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Revenue Surges at Google, Snap as Shift to Digital Ads Accelerates

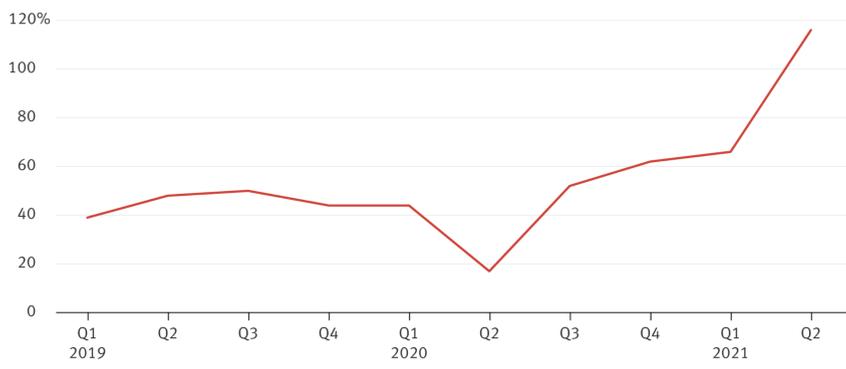
By Sarah Krouse, Sylvia Varnham O'Regan and Sahil Patel

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Ad Growth

Snap's year-over-year revenue gain



Note: The vast majority of Snap's revenue comes from advertising
Source: Company filings

Mike Sullivan

Dell is rethinking how it spends this year's ad budget. The computer maker is likely to shift as much as 15% of the nearly \$100 million it typically spends on TV advertising in the Americas to digital ads, according to a person familiar with the plans.

The company and other large brands are accelerating a yearslong shift in spending toward digital ads that has delivered sizable revenue gains to big tech companies more than a year after the start of the pandemic. On Tuesday, for instance, Alphabet reported a 69% increase in ad revenue, while Facebook is expected to post equally robust results later Wednesday.

THE TAKEAWAY

- Large advertisers are redirecting some spending to digital
- The pandemic accelerated a yearslong shift toward digital advertising
- Google is a key beneficiary of the shift, with big gains in ad revenue

Digital video ads on TikTok, Snap and Google's YouTube allow advertisers to run multiple versions of ads targeted to specific audiences. These services better measure the clicks, dollars and eyeballs they draw than traditional TV networks do, say ad agencies and brand campaign managers. Increasingly popular e-commerce sites, including those within marketplaces like Amazon and Instacart, are also attracting new spending.

Dell is likely to spend \$35 million with Google, including on YouTube ads this year, the person said, more than triple what it spent three years ago. Dell didn't comment for this article.

On Tuesday, Alphabet highlighted retailers, travel, financial services and entertainment advertisers as top ad spenders on Google.

Philipp Schindler, Google's chief business officer, on a call with analysts Tuesday highlighted Nielsen research that found U.S. advertisers who shifted some of their spending from traditional TV to YouTube saw an increase in their campaigns' reach with their target audience while lowering the cost of reaching those people. YouTube revenue rose 84% to \$7 billion in the June quarter.

"Not only are we driving improved reach, but we're helping brands do so more efficiently," he said.

The growth suggests that digital media is taking ad dollars away from traditional media, including TV firms. Overall U.S. spending on digital ads rose 71% in the second quarter compared with the same period last year, while broadcast and cable TV spending saw only 31% growth in the same period, according to data and analytics company Standard Media Index, which captures data on national advertiser spending from a pool of media agencies.

Growth in the latest quarter was inflated by the impact of Covid-19 on the year-earlier period. In that 2020 period, many TV networks saw severe declines. Underlining those results, digital ad spending was the only channel in which second-quarter spending was up compared with the same period two years ago.

The 2019 quarter is viewed as a better comparison since it predates the pandemic dropoff. (SMI data covers 94% of national advertiser spending in the U.S. and excludes local brands and companies that buy advertising directly rather than using an agency.)

Snap's results last week—with ad growth up 116%—showed an already blockbuster quarter for digital advertising, as the above chart shows. Japanese ad holding company Dentsu forecasts 15.6% increase in digital ad spending globally, up from the 10.1% increase it predicted in January 2021.

'Offline is not going to get a lot of the spending back.'

"More of a presence online, more time online, more things happening online of course supports more online ad spend," said Wesley MacLaggan, senior vice president of marketing at Marin Software, which helps big brands and their agencies measure and manage paid digital marketing campaigns.

Wall Street analysts expect Facebook will report 49% growth in second-quarter revenue later today, according to S&P Global Market Intelligence, although that estimate may understate the real growth. SMI, for instance, estimates that Facebook's revenue from U.S. digital advertising spending grew 65% in the second quarter compared with the same period a year earlier, and 20% compared with the second quarter of 2019.

"We're continuing to see our clients pour dollars into areas that they know work," said Gogi Gupta, founder of Gupta Media.

In some cases, the jump in digital ad spending reflects delayed investment from 2020, said Mike Brooks, senior vice president of revenue at WeatherBug. The weather app's direct ad sales rose 50% year over year thanks to spending by animal pharmaceutical companies, drug companies and the energy sector.

Google's stable of businesses and the vast amount of data it has on users has given it a particular advantage. YouTube's audience is starting to more closely resemble that of other streaming services, with more people watching it on televisions, The Information reported last month. Plus, the Google unit has worked to woo advertisers interested in reaching TV watchers.

Danielle Leitch, chief operating officer at MoreVisibility, said much of the shift toward digital spending last year was by necessity because consumers were stuck at home. Businesses have since learned that it is effective, she said. "Offline is not going to get a lot of the spending back," Leitch said.

While some spending drivers in the second quarter are here to stay, stagnating vaccination rates and Covid variants could temper that exuberance in future quarters.

If the Delta variant spreads and leads to more shutdowns, that could lead to another pullback in spending, said MoreVisibility's Leitch. "Where we experienced that safety and comfort in Q2, it could clearly work in the opposite direction if that happens," she added.

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