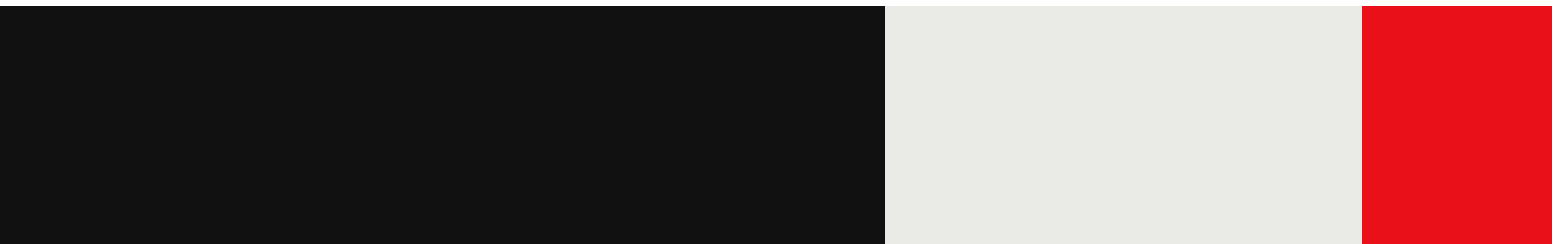


# The Daily: Why Meta might be a dark horse in GenAI, how AI might backfire, and how advertisers view Threads

Audio



On today's podcast episode, we discuss how Meta could take the GenAI space by storm, the likelihood that rapid AI development and deployment backfires, and how advertisers are viewing Threads as it approaches its first birthday. Tune in to the discussion with our analyst Jasmine Enberg.

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## Episode Transcript:

Marcus Johnson (00:00):

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Jasmine Enberg (00:24):

We are heading into this new period of social media and digital overall where people are expecting AI to be a part of their experience. So I don't think meta is going to backtrack, even though it might make some tweaks to how and where meta AI shows up.

Marcus Johnson (00:46):

Hey gang, it's Tuesday, March 7th, getting myself a little bit there. Jasmine,

Jasmine Enberg (00:52):

I just

Marcus Johnson (00:53):

Jumped out to come in that heart. Jasmine and listeners, welcome to an overly aggressive behind the numbers daily, an eMarketer podcast made possible by Awin. I'm Marcus. Today I'm joined by our principal analyst who covers everything social media based in California. It's now petrified Jasmine Enberg.

Jasmine Enberg (01:18):

Hi Marcus. Hi everyone. I won't even try to match the enthusiasm that I just heard from you.

Marcus Johnson (01:23):

My adrenaline is racing. Okay. Today we're talking about an elevated tones Facebook and Instagram now, but we start of course with today's back. So Jasmine, left or right-handed.

Jasmine Enberg (01:37):

Right-handed.

Marcus Johnson (01:39):

Okay. So you are one of the 90%. Research has shown that about 10% of people in the world are left-handed. Can we predict what will be according to a BBC article Call? Northern Irish psychologist Peter Hepper studied scans of babies in the womb who were sucking their thumb and found about 90% of babies sucked their right thumb. And by 12 years old, almost all of those were right-handed, whereas three quarters of people who sucked their left thumb became left-handed. Yeah, so it's a strong indicator. Genetics also a factor. One left-handed

parent means you're more likely to be left-handed. If both are, you have a one in four chance that you'll be left-handed as well from about two years old. Toddlers tend to prefer using one hand more than the other.

Jasmine Enberg (02:29):

Wow.

Marcus Johnson (02:30):

And here's something I'd never considered, but are animals left or right-handed, right.

Jasmine Enberg (02:36):

I do not know

Marcus Johnson (02:38):

I need to get a life. I dunno why, but yeah, most creatures, even apes are our closest cousins in the animal kingdom show a 50 50 split when it comes to which hand or poor or foot, whatever they use the most. However, parrots and kangaroos do favor their left.

Jasmine Enberg (02:56):

Interesting. Yeah, I don't really even know how to respond to these facts.

