



# Click Here—Has the Boom in Digital Advertising Peaked?

Four key factors set to shape the outlook for digital advertising.

October 2022

## KEY INSIGHTS

- From relatively low penetration a decade ago, digital advertising today serves as the primary platform for most companies' marketing activity.
- However, a confluence of factors is contributing to a current recession in digital advertising spending, raising questions about the sector's long-term growth profile.
- Yet, powerful structural characteristics supporting the industry are central to its longer-term prospects.



**Taymour Tamaddon**  
*Portfolio Manager,  
T. Rowe Price US Large Cap  
Growth Equity Strategy*

The growth in digital advertising spending in recent years has been nothing short of spectacular. From relatively low penetration a decade ago, digital advertising today serves as the primary platform for most companies' marketing activity. And it's not difficult to see why. More efficient and quantifiable than

any other advertising solution, digital advertising has offered superior returns on investment for companies. Recently, however, various factors have combined to negatively impact the digital sector. Has digital advertising reached its peak, and can the growth profile of previous years be repeated? Here we look at four key reasons

## Digital Is the New Norm

Targeted, multi-channel, advertising providing easily measurable results



“...the long-term potential that digital advertising offers is hard to deny. One of the main reasons is the opportunity for superior returns on investment.”

why the near-term challenges digital advertising faces are expected to be a temporary blip on the industry's longer-term growth profile.

### **1. Powerful Long-Term Tailwinds**

The powerful tailwinds that have supported the rapid growth in digital advertising over the past decade—growing internet penetration, rising popularity of smartphones, increase in social media usage, rising penetration of e-commerce, increased investment in technology and digital platforms—are very much intact, and it is these same tailwinds that are expected to underpin growth moving forward. These secular trends show no sign of abating, and as has been the case over the past decade, we expect digital advertising to continue to outperform other forms of media for years to come.

The past year has been illuminating in the sense that it has highlighted the underappreciated cyclical nature of digital advertising. Amid a more volatile macro environment, where spending visibility has become less clear, it has been a little surprising to see how quickly companies have moved to cut the digital portion of their overall marketing budgets. Nevertheless, despite the recessionary period we are currently seeing, the long-term potential that digital advertising offers is hard to deny. One of the main reasons is the opportunity for superior returns on investment.

### **2. Opportunity for Attractive Returns on Investment**

Digital advertising offers companies the potential for superior returns on invested capital. Advertising no longer needs to be a case of going in blind. Instead of generic advertisements aimed at no particular audience, the data-driven nature of digital advertising provides more accurate, measurable,

and immediate customer feedback. This allows marketing teams to plan campaigns in a much better—and more targeted—way, zeroing in on a specific audience and providing tailored offers or products to the very people most likely to act on those offers. This compares with more traditional avenues like print media or billboards, which provide zero feedback or customer insights.

It is also worth noting that, despite the sharp deceleration in digital ad spending seen in 2022, which also needs to be considered in the context of the pandemic-distorted levels of 2021, the U.S. digital advertising market is expected to continue to grow at a steady pace. Spending in the U.S. is anticipated to surpass USD 300 billion by 2025, which would account for roughly 75% of all media spending (Figure 1).<sup>1</sup>

### **3. Digital Is a “One-Stop Shop”**

The one-stop shop nature of digital advertising should see it continue to take market share from other, more traditional, advertising channels. Whereas print can only serve text and picture ads, radio only audio ads, and television only video ads, the internet can serve all of the above and more. As such, digital advertising is likely to continue cannibalizing these legacy advertising forms. The internet wraps all of their individual strengths into one.

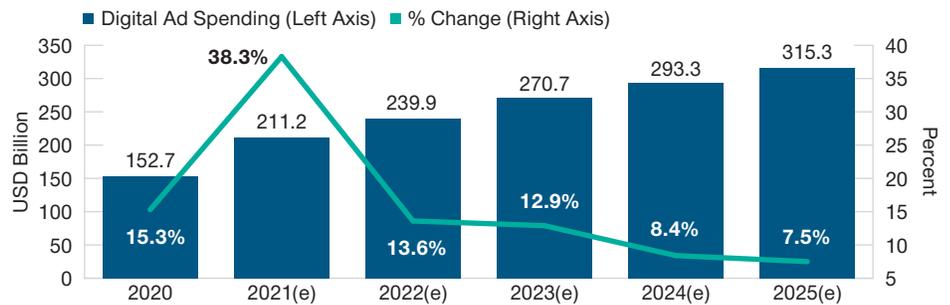
### **4. The Shift Toward E-commerce**

Additionally, the shift toward e-commerce, which was significantