

June 10, 2019

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**Google: Search,
YouTube Growth
Fundamentals Remain
Intact**

**GOOG, GOOGL
AMZN, FB, TTD, TWTR**

Phil Leggiere

(802) 258-0754

phil@vertintel.com

Michael Foster

(347) 566-0936

mike@vertintel.com

Though trendline yy growth line has reset very modestly below 2018 levels, advertisers report 2Q19 spending growth remains solid and believe broader adoption of new ad formats could ignite a new wave of yy growth momentum in 2H19.

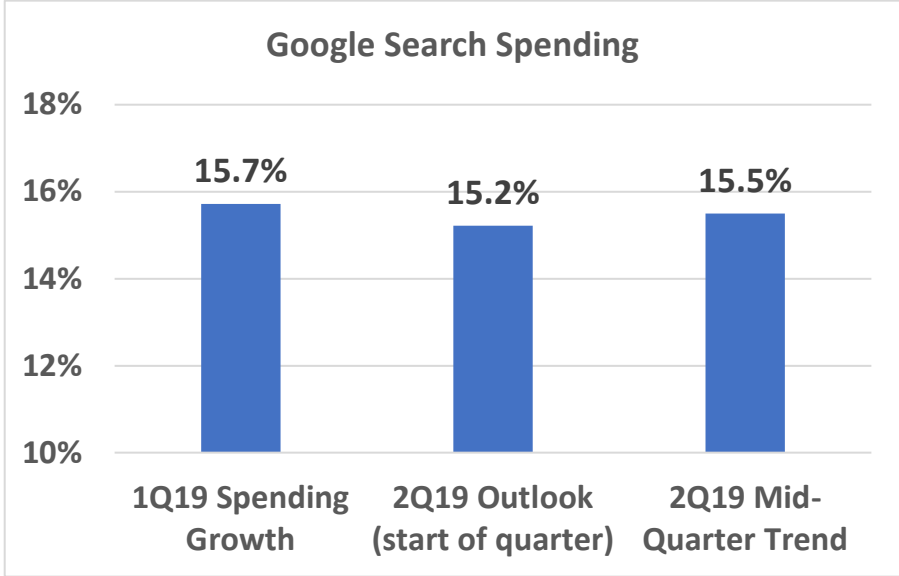
- 2Q19 yy search growth tracking at 15.5%, similar to 1Q19 and slightly above source expectations.
- SEMs see SERP changes around AI, local, knowledge graph and video as biggest transitions since shift from PC to mobile.
- YY search growth could be positioned for revived momentum in 2H19 as transition to newer search formats accelerates.
- Demonetization efforts on UGC across YouTube seen as mild short-term headwind to short-term yy growth, but boost to ROI, prices, and catalyst for future growth.

2Q19 YY Growth Tracking Slightly Ahead of Expectation

2Q19 yy spending growth so far is tracking at 15.5%, slightly ahead of source expectations given in April, which averaged 15.2%, versus 1Q19's spending growth of 15.7%.

A few sources attributed some 2Q19 upside versus the 1Q19 trend to retail demand. "Retail e-commerce, which was partly tapped out after a blowout December and partly holding powder for the later Easter this year, was a little more reined in than usual in

1Q19, but we've seen a return to form in April and May," noted a performance agency marketer. "Travel likewise had a calendar boost in April from the later Easter."



Source: Vertical Market Intelligence, 2019; averages from 7 sources

The overall trend of a slightly moderated y/y growth baseline versus 2018 and 2017 was attributed more to the natural effect of the law of large numbers than anything else, though most industry sources are seeing maturing spending and performance on some

legacy search formats, especially text ads, the original PLAs introduced several years ago, and Remarketing Lists for Search Ads (RLSAs), also introduced several years ago. "Core search, or what I'd now call legacy search, text and even PLA's, is slowly maturing off its highs of 2017-2018 as clickthrough rates plateau," noted a search agency manager. "The law of large numbers is going to hit all channels eventually, so our growth baseline is resetting a little lower."

At the same time, sources emphasized that the current more modest growth track, rather than signaling a decline in search demand, was part of a natural ebb and flow of search innovation, where one set of growth drivers slowly gives way to another wave of new catalysts. "As legacy search slows down there are whole new iterations that are just now ready to monetize," said an industry source. "Local campaigns, piggybacking off Google My Business, is just ramping up, and there will be a big expansion of Maps ads by year's end. RLSAs are slowing down, especially as Apple pushes ITP, but Customer Match and Similar Audiences are just now really getting wide adoption. Text ads are getting long in the tooth, but multiple image and video ads are just getting going. So, our sense is the current trend could soon be followed by another notch up in growth."