Marcus Johnson (03:00):

Yeah, no one does with a get on with it. That's what most people are probably thinking. And so I will, today's real topic is Stuart who runs the team is definitely thinking that today's real topic meta

Marcus Johnson (03:17):

In today's episode. First in the lead, we'll cover meta no other news today. There's no time for crying out loud. There's too much to talk about. So let's do it. Let's start with AI Jasmine as our briefings writer, Daniel Stankovich explains Meta recently brought meta AI to consumers prominently featuring it in the search bars across Facebook, Instagram, and WhatsApp. You may have noticed it there in feeds. There's AI stuff in chats on Facebook Messenger and launching also a standalone version at Meta AI designed to compete with chat g PT folks will be able to ask about anything from concerts to restaurants and much, much more. Meta's AI,

including its assistant chatbot, is powered by LAMA three. That's its latest and most powerful large language model. Jasmine, you wrote a piece recently about how meta could be a dark horse in the gen AI war. How come?

Jasmine Enberg (04:11):

Well, meta has so far been somewhat of an underrated player if you think about the broader race to ai. But if you look at all of the investments that it's putting into AI and that it's planning to do an ai, it's clear that it's now in this race to win it. And when I wrote that, I certainly wasn't saying that it's going to beat out the whole market. I mean, there's a lot of competition. It's a very crowded space chat. GBT of course has become synonymous with generative ai, but I do think that it can carve out a strong slice in the market. If you look at its distribution potential alone, meta only needs 43% of US Facebook users to use meta AI on a monthly basis for it to be as big as chat GPT is here in the us. And that really isn't unthinkable if you think about how aggressively it's rolled meta AI out and how prominently and prominently it is across all of its apps. And of course it's only going to be as good as the underlying model, but what we heard in the earnings call is that it's already released a new model, the latest LAMA three, and it's working on training an even more powerful model. And then of course there's the monetization aspect. We don't really know how Meta is going to monetize meta ai, but pretty much everything meta does, it'll probably be an advertising play and it would be connected to its powerful ad ecosystem.

Marcus Johnson (05:38):

Yeah, 40% of just one of its apps users using it for it said already on power in terms of users is not much at all. The problem is it's moving fast, it's not moving fast enough it seems. Salvador Rodriguez and Joanna Stone, the Wall Street Journal pointing out that meta working on a large language model that's even bigger than LAMA three that will feature 400 billion parameters, the more parameters, the smarter, it's essentially, OpenAI hasn't disclosed the size of GPT four, but it's estimated that it would be four times larger than chat GPT-4, the current one, it would be four times larger than what META'S next LLM large language model release would be. And our sister company Business Insider reporting, OpenAI, is on track to release the next major version of its AI model GPT five in a couple of months by mid 2024. So it's significant, but in terms of size, it's nowhere near the power of chat GBT. But to your point, you're saying dark horse, you're not saying compete with and part of the reason it's a dark horse of that scale. I mean two thirds of everyone who uses the internet on earth, two thirds of people who



use the internet on earth use a meta platform, Facebook, Instagram, WhatsApp, Facebook Messenger.

Jasmine Enberg (06:51):

The other thing I found really interesting about meta AI is when I was playing around with it on Instagram, it wasn't very good at directing me around the app, which if you remember when Snap rolled out my AI and being part of why it was doing that was to be able to direct users better around its surfaces and I was asking it to recommend me creators or specific lifestyle creators, and it was giving me search results from Bing or from Google versus actually directing me to an Instagram profile or page. That would be really cool as well just to help people kind of navigate the platform and it would be really important for Creator Discovery, which of course is something that Instagram is working on right now as well.

Marcus Johnson (07:34):

Yeah, that's a great point. Big part of the appeal here. I mean Scales One, it's got all those apps under its umbrella also it's free and if you want to use the high quality version of chat GBT, you've got to pay for it 20 bucks a month for now. So that's going to help it scale and also the fact that it's a free service. One of the questions here though, Jasmine, is I just said that it's not moving fast enough because in terms of catching up with Chat gt, which it doesn't have to do to be a significant player, but one of the questions is meta moving too fast on AI and Eina Freeda. Axios writes that meta pushing gen AI into every corner of its giant platforms is frustrating some longtime users and threatening to worsen existing problems with spam and misinformation, thus degrading the experience for its billions of users. In your opinion, how likely is it that this expedient push into AI for meta backfires?

Jasmine Enberg (08:25):

It's not very likely. I mean people are always up in arms when social platforms roll out new features. Do you remember the Reddit forums that emerged with people saying they were going to quit TikTok because of TikTok shop? Yeah, that didn't happen. In fact, our research shows that TikTok users either like or don't care about the increase in TikTok shop content and a lot of people have increased their usage since TikTok shop rolled out. And this is straight out of Meta's normal playbook. It rolls out a product, people complain and then they get over it. And Meta does have to take those complaints seriously because there is a potential to degrade the experience. But at the same time, we are heading into this new period of social

media where and digital over overall where people are expecting AI to be a part of their experience. So I don't think meta is going to backtrack even though it might make some tweaks to how and where meta AI shows up and I don't think it's going to be the end of Facebook or Instagram as a result.

