



## Q4 2023 Earnings

Dissecting near-term platform strategies

Updated: February 9<sup>th</sup> 2024

**Better decisions, faster.**



## Where platforms see growth opportunities in 2024 and beyond

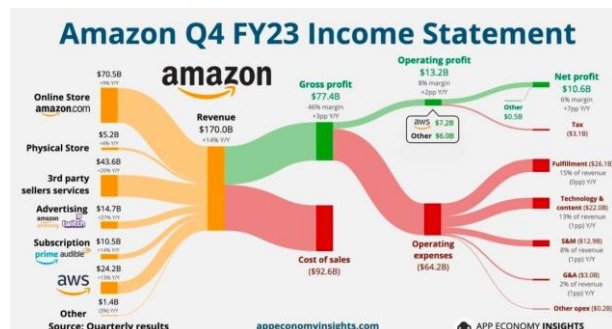
### A positive end to the year

Many major digital advertising platforms reported strong earnings growth in Q4 2023. Tech stocks have been behind [record market index highs](#) in recent weeks.

However, disruption is on the horizon, and how the tech platforms prepare for dual legislative and technological disruptions defines how both [Wall St and Madison Avenue](#) value future potential.

Amazon's [Q4 2023 earnings](#) report shows that 'advertising services net sales' increased by 26% year-over-year to [USD 14.6bn](#). Amazon's US digital ad market share rose from 10.3% in 2020 to 13.5% in 2023.

Retail traditionally delivers thin margins, so this high-margin revenue represents a significant reason Amazon made a net profit of USD 10bn this quarter. Amazon [dominates the US retail media market](#), taking over 75% of the fastest-growing advertising sector.



Amazon announced a series of initiatives to address their future opportunities. Amazon has strong first-party data assets that are focused on areas such as commerce and video.

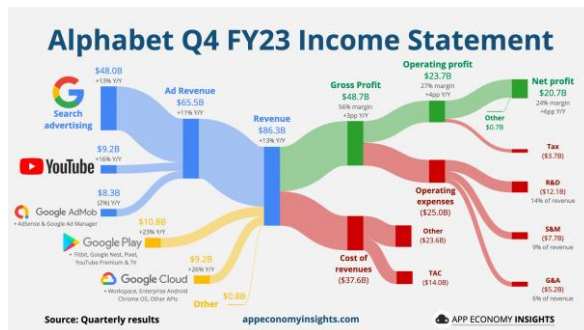
[Data partnerships](#) are seen as a priority objective, with major publishers such as [Reach in the UK](#) building on previously announced Meta partnerships.

Amazon will also release new AI capabilities to protect core business from startup disruptors. [Rufus was launched this week](#) in the US as a new [AI companion for shoppers](#).

Major broadcasters are making a play in commerce. UK broadcasters [ITV](#) and [Channel 4](#) see growth potential in commerce based on technological innovations such as [Shoppable TV](#).

### AI impacts

Alphabet [reported revenue up 13%](#) year-on-year. However, the reported ad revenue rise of 11% missed expectations, partly due to a 2% fall in revenue from the Google ad network; this is [not a single quarter blip](#) but part of a [longer-term decline since 2021](#). Non-advertising revenue streams such as subscriptions and Google Cloud are ahead.



Google's [share of US advertising is declining](#), from over 28% in 2022 to a forecast of 24.6% in 2025. Losing share [may be helpful](#) as anti-trust cases in [search](#) and [ad tech](#) are ongoing but unlikely to be resolved this year.

Future growth will be driven by ad tech innovations such as [Performance Max \(Pmax\)](#), which uses machine learning to process signals across the Google 1P ecosystem to deliver ads.

This will be especially important after 3P cookie deprecation later in 2024. Google has agreed to abide by rulings from [the UK CMA](#), which [released its progress report](#) on Privacy Sandbox compliance this week. While the technical objectives have been met, the regulator still has [significant competitive concerns](#) that could delay deprecation at the last minute. The [IAB is also challenging](#).

Generative capabilities from the new Gemini models are being [introduced to search ads](#), and the experimental consumer-facing [Search Generative Experience](#) is growing in scope and coverage.