Major Transition Underway in SEO/SEM

Underlying emerging new search features are major revamps Google has been making in recent months to its search engine results page (SERP), particularly on mobile. The most notable, according to sources, are a more systematic use of predictive analytics (capturing contextual intent beyond explicit keywords used), Natural Language Recognition (deeper focus on semantic meanings), the increased usage of Google Merchant Center and Google My Business as primary consumer interfaces over websites, and increased focus on non-text (image, audio, and video) search.

While most view these ongoing innovations as exciting extensions of traditional search, sources acknowledge that fully realizing the paid search potential of them remains a work in progress. “The SERP has begun to undergo a pretty big transformation in the past six months around the knowledge graph, searches which basically provide users information they need without the need for click-on links or that even use specific keywords,” a source explained.

“These changes not only speed up search but change how merchants need to create content, making driving consumers to websites less central. Marketers have barely gotten their hands around how to do SEO and much less SEM around these new use cases. New things like Showcase ads, Discovery ads and Shopping Actions are barely into the test and trial phase, so in the short run the shift may be more of a headwind than a tailwind for paid search, but they open up the possibilities for growth once advertisers learn to use them.” Another source noted, “Google search is changing faster than keyword-based SEM techniques most people learned years ago can keep up with. Search is much more visual than text-based now and much more about delivering people right to information rather than linking people to websites.”

Advertisers See Room for YY Growth Uptick in 2H19

Buoyed by opportunities for reinvigorating paid search around new use cases, sources see significant room for potential re-acceleration off yy spending growth over the next few quarters as local ad campaigns, particularly on Maps, Customer Match/Similar Audiences, Shopping Actions and Showcase/Carousel ads reach more mainstream adoption, boosted by automated advances. “Tales of the decline of Google search are quite premature. The desktop is kind at steady state and flatline growth, but there’s still plenty of dynamism in mobile search as text links get replaced by new or more visual units,” said a search agency manager. “Amazon is absolutely becoming a must pay to play platform, but Google search is still the center of the digital universe and we don’t see that changing.”

YouTube: Prices Rising on Demonetization of Low-Quality Content

YouTube spending is on track to rise at or above 30% yy in 2Q18, despite tough comps. Sources said that growth is being driven primarily by pricing, as impressions compress due to what seems like a consciously engineered mix shift by Google to demonetize lower-quality and some UGC content on the platform “You have a lot going on at YouTube, the recent demonetization of a lot of fringe right-wing groups being one of them,” said a source. “From my experience with YouTube management, this is frankly politically motivated, but the economics work in their favor too. You’re getting a lot of UGC demonetized, a lot of low-quality content demonetized, and a lot of low-value audiences demonetized. The end result is your median CPM is climbing higher even if like-for-like unit growth is a lot lower,” said a source.

While this trend may constrain net yy growth short-term, most sources believed the ROI and pricing gains would be net positive for longer-term yy growth on the platform. “We are spending the same as always, but the content our ads are put on [the source later clarified that they buy run-of-network ads and do not target specific channels] has definitely changed from maybe 100k subscribers on average to more like 500k, with a

lot more mega-channels in the mix. As a result, we see double-digit average CPMs for almost every campaign, whereas \$6-\$8 was our target for many years, and \$12 being an upper limit until now, where we're raising it to maybe \$14 or \$15 when we make the decision," said another source.

While performance marketers are less concerned with the content that their ads run against as opposed to brand marketers, growing awareness of how quality content produces higher quality bottom-of-the-funnel activity for a variety of verticals has resulted in branding metrics being used more aggressively among performance marketers when it comes to video advertising. "We care about engagement and we measure it in ways that we didn't five years ago," said a source. "This is largely the result of a multiyear effort on Google's part to get everyone to look at their ads beyond LCA [last-click attribution]. Since Google put YouTube on the AdWords platform back around 2015 there has been a real awakening. You can make top of the funnel feedback to the bottom and use awareness campaigning and direct sales work together. Every other platform is just copying this, but Google pioneered it."

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