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Apple's new ad product pushes it closer to Google

Article

Last week, Apple made news for testing an AI-powered ad product similar to Google's Performance Max. Apple has been successfully investing in advertising for the past few years. But Google has a multibillion dollar advertising advantage. Even with AI advertising improvements, Apple is nowhere near Google's ad dominance.

How it works: Apple's AI tool places ads in optimal spots within the App Store, using AI to decide where each ad goes. While App Store advertising is just a piece of Apple's revenues, an effective AI ad product could boost other ad revenues in places like podcasts and maps.

"It makes a lot of sense for Apple to go down this AI-powered road," said our analyst Yoram Wurmser. "Although it currently lacks the diversity of ad placements that Google and Meta have, Apple clearly intends to expand Apple Ads into more of its media—and this move will help it build its AI-powered ad tools for when that happens."

Google's worldwide ad business is over 18 times the size of Apple's. That means Apple needs a lot more than an AI boost to catch up.

- Google's worldwide ad revenues will total $189.11 billion this year, according to our October 2023 forecast.
- Apple's worldwide ad revenues will total $10.34 billion this year, per the same forecast.
- Apple's ad revenues are growing about twice as fast as Google's, at 21.2% compared to 10.3%.

Google has gotten in hot water related to antitrust laws in the US. Regulators could break up Google's ad business as a result. But that outcome is unlikely. And Apple isn't immune to antitrust scrutiny either.

Apple recently faced antitrust fines of about $2 billion in the EU, where regulators have also allowed for the use of third-party app stores on iOS devices. That means even as Apple expands its AI ad targeting capabilities, iPhone users may not actually see those App Store ads.

Apple is responsible for a large share of the devices on which people search the web. The company surpassed 2 billion active devices in 2023, and brought in $96.46 billion in net product sales in Q4 2023. One of the reasons Google is so successful (and a topic of antitrust contention) was Apple making Google the default search engine on its devices. But if Apple were to end this default, the tides could turn for Google's Search revenues.

Apple's AppTrackingTransparency has helped the company affirm its position in advertising. The policy has helped Apple assert itself as a privacy-complaint ad platform as Google deprecates cookies. Google is working with advertisers on providing cookie alternatives.

Google is slowly losing share of search ad spend worldwide. While that may sound like good news for Apple, the challenges Google is facing in search would likely also impact Apple. (We don't break out Apple's search revenues in our forecast.)

- Retail media accounts for an increasing share of search ad spend in the US. That said, Google just announced it's getting into retail media.
- TikTok also poses a rival to Google when it comes to search ads. A recent HerCampus study found that 74% of Gen Z internet users use TikTok for search and 51% favor it over Google, primarily due to its short-form video format.
- Microsoft is building out generative AI search in the hopes of attracting users.

All of that could weigh on Google's dominance, but it won't give Apple an advantage either.

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