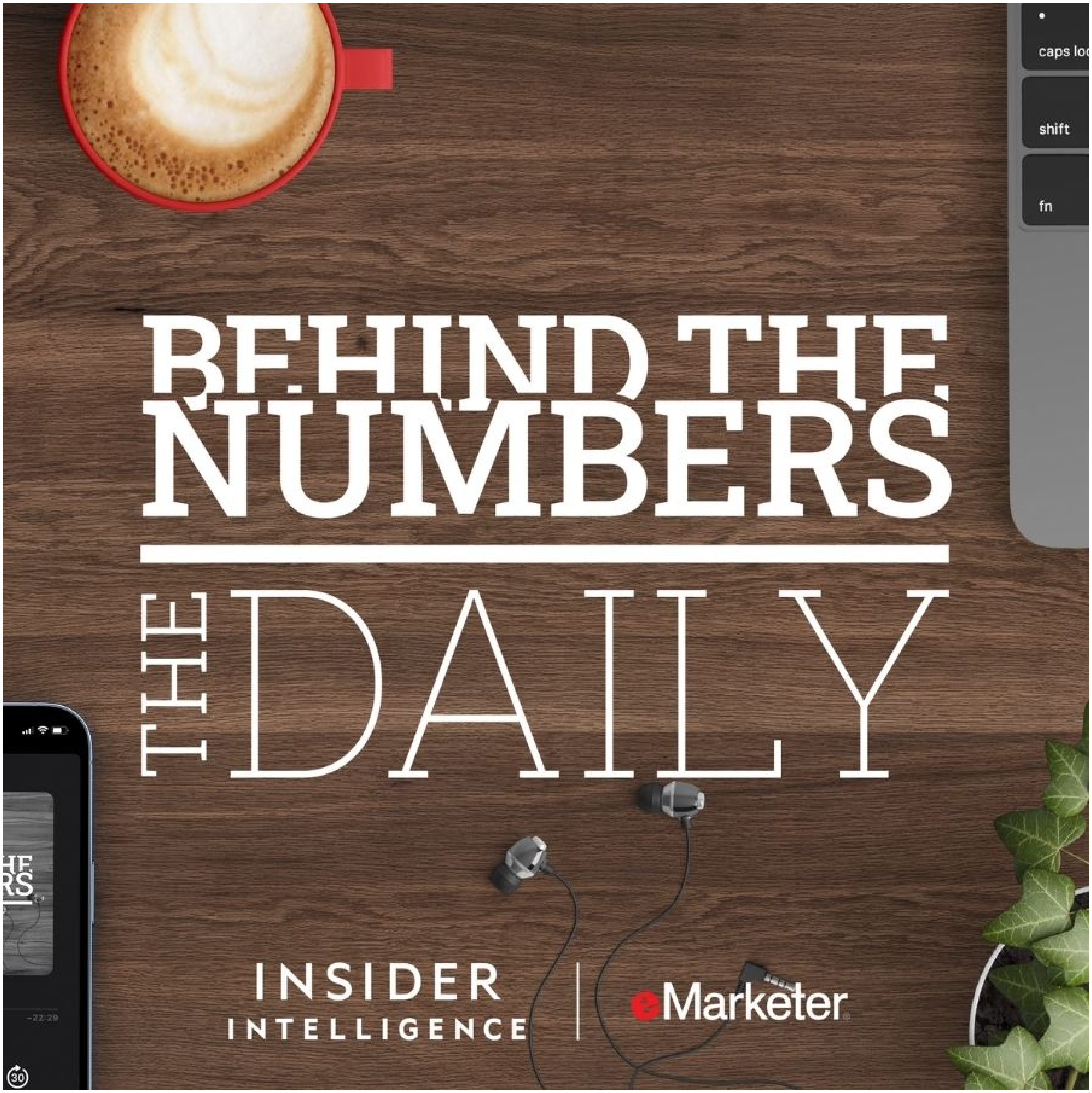
MAR 16

Paul Verna

The Daily: How the digital ad world is faring, brands backing women's sports, and how many folks still have cable?

Audio

On today's episode, we discuss what to make of a seventh consecutive US monthly ad market decline, how ad prices look compared to before the pandemic, and what we expect ad spending in Q2 to look like. "In Other News," we talk about an initiative aimed at reducing barriers to buying ad inventory and sponsorships for women's sports, as well as how many Americans still have cable—and for how long. Tune in to the discussion with our analyst Paul Verna.



