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Facebook: Growth Fundamentals Remain Firmly in Place

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Facebook 4Q18 spending is tracking in-line to above prior expectations for six of seven sources* as advertisers ramp-up adoption of richer ad formats, including Carousel, Dynamic Product Ads, Click to Message, Stories, across Facebook apps.

- 4Q18 yy spending growth trending only 100 bps off 3Q18 pace on average, vs. expectation of 200 bps deceleration in October report.
- Direct response advertisers using Stories ads as upper-funnel complement to call-to-action newsfeed ads.
- Facebook's rollout of AI-powered automated ad placement across all Facebook apps including Instagram, Messenger, and WhatsApp, is gaining traction, expanding campaigns' scale and performance.
- Tighter cross-app integration seen as a potential catalyst for sustained strong ad spend growth in 2019.

** VMI sources and findings are primarily limited to larger advertisers and do not include SMBs.*

Peak Holiday Spending Driving Strong Spending

Sources said a ramp-up of spending on new ad formats has caused better-than-expected spending for several campaigns, resulting in yy spending growth in 3Q18 to decelerate less than previously expected. "Ad spending has surged in November post-election and, though there have been some well publicized glitches around ads manager, it's looking like a good 4Q for advertising on Facebook, as elsewhere in digital, even against really tough comps," said a source. "We expected to spend aggressively on Facebook, but we've seen much better conversion rates for non-core

ads, and that's encouraged us to spend a bit more than I thought we would," said another source.

Sources denied any significant decline in engagement or weaker ad performance despite public reports of Facebook's ad manager failing to load for some advertisers, adding that strong year-over-year pricing growth suggests that demand did not falter during the outage period or afterwards. "Facebook is really under a microscope these days. So everything they do gets blown up a bit out of proportion. The outages of the ad manager system Thanksgiving week were frustrating, no doubt about that, but frankly during peak load times they happen," said a source.

New Creative Formats, Stories Excite Advertisers

A variety of new ad formats and cross-app targeting capabilities was cited as a primary spending driver for Facebook, with a variety of ads on Instagram and increasingly Messenger and WhatsApp accompanying steady spending on dynamic product ads on the core Facebook app and stronger spending on Instagram-based DPAs. "A year or two ago the default ad format was the sponsored post in the Facebook newsfeed. This has broadened considerably, both in terms of where you can run ads—now much more on Instagram, Messenger and even WhatsApp—and the kind of creative and messaging of the units. It's becoming possible to continually freshen up campaigns with many different varieties of ad types including DPAs, Carousel, click to message, and Stories," said a source. "We've seen a pretty big uptick in live Stories campaigns this quarter. It's very much still a high in the final channel, but it works increasingly well in tandem with more e-commerce focused newsfeed units. It's becoming clear engagement with Stories ads drives post view installs and other actions," said another.

Sources have noticed limited price growth on some ad formats, particularly stories and some video ads, which may indicate limited competition from SMBs for those ads. "It's important to remember that Stories ads are still an unproven format that many people don't know how to utilize. That's a key advantage for a big advertiser—and it's one that the best marketers are exploiting right now," said a source.

Automatic Ad Placement to Expand, Drive Future Growth

While new ad formats are attracting growing interest from large advertisers, incremental ROI improvements are driving incremental spending apace, which sources believe is increasingly offsetting the law-of-large-numbers impact of tougher comps impeding year-over-year spending growth. "The ability to run campaigns across all Facebook properties via machine-learning based automatic placement is a very big deal. Up until recently Facebook advertising to audiences across Facebook apps was really disconnected. It's not a perfectly seamless experience yet, but it's getting there, and it's now much more possible to move budget as needed from newsfeed to DPAs to Stories ads as campaign goals shift. The ultimate goal is to make it much easier to move from one type of format to another. Advertisers can now use the different options for engaging consumers across all Facebook properties more flexibly. This will make the whole Facebook ecosystem even more valuable," said a source.

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