Marcus Johnson (09:29):

So that's users. So let me throw another angle at you, which is advertisers. Is Meta's AI ready for advertisers? On the one hand, yes, it's made them a lot of money. Meta more than doubled revenue from its AI powered ad tool since last year. But on the other hand, the Verge was saying that they spoke to several marketers and businesses who say Meta's automated and platform has been blowing through budgets and failing to deliver sales. And that getting support from Meta has been a challenge, especially since they laid off thousands of employees and gutted many of its customer support teams. Digiday reporting Meta's ad account teams were downsized and many client inquiries now being directed to ai Chatbots Bot, this is only, they spoke to some, they didn't speak to all marketers about blowing through budgets and failing to deliver on sales in terms of its AI automated ad platform. But my question I guess is what happens if there is a problem like this on a mass scale?

Jasmine Enberg (10:23):

I mean it's certainly a problem. I do think the larger point is that AI has already had a profound impact on Meta's advertising business and I think a lot of those problems seem to be stemming from support versus actual issues with its advertising platform. Certainly there are some, and it's still really early days for AI and Meta will have time and I'm sure is working to fix many of those issues and we've already seen how much good it can do for its ad business.

Marcus Johnson (10:54):

Yeah, one of the questions here as well is can they keep spending as much as they're spending and they're probably going to have to spend more as well spending on AI costing them a fortune. Last year meta dropped 28 billion in capital expenditure this year they're expecting to spend 40% more and projecting to spend even more next year. And on top of that, Jasmine, they're spending on Reality Labs, which is then be our hardware division, which nearly lost 4 billion in Q1 on just under 500 million in revenue. So they've got to keep an eye on that. In fairness to meta, they did make 12 billion in profit, which is double Q1 over the last year. So



maybe they're okay, but they got their financial house in order last year, but they don't have infinite money and AI costs a lot of money, so something they've got to pay attention to.

Marcus Johnson (11:41):

Speaking of Q1, we have their performance numbers now for the first three months of the year, we're going to play Slice of pie for this one, looking at their revenue, Jasmine ad revenue, how was Meta able to grow ad revenue? It was very impressive. 27% in Q1 up from just 4% in the same quarter a year earlier. The way we play this is you give up to three reasons why an attribute shares to each add up to a hundred percent. That's slice of pie, but yeah, going from 4% in Q1 last year to 27% growth in Q1 this year. How they do it,

Jasmine Enberg (12:14):

I'm going to give you three slices of pie and the first one is predictably ai, and we've talked about this already, but a lot of the investments that Meta is making in AI will take a long time to pay off, but it's advertising business is clearly one place where AI is already having an impact, particularly with its suite of Advantage plus solutions. It's also having an impact on engagement. What we heard on the earnings call is that 50% of the content that people see on Instagram is now coming through AI recommendations and 30% of the content that people see on Facebook is also coming from AI recommendations. Yeah,

Marcus Johnson (12:50):

Surprise me.

Jasmine Enberg (12:51):

And that's helping boost time spent, which is actually something that I just wrote about and that can then eventually translate to more ad dollars. So it's both a direct and indirect impact on advertising.

Marcus Johnson (13:03):

Okay. How much of the pie is AI for you?

Jasmine Enberg (13:05):

40%. Okay. And then I'm going to give another 40% to the overall state of the digital ad market. And what we're seeing across the board is that advertisers are just more willing to

open up their pocketbooks and that's really helped boost spending across platforms. Meta included. We also saw that in Snap's earnings, which I know you'll talk about on another episode, but this has clearly we're in a period of a digital ad rebound. And then the final 20 I'm going to give to retail, which was something that they talked about a little bit on the call me didn't share how much China specifically was contributing to revenue this quarter, but it did say that it was included in the 41% growth from the APAC region, which was primarily commerce and gaming. And what we're again seeing kind of across the board is that retail really is at the center of this ad rebound and growth that we're seeing. And Meta has a strong handle on shopping related ads and that again includes its AI powered ad formats.