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Episode Transcript:

Marcus Johnson:

Hey, gang. It's Thursday, March 16th. To all our listeners, welcome to Behind the Numbers Daily, an eMarketer podcast made possible by Meltwater. I am Marcus. And today, I'm joined by one of our principal analysts who heads up our digital advertising and media practice based out of New York. From New Jersey, he's from everywhere, ladies and gentlemen, it's Paul Verna.

Paul Verna:

Great to be here, and happy that we got through the Ides of March again.

Marcus Johnson:

Just, only just. Today's facts, what is the national animal of Canada? Any guesses, Paul? It's not what you think.

Paul Verna:

So it's not a bear, or-

Marcus Johnson:

Oh, I didn't think bear, but no. Not what I think, I should say.

Paul Verna:

It's not a husky?

Marcus Johnson:

Mm-mm. Good guess. It's a beaver.

Paul Verna:

You know what? I was going to say beaver and I didn't.

Marcus Johnson:

Oh, sorry.

Paul Verna:

I should've. Should've gone with my first instinct. And I don't know why, I was thinking that. I mean, I guess they're everywhere in the Northeast or in the North, but...

Marcus Johnson:

Yeah, so the trade of beaver pelts proved so profitable, many Canadians felt compelled to pay tribute to the buck-toothed animal. So William Alexander, who was granted title to Nova Scotia in 1621, was the first to include the beaver in a coat of arms. And the beaver was chosen as the national symbol because of its significance to the fur trade and economic growth in the country.

Paul Verna:

Damn.

Marcus Johnson:

Yeah. I would've thought moose.

Paul Verna:

That's right. Yeah.

Marcus Johnson:

I'm doing the moose ears right now.

Paul Verna:

I see you, I see you.

Marcus Johnson:

It looks a lot like a moose when you do the hands.

Paul Verna:

It's unmistakable. If you did that and I didn't know or you hadn't said it, I would say moose.

Marcus Johnson:

If we were on a charades team, we would wreck it.

Paul Verna:

Absolutely. Yeah.

Marcus Johnson:

If it was moose. If it was anything else, we'd probably do terribly. Anyway, today's real topic, the digital ad world. How's that going?

In today's episode, we first cover the digital advertising world. We'll check in on that universe. And then for In Other News, we'll discuss brands backing women's sports and how many Americans still have cable. We'll start, Paul, talking about the digital ad space. So, the US ad market falls for the seventh consecutive month in January, notes Joe Mandese of MediaPost. Referencing the US Ad Market Tracker, a collaboration between Standard Media Index and MediaPost, the US ad market fell 6% in January.

That's the third worst figure out of the seven negative months back to back to back to back to back to back. I don't know how many I've done, but months. Paul, the first monthly dip was in July, and that was July of last year when the US ad market fell 8%. It improved in August, September and October, but it was still negative. Went from negative eight to negative one-ish, two-ish. And then from November to January, it got worse. It was negative six, negative 12, negative six. What's your take on these monthly US ad spending numbers?

Paul Verna:

Well, I think they reflect what we've all seen, is that the second half of 2022 was particularly hard on the ad market, especially on social media companies. But I think it's also important to put these numbers in perspective, and we've really had a very anomalous few years here, starting with the pandemic and everything that happened in the immediate aftermath. And then the unexpected, at least at the time, unexpected surge in advertising in 2021, followed by then this quasi-meltdown in social media in particular. So, things have been haywire, and then you add all the unknowns like the economy and the war and Twitter having its moment. So it's really hard, in that context, to compare January of one year to January of the previous year.

Marcus Johnson:

Yeah.

Paul Verna:

But if you go back two years, January of 2023 was actually up 15% over 2021.

Marcus Johnson:

Interesting.

Paul Verna:

So, if you take that longer view, I think that's a little bit more indicative of how things are trending. I think to look at January, it's essentially a continuation of that second half doldrums that we had last year. We haven't fully recovered, but I think there are some signs of optimism and a sense that the market is headed toward a better year this year on many levels than last year. But I think it's going to take a little while to get there.

Marcus Johnson:

Yeah, it's been some tough comps. That's a great point. Let's talk about... Well, I'm going to come back to the prices in a second, but let's talk about Q2, what we can expect in the coming quarter, coming months. Kristina Monllos of Digiday writes that "Marketers are spending, and there are signals it could pick up in H2 because agency executives see more new business pitches happening now. 'Cautious optimism' seems to be a popular phrase when summing up marketers' current mood. However, spending is down around 10% versus Q2 of last year as marketers hold onto dollars longer and seek more flexibility rather than longer term commitments," Miss Monllos notes. Paul, what do you expect Q2 to look like?

Paul Verna:

I would agree with that assessment. I think there is a cautious optimism, but it's tempered by this recurrence of unknowns. And now, we have this sudden bank crisis which was on nobody's radar even three days ago or a week ago, and now suddenly that's injecting a lot of uncertainty into the market. Those kinds of things make people nervous. There's still some sense that we don't quite know where some of these social media companies will land in terms of...

I mean, I mentioned what's happening at Twitter, but if you look at TikTok and the potential regulations on the horizon for them, there's just so much influx in the market that things could tip one way or the other quite easily. But overall, I think when you survey marketers and agencies and even consumers, I don't think people are walking around with a gloomy sense that the bottom is falling out of anything. I think it's really just a recovery that still has to go through these speed bumps, but it seems to be headed in the right direction.

Marcus Johnson:

Yeah. Silicon Valley Bank, of course, the bank that Paul is referencing that collapsed just last week. So, Paul, most signs seem to be pointing to a softening ad market that will pick up. There's a lot of noise out there, and it's hard to find the signal for the noise. But a few points here that suggests that things will pick up, that things that aren't great at the moment will pick up. In December, we reduced our 2023 digital ad spending forecast by $5 billion, citing inflationary pressures and the ongoing addressability issues in digital advertising as the main reasons. 5 billion sounds like a big downward revision, but it's just 2%. So we took the total and we revised it down by 2.2%.

Second point here, Daniel Konstantinovic, who's one of our briefings analysts, was noting that ad execs have expressed optimism about the market coming into this year. 84% of folks in December in an advertiser perception survey said they don't plan to cut budgets in 2023. 30% said they're going up. 54% said they'd remain unchanged. Then a World Federation of Advertisers survey, third point here, it was a survey of 43 multinational companies, found only 30% are cutting budgets this year, with most citing the economic downturn. And then finally, a Digiday piece was noting that according to new research from customer engagement platform company Braze, despite the economic uncertainty, 90% of surveyed brands will increase marketing budgets in the next 12 months.

Obviously, that's not just Q2. That's looking out a little bit further. But Paul, most signs seem to be pretty positive in terms of what we can expect. And one of the figures we should note here, so digital ad spending and what do we have for total digital ad spending for this year, we still forecast it to be $280 billion, which would be 12% growth. And basically three quarters of all media ad spending now going towards digital in the US. The last thing I want to note here in terms of what we're expecting for digital ad spend, $280 billion. Now, that was for US digital ad spend this year. That was revised down by the two points that I mentioned, or by $5 billion from a few months ago when we looked at this figure. However, when you zoom out, you notice that the pandemic added about, what are we looking at here, like 70, 80 billion dollars?

Yeah, about 60, 70 billion dollars to what we were expecting. So when we forecast what 2023 was going to look like before the pandemic happened, the month before, we thought 2023 was going to have about 215 billion. Now, it actually has about 280 billion. So Paul, to your earlier point about those month-to-month numbers, you've got to zoom out. And I think with this as well, it's definitely the case where you zoom out and you look at the true picture in terms of how ad spending is performing, not just compared to the current bumps in the road, but compared to how things were looking. It's pretty impressive. It's still in really good shape.

Paul Verna:

Yeah, and I think we've seen that across the board with a lot of our forecasts, where we, for every forecast update, starting with the pandemic, we found ourselves actually raising the forecasts beyond where they were. So yeah, essentially when you go out a few years post, say, early 2020, most of the digital ad markets have a lot more volume in them than we were expecting them to have at that time. So you could say that in a general sense, the forecasts have basically outpaced our own expectations. What we did now was we made a downward revision, but again, let's concentrate on the context. It's a very small downward revision after a whole series of twice a year, sometimes three times a year, substantially upward revisions.

I mean, I know that's sort of presenting a glass half-full picture, and if you are a company that's struggling with layoffs or with lower revenue or with not being able to reach your audience because of targeting issues, I don't want to minimize the downside of what's happening and I don't want to minimize the impact of that downward revision. But overall, I think it is a fundamentally healthy market that, like all markets, has to go through some ups and downs, but overall the curve is going in the right direction.

Marcus Johnson:

A market that still accounts for 75% of total media ad spending, that's digital. So digital ad spending accounts for 75% of the total ad spending pie, the total ad spending pie being $370 billion in the US, 370 this year. That'll still be up 7% from last year's 10%. So still decent growth there as well, all things considered

Paul Verna:

Right. And that 75% you mentioned that digital makes up of the whole, that's going to go up to 80% within three years.

Marcus Johnson:

That's staggering. And it was about 55% before the pandemic. 2019, digital accounted for 55 and now is at 75. And to Paul's point, it will get to 80 very soon. Paul, let's talk some prices really quick. So, ad cost inflation is slowing, according to ECI Media Management, but the trouble is far from over. Our briefings analyst I mentioned earlier, Daniel Konstantinovic, he notes that the US will see ad cost inflation fall nearly two points to 4% this year. Fall nearly two points to 4% this year, that's ad cost inflation. TV will account for most of the lower inflation, falling to 7% from near 13 last year per ECI. But Paul, zooming out even further, what's your take on how ad prices look compared to pre-pandemic levels?

Paul Verna:

Well, I think this is a case where the devil is in the details. And if you look at an overall figure for all of advertising, it doesn't really tell you what you need to know because, yes, TV prices are falling more than other prices. So that's something that I think most of us would naturally assume based on how television is trending. But again, if you're an advertiser with your budgets primarily in digital, then maybe that lowering of inflation is not quite as significant and you actually do have to contend with some pretty hefty prices. So it's really a case by case basis. It's definitely positive that that inflation index overall is going down, and I think that reflects the US economy at large. But there's just so much more to these metrics when you start drilling down on the many, many different types of advertising that are part of the ecosystem now.

Marcus Johnson:

Yeah, according to WAC, worldwide ad prices didn't really drop in 2020. Prices for newspaper, magazines, out-of-home and display were all down roughly a few points. TV was actually up four points. Today, newspaper and magazines cost per one thousand's up about two to four points worldwide. That's newspapers and magazines, out-of-home display and radio up five to seven points, and TV is up 20%. That's from WAC, looking at worldwide ad prices. Speaking of worldwide, Paul, Daniel goes on to write, "A soft economy, continued inflation and supply chain issues mean 2023's tepid advertising outlook is set to continue. Global marketing and advertising spending will grow just over 5% this year down from just under 8% last year, per PQ media's 10th annual global marketing and advertising spending forecast." But Paul, what's our global outlook on 2023 ad spend?

Paul Verna:

So, our outlook for worldwide ad spending growth in 2023 is of just under 7%. So it's higher than PQ media at 5.3%. We anticipate that growth actually accelerating in 2024 to just over 8% and the market crossing the $1 trillion threshold at that point. So yeah, our outlook is somewhat better, but I mean, not completely in a different ballpark. And again, I think subject to fluctuations as things happen that nobody expects.

Marcus Johnson:

Yeah. 7%, as Paul mentioned, this year in terms of worldwide total media ad spending, and then yeah, 5% last year, Paul. So we think it's going to do better this year than it did last year and better next year than it's going to do this year, so continuing to accelerate. Final question here, Paul, we're focusing on digital for a second. Michael Eslamboli of Forbes recently wrote about five predictions for digital marketing this year. A resurgence of contextual ads, more marketers using visual search and some others. But Paul, what's a prediction not on this list that you expect to develop?

Paul Verna:

I think in general terms, advertisers are more and more interested in performance-based KPIs. And when they look at things like CTV and retail media, which are the two fastest growing ad formats that we track, a big part of the draw there is the ability to measure ROI. So it's not to say that brand-oriented advertising is going to go away in any way, shape, or form, but I just hear more and more that people want to know what those results are. And that's a prediction that if I were looking at how the market is going to unfold this year or next year, that would be on my list.

Marcus Johnson:

Excellent. That's all we've got time for the lead. Time now for the halftime report. Paul, we'll take a quick ten-second takeaway from you from the first half.

Paul Verna:

So, there are predictable unknowns and unpredictable unknowns. The Apple privacy reset, inflation, interest rates, all those things are slow-moving trains. And even though they catch people off guard, they can be planned against. And then you have things like I mentioned earlier, the bank situation, the Twitter meltdown. Those are completely out of the blue. And I think we live in a world where we just have to account for some of that just off-the-wall kind of stuff that nobody can predict.

Marcus Johnson:

Yeah. Well, that is all we have time for, for the first half. Time for the second. Today in other news, a coalition of brands backing women's sports and how many people in America still have cable?

Story one. "Coca-Cola and Morgan Stanley join the coalition of brands backing women's sports," writes, there he is again, Insider intelligence briefings analyst, Daniel Konstantinovic. He explains that "Market research company Sports Innovation Lab, owned by former Olympian Angela Ruggiero, has formed a coalition of brands and sports leagues called the Women's Sports Club to reduce barriers to buying women's sports ad inventory and sponsorships. Partners include Coca-Cola, Nike, Morgan Stanley, and leagues like the Women's National Basketball Association, the WNBA, and Ladies Professional Golf Association." But Paul, the most interesting sentence in this article is what and why?

