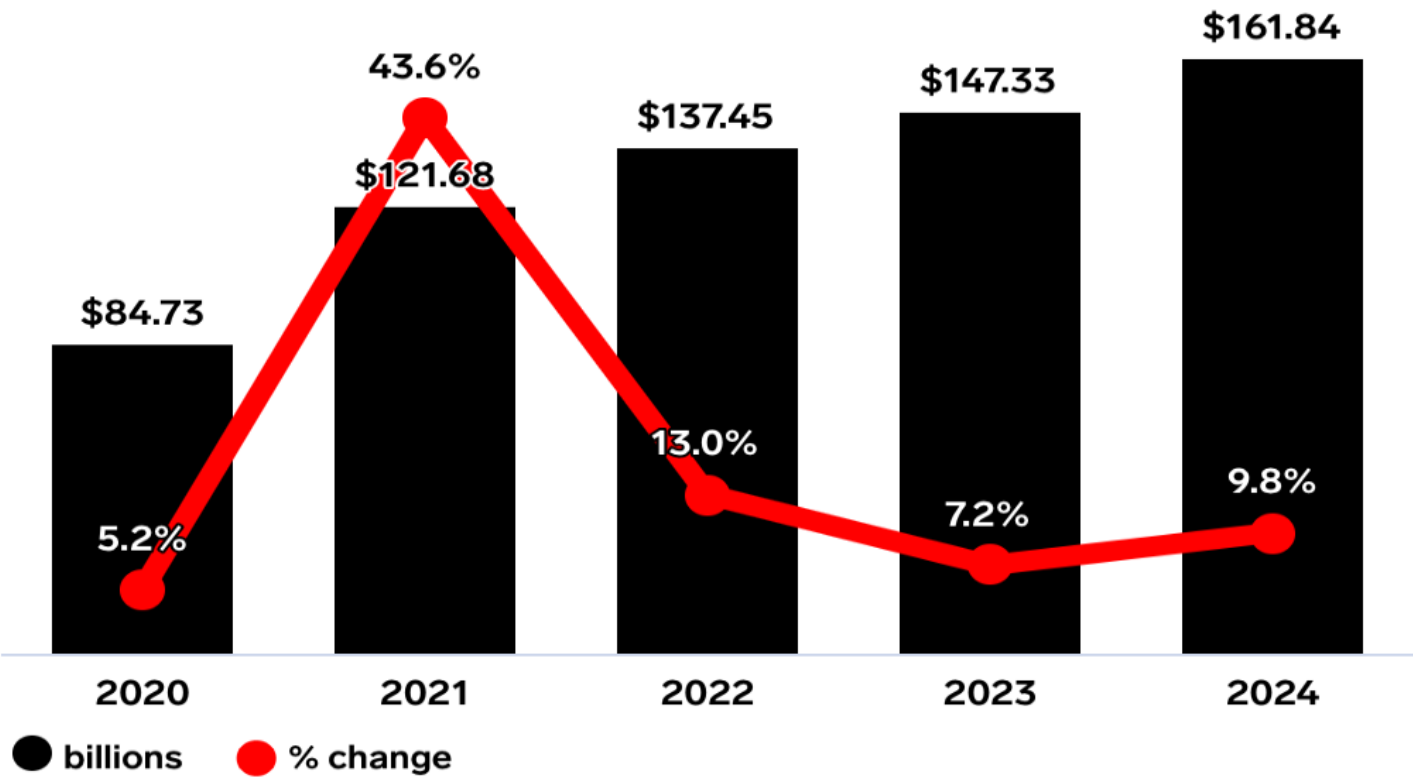
- It's a tough time for Google to pursue no-holds-barred growth. Aside from being the largest search engine in the world without much room to grow in the near term, it's under fire from all sides exactly because it's so big.
- The search giant has been pelted with fines from EU bodies for anticompetitive behavior and privacy violations, and the US Justice Department [recently sued the company](#) alleging it monopolizes digital advertising.
- Pressure from regulators has forced Google to loosen some of its hold on the digital advertising world, like allowing third-party advertising exchanges to operate on YouTube and offering other concessions in an attempt to avoid litigation.

Analyst take: When it comes to a company as big as Google, poor results will have a ripple effect across its entire sector. “Google closed the year in a very different place than it was at this time last year,” said Insider Intelligence analyst **Evelyn Mitchell**. “Even search revenues, which are performance-driven and typically insulated from ad spending downturns, also declined. These results do not bode well for the rest of the digital advertising industry.”

- US search ad spending is expected to grow just 7.4% in 2023, compared with 16.9% in 2022.

Google Search Ad Revenues

Worldwide, 2020-2024



Note: Exchange Rate; includes search advertising that appears on desktop and laptop computers as well as mobile phones and tablets; net ad revenues after company pays traffic acquisition costs (TAC) to partner sites
Source: eMarketer, October 2022

eMarketer | InsiderIntelligence.com

What's next for Google? Google's advertising empire is showing cracks that have already emboldened smaller competitors to grab at slices of its enormous market share. Even if there isn't much growth in the cards for Google in 2023, It will remain the largest force in advertising.

- But it will have to convince investors that it can comfortably coast through a difficult period and set itself up to grow in emerging sectors—hence, the company's insistence Thursday that AI represents an expansive new frontier.