Bard is being [rebranded as Gemini](#), and the most sophisticated [Gemini Ultra is set to launch](#) this week. AI technologies [will improve advertising performance](#) and bring new, smaller advertisers to formats such as video and audio.

Google will have to compete with new AI-based interfaces such as [Perplexity](#), an [AI search engine](#), and [Arc](#), a browser that [browses for you](#).

## Social Dilemmas

[Meta Q4 earnings](#) showed ad revenue up 24% to USD 38.7bn, with an operating margin of 41%, even with the [Reality Labs division losing USD 4.6bn](#) for the quarter. The Meta family of apps new [reach 3.98bn people](#) per month, making over USD10 per quarter per person from half of humanity.



Recent revenue has been propelled by massive investment from Chinese [brands such as Temu](#), [distorting short-term pricing](#).

Meta stock has [surged by 500%](#) since a low point in late 2022 when the impact of App Tracking Transparency was clear. Since then, Meta has innovated with solutions such as [Advantage+](#) suite, [Conversions API](#), and [Aggregated Event Measurement](#) built around [first-party data sets](#), [AI optimization](#), and [data partnerships](#) with [Amazon](#) and [Snap](#).

The social giant signaled a shift in financial strategy, paying its [first dividend of 50 cents/share](#) and a USD 50bn stock buyback.

Investment in new technology is still ongoing. Meta recently announced an intention to buy [350,000 nVidia H100 AI chips](#) (roughly USD 10bn at current prices), illustrating a doubling down on training of future models such as [Llama3](#) to enable an [ambition to achieve AGI](#).

However, regulatory and reputational concerns for Meta are growing, as social media's impact is an issue agreed across the political spectrum. Mark Zuckerberg appeared [alongside other social platform CEOs](#) in a testing Senate hearing.

Senators forced Zuckerberg to [apologize to families of children](#) who suffered using Instagram. We expect more [legislation to protect consumers](#) worldwide, like [the EU Digital Services Act](#).

Advertisers must be aware of content adjacencies and the [broader impact](#) of chosen platforms. This is why [OMG's CASA](#) and WFA's [GARM](#) initiatives are vital.

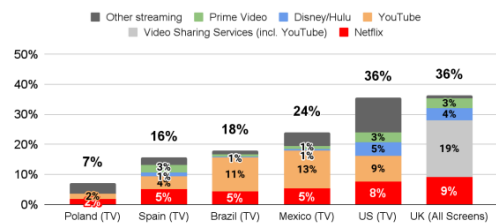
## Video Boom

Earnings from CTV advertising and streaming are rising rapidly. YouTube delivered [USD 9.2bn in ad revenue in Q4](#), up 15% year-on-year.

This is driven, in part, by a recent [crackdown on ad-blockers](#) and viewers to the [NFL Sunday ticket](#) as well as new mechanisms to monetize YouTube Shorts, which now delivers [70bn impressions per day](#). YouTube was also a key driver in [USD 15bn of Google Subscription](#) Service revenue in 2023.

[Netflix reported](#) revenue and subscribers were up by 12%, illustrating success in their shared password crackdown. The ads tier is up by 70% quarter on quarter, and [40% of new subscribers](#) choose the ad tier now that the basic tier has been retired.

Share of Viewing, December 2023 (Streaming Only with Remainder being Linear + Other)



Source: Nielsen (Mexico, Poland, US), Kantar (Brazil, Spain), BARB (UK). The UK measures viewing across four screens (TV, smart phone, tablet and laptop), all others are TV only.

There is still plenty of headroom for the streamers to grow into. Netflix has less than 10% of all viewing in every market, believing they can take far more. Competition will be fierce; Comcast reports [Peacock paid subscribers are up 50%](#) to 31m.

Inventory supply in streaming will increase markedly as [Amazon Prime Video Ads goes live](#) as the default option. NFL Thursday Night Football property expects to [deliver an extra USD100m](#) from two new ad formats.

In each major digital sector, dominant brands seek to innovate to protect positions and grow in adjacent sectors (Amazon in video, Netflix in ads, Broadcasters in commerce, etc.) through innovation and data partnerships.

For everyone, [AI is a blue ocean](#); those with cash on hand are investing heavily for the next [round of disruption](#). Advertisers will need to ride multiple concurrent waves of innovation.



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