Paul Verna:

The most interesting part of it to me is the whole chicken and egg argument where advocates for women's sports say that there aren't enough opportunities for visibility and for marketing, and broadcasters and brands say that the audiences and the interest are not there to support the opportunities. Personally, I think that anybody not capitalizing on women's sports in general is missing a huge opportunity.

And if you look at the growth in the NCAA March Madness, the women's side, or the WNBA, or if you look at how women's soccer overperforms men's soccer in the US and the UK, these are places where there are definitely more opportunities. Or even look at individual sports, like Mikaela Shiffrin breaking the record for the most World Cup wins of any Alpine skier in history. Or you look at Serena Williams and her giant footprint on the tennis world. So there are just so many places where women's sports are everything that men's sports are and more. And I think marketers and broadcasters should just get on board.

Marcus Johnson:

Yeah, there was a few great quotes in this article from Daniel. One of them was "The Women's Sports Club looking to utilize brands and sports leagues combined influence to pressure networks into giving women's sports more favorable slots. Progress is being made. The National Women's Soccer League Championship, the NWSL, was given a primetime slot for the first time ever last year on CBS."

And then Daniel also points to women's sports viewership being on the rise. "A November 2022 Samba TV study found Women's March Madness viewership had grown over 80%, eight zero year-on-year, four times higher than men's in terms of growth. WNBA finals grew over 170% versus 25% for men's. And the NWSL championship grew nearly 500%." I looked at the WNBA as well, and the regular season viewership average close to 400,000 viewers. That's up over 50% on pre-pandemic 2019. Also, shout out, Women's World Cup coming at you this summer. Come on, England, please. We can't rely on the men to bring the championship back. I'm sorry, guys, we just can't. So please, ladies.

Paul Verna:

Have we talked about who won the men's World Cup [inaudible 00:20:31]?

Marcus Johnson:

Okay, moving on. Moving on. It was Argentina. Congratulations. Paul's emailed me six times this week.

Paul Verna:

That's it? The week is young, though.

Marcus Johnson:

Yes, most of them now go to my spam folder. Story two, the US sheds nearly 6 million pay TV subscribers in 2022, notes a recent Advanced TV article. It cites findings from Leichtman Research Group, which show the largest pay TV providers in the US, representing over 90% of the market, lost nearly 6 million net video subscribers, basically cable folks, in 2022. That's 1 million more than the near 5 million lost the year before. So 5 million, and then in 2022 it was 6 million. I said cable, they include cable, satellite and telco, but it's what most people think of as when you subscribe to cable. Paul, the most interesting sentence in this article is what and why?

Paul Verna:

It's the sentence that wasn't in the article, and that is that the proportion of US households that subscribe to traditional pay TV dropped below 50% for the first time in 2022. So yes, all of the stats in the article were true and accurate and indicative of a trend that's not going to be reversed. But that tipping point of dropping below half, that's really notable and that's something that we put out a press release about. And Adweek wrote an article about it last week, so very interesting data that just tells us what I think we're all seeing anecdotally.

Marcus Johnson:

Yeah. A huge milestone and that trend continuing in that direction. So, to Paul's point, US households with cable fell below the 50% mark for the first time last year. Just this year, 46% of US households will have cable, so four points down from that. And then by 2026, just over a third will have cable, that's 37%. And that is all we have time for. Thank you so much, Paul, for hanging out today.

Paul Verna:

Always a pleasure.

Marcus Johnson:

Thank you, of course, to Victoria, who edits the show, James, who copy edits it, and Stuart who runs the team. And thanks to everyone for listening in. If you want to say hi, you can DM us. Do people say that? I don't.

Paul Verna:

You just did.

Marcus Johnson:

You can direct message us.

Paul Verna:

You just did. You're the agenda setter, Marcus. If you say it, they will come.

Marcus Johnson:

Oh, I hope not. I hope they're not looking to me for trend setting. Instagram message. If you want to send us an Instagram message, it's @BehindtheNumbers_podcast. See you guys tomorrow for the Behind Numbers Weekly Listen, the eMarketer podcast made possible by Meltwater. We got there, even with the moose ears. Just put your hands up, open palms, top of your head. Instant moose. See?

Paul Verna:

There you go.

Marcus Johnson:

It works too well.

Paul Verna:

It works every time.

Marcus Johnson:

That's my Halloween costume for next year. That's such an easy lift.