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Digital Advertising Update: Covid-19 Impact

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Wide Variation in Vertical Spending Trends

- Ad industry sources acknowledge that across nearly all industry verticals, budgets are in flux as advertisers, especially direct response but increasingly brands as well, try to adjust budgets in near-real time to Covid-19 developments. Consequently, most describe spending as unusually fluid and widely uneven between verticals on a month-to-month and even day-to-day basis
- Though all see budget plans being disrupted, various verticals report divergent trends, some actually at least temporarily seeing net benefits to yy spending growth, although most others see dramatic downshifts in activity and some nearly complete stoppages.

Below is a survey of present perspectives and a near-term outlook collected from sources.

ECommerce

Ecommerce in aggregate has held close to normal seasonal yy trend for the first two-thirds of 1Q20, but widening pockets of ecommerce have come under intensifying pressure in March, pushing blended growth below baseline as supply constraints and a consumer peel back on nonessentials are hitting March sales hard.

Though most sources still saw blended ecommerce ad budgets as up yy as of mid-March (though well below its "normal" baseline of 15%-20%), growth is expected to slide down further in the second half of March.

Amazon and big omni-channel retailers were still spending aggressively on online promotions through mid-March. However, inventory shortages have made some begin to selectively dial down their paid marketing for the immediate term. However, ad spending by these players remains up yy.

In ecommerce, the big players in marketplaces have benefited from a search of what must be called panic buying of essentials, resulting in aggressive CPC spending as long as marketers have merchandise to sell. But single category marketers in nonessential categories are seeing ad engagement ROI fall significantly.

Pockets doing best: Home essentials, groceries, drug stores, household items, same-day pick up offers.

Pockets doing the worst: Niche DTCs have begun pulling back heavily on ad spending, hit both by inventory shortages and declines in consumer traffic and sales.

There have been a lot of me-too DTC players who've been burning cash the past year or two, and many of them were running out of cash even before Covid-19. As consumer psychology changes dramatically, DTCs and their ad spend are crashing and burning.

There's growing concern temporary closures of major brick-and-mortar stores along with scale-backs in their ecommerce online operations for the rest of March and early April could bring ad spending even by established retailers quite a bit further down.

Best positioned: Google, Amazon

Less well positioned: Facebook, due to heavy exposure to DTC

CPG

CPG advertising remains relatively strong but subject to lumpiness on inventory constraints.

As one source summarize the situation: "Our big CPG clients have all had a big run on sales. Their problem is not demand at all but a run down in supply, so yy growth remained pretty strong through the first week in March though it's decelerated in the last two weeks. However, if supply flow can be improved spending should remain relatively stable."

Best positioned: Amazon, Facebook, Google

Less well positioned: Programmatic

Travel

Travel advertising budgets are described as moving into "suspended animation" as hoteliers, airlines resorts marketers hold back in wait of an improved situation. yy ad spending is said to be down in double digits for March after having been up double digits January, and up in single digits in February. One exception to this is the use of social network advertising and Messenger to provide customers with constant updates on conditions and offers of free cancellations.

In the words of one travel marketer, “You can't not be on Google or Facebook because out of sight means out of mind once travel revives, but at the same time there’s not a lot of motivation for spending any more money than you have to in an environment where ROI is nil. So we’re trying to optimize organic and do paid media conservatively. There’s nothing else to do right now but cultivate leads for when people are ready to start traveling again, whenever that is.”

Most travel marketers expect that once signs of an end to the public health crisis appear it may take at least one or two quarters to re-normalize travel advertising.

Best positioned: Social media (Facebook, Twitter)

Less well positioned: Google, OTAs and meta-OTAs (Booking.com, Expedia, TripAdvisor)

Brands

Brands see increasing audience reach online as usage of digital platforms spikes.

Though postponement of new electric vehicle product launches and the disruption of tech supply chains is making some major brands hold back promotional plans, others say Covid-19 is actually leading to a spike in internet traffic. Meanwhile, the cancellation of sports is radically limiting live TV reach, helping to divert some brand budgets online and leading to yy acceleration of branding growth in parts of online, especially OTT.

“Though consumers aren’t buying many of the kinds of goods they do in more normal times, consumers are online in bigger numbers and as masses of people work from home that increases even time spent online more than ever, so many brands are sensing that if they going to gain the reach they want they have to push harder online,” said a source. “So though many brands are foregoing typical spring campaigns to keep their powder dry for later in the year, brand spending online will remain reasonably strong.”

Best positioned: Hulu, YouTube, Instagram

Less well positioned: CBS, Comcast, Disney (legacy platforms)

B2B

Cancellation of in-person live events is reallocating events-marketing budgets to digital to promote virtual events. “The sudden collapse of live events has made it imperative for many enterprise B2B firms to go digital first and only as virtual events become a prime way of communicating and selling,” said a source. “Given this trend, B2B ad spending seems close to normal even with the chaos of cancellations. At least we don't see a complete pullback in yy growth at least for now.”

Best positioned: Microsoft (Linkedin), Facebook, Twitter

Less well positioned: Events marketing

Video Games, eSports, Streaming Video

This crisis is in part a boon for games and streaming entertainment, but future production pipeline bottlenecks for streaming content are a concern.

Sources noted that video games promotions also solidly up yy above prior expectations as usage spikes. “There's obviously a big spike in consumers streaming video now that for many work is at home which is causing aggressive competition among OTT streaming video contenders who continue to ramp up promotional spending,” said a source. “This bodes pretty well at least for the next month or two. However, if we start seeing, as we are hearing might happen, that there are shortages of new summer content because filming and production is being disrupted that could become a problem later on in the spring.”

Another noted: “The surge in games advertising is a bright spot in a generally extremely tough environment. It’s so strong that could help hold up digital platform growth when other verticals are imploding.”

“The fact that broadcast and cable TV is effectively without any sports for at least the whole month of March and probably April and possibly even into May is to put it mildly not good for TV reach,” said another source.

Best positioned: Facebook, Google, Twitch.tv, Snapchat, YouTube

Less well positioned: CBS, Comcast, Disney

Restaurants

Eat-in restaurant promotions for both casual and QSR drifted downward in the first half of March, partially offset by a ramp up of home delivery service. “The slowdown and now almost complete shutdown of in-restaurant spending by consumers, in many cases mandated by state governments, is causing QSRs to either stop advertising or stay on minimum maintenance branding mode at least through early April, so we’re looking at advertising budgets that are way down yy, although the push for home delivery among restaurants offering it is keeping things from drifting down to zero,” said a source. “There is anticipation that things in the space could rebound quickly when public health panic subsides.”

In order to augment PR and maintain engagement with consumers during closures, restaurant advertisers are expected to maintain a strong presence on social media and Twitter.

Best positioned: Twitter, Facebook, Snapchat

Less well positioned: Google Maps, Programmatic, Yelp

Note: VMI will have full 1Q20 notes with 2Q20 and FY20 outlook updates for Google, Facebook and all the digital advertising platforms under coverage in the first two weeks of April.

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