Marcus Johnson (14:09):

So 40% ai, 40% digital advertising space rebounding at 20% for retail. Meta mentioning impressions were up 20% price per ad, also up six points. And yeah, back to strong growth that 27% in q1, the fastest quarterly growth in two and a half years. So pretty impressive. One thing that was missing from their earnings, Jasmine was a user figure or a number of user figures choosing not to report on users, daily users or monthly users. There was a daily family active people number basically. How many people use one of their suite of apps, metas apps, Facebook, WhatsApp, Instagram, Facebook Messenger, how many people use one of those per day worldwide? So that number was in there, but what'd you make of meta not reporting on daily active users, monthly active users like it has in the past for the first time now that it's actually happened?

Jasmine Enberg (15:03):

Well, we knew this was coming and I think there's a couple of reasons for it. One meta is really careful about the words that it uses and we've seen a shift over time away from the word user, more towards words like people and family and community, which is reflective of the kind of connotation they want to give out to the broader world. And I think the other part of that is to be able to hide any weakness in Facebook's user growth. And we know that Facebook has had trouble attracting new users even though it's already massive. And this is a good way not only to be able to talk about its services as a whole shift the perception away from user, more towards things like family and people and also hide that potential weakness in Facebook's user growth.

Marcus Johnson (15:50):

Yeah, they were doing pretty well in terms of adding users for every quarter last year, but at some point they're going to, I mean, once you've got two thirds of people who use the internet in the world using your services, it makes it hard to make those numbers look stellar and it doesn't want people focusing, especially Wall Street focusing so much on those. I will say the lack of transparency did feel a bit ominous because now in folks models there's just an na and when you've gotten something for so long and then there's just a gap, it does almost invite more questions, but something they said they were going to do, so it was to be expected. Something else they announced though in terms of users was Threads, which is it's X or Twitter copycat or competitor Meta announcing that Threads has 150 million 150 million maus monthly active users up from one 30 in February. So from one 30 to one 50 in just a month or two. Jasmine, how should advertisers be viewing threads as it approaches its first birthday?

Jasmine Enberg (16:54):

150 million? maus is definitely a nice number to share on an earnings call, but it doesn't say all that much about whether or not people are spending time or engaging on the platform. And all of the research that I've seen either points to low or declining engagement on threads. But actually my favorite part of Zuckerberg's comments about threads on the earnings call was when he said that Taylor Swift joined the platform and that was a very deliberate name drop and a clear indication that Meta still wants threads to be its cultural powerhouse. And I wrote about this when Threads first launched, and even investors now of course understand the power of Taylor Swift and driving culture as well as the power of Swifties and what their arrival to the platform would mean for engagement and for usage. And this is really important of course, as Meta is gearing up to monetize threads,

Marcus Johnson (17:50):

That audience that they have is growing, gaining on X slash Twitter's audience this year, threads has 60%. The audience Twitter has next year will be 70% as Twitter users are dropping by a few million threads, users are increasing by a few, but that is monthly, daily, obviously a much more accurate depiction of what's going on. Jasmine, I didn't tell you this because I thought you might not show up for the episode, but we also need a grade right now from you for Mets q1 for folks who haven't listened before. And Jasmine hates this part, which is why I lied to her in the run of show and I'm telling her right now, it was

Jasmine Enberg (18:24):

A lie of a mission, not a direct lie. I mean honestly, just based on the stellar top line revenue growth, I'm going to give meta an A

Speaker 3 (18:34):

A man.

Marcus Johnson (18:35):

That's fair. An A for meta. Google also got an A, we covered Netflix, they got an A, Spotify got a B, but I think that's mainly because Ross gave the grade. He's a bit more hard to impress, but still a B. So it's been pretty good grades so far. As Jasmine mentioned, we've got Snap, I'm talking to Mind, smiley and one of our social media folks on that, and then also Amazon as well to round out the digital giants and how they've been doing in Q1. But thank you so Mr. Jasmine for talking to me about how Meta has been doing.

Jasmine Enberg (19:08):

Thanks for having me.

Marcus Johnson (19:09):

Yes indeed. Thank you of course to Victoria who edits the show, Stuart, who runs the team, and Sophie who does our social media. Thanks to everyone for listening in to the Behind Them Daily eMarketer podcast made possible by a win tune in tomorrow. If you'd like to hang out with Sarah Libo on the Reimagining Retail Show where she speaks with Blake Dro and Becky Shilling all about what quick service restaurants can teach us about loyalty.