THE TICKER


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DIGITAL ADVERTISING'S 'PERFECT STORM'

—*Liz Willding Robbins*

Are tech giants, including many that rely heavily on digital advertising revenue, in trouble? Barclays recently declared that a "perfect storm is here"—a rare combination of adverse factors including "increased competition and structural headwinds." To this point, Barclays lowered the price target on Alphabet (GOOG) (GOOGL), from $3,200 to $3,000; Meta Platforms (META), from $370 to $280; Pinterest (PINS), from $24 to $20; and Snap (SNAP), from $42 to $20. Barclays cited increased competition from ByteDance's (BDNCE) TikTok and Apple (AAPL), with TikTok estimated to grow this year from $4 billion in 2021 to $12 billion or more and Apple estimated to generate $7 billion.

As reported by CNN Business, Meta CEO Mark Zuckerberg told analysts during a recent earnings call that "We seem to have entered an economic downturn that will have a broad impact on the digital advertising business. ... It's always hard to predict how deep or how long these cycles will be, but I'd say the situation seems worse than it did a quarter ago."

Impending economic uncertainty, along with growing inflation and recession fears, may have caused companies to reduce their ad budgets. The war in Ukraine also might have taken a bite out of earnings; companies dropped Russian advertisers in response to the war. Meta may be feeling the squeeze, predicting its revenue for the third quarter of 2022 will be $26 billion to $28 billion—a second year-over-year quarterly revenue drop.

As troubling as the near-term economic challenges are, the implied "structural headwinds" may prove even more problematic longer term, especially for the largest tech players. It is no secret that current digital

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> ***"For too long, Google and Facebook have dominated the digital advertising marketplace ... It is past time for a transparent ad technology industry where the best interests of customers are prioritized and companies of all sizes are able to compete."***
>
> **—Amy Klobuchar**
> U.S. Senator

advertising practices face intense scrutiny over invasion of privacy, as does the power wielded by tech giants, who are seen as monopolistically controlling the market.

In response, **the following regulatory actions have been introduced in the U.S. and Europe,** with other countries expected to do likewise:

- **The Banning Surveillance Advertising Act** would block advertising networks from using so-called surveillance advertising, or targeted advertising based on users' personal data. It also would outlaw using protected class information, like race, gender and religion, to target ads.
- **The Competition and Transparency on Digital Advertising Act** is an attempt to regulate the biggest online advertising companies in the world. Many of these companies are vertically integrated, owning multiple parts of the digital advertising supply chain—from the apps and websites that show ads to the exchanges that sell them—leading to predatory behaviorial targeting.
- **The Digital Markets Act**, introduced by the European Union, addresses what is seen as an imbalance of power that benefits a small number of mega technology companies. The act would require these companies to open their "walled gardens" and share autonomized data with other advertisers, ad tech companies and publishers.
- **The Digital Services Act**, also introduced by the European Union, sets standards for content moderation, platform accountability, illegal products and risk management for all companies operating in the European digital single market.

While most of this legislation has yet to be enacted into law, it sends a strong message to digital advertising giants that change is coming.

Apple already has taken steps to allow users to opt out of some tracking, eliminating some of the data that platforms use to target ads. Google's deprecation of third-party cookies is slated to go into effect by 2023. **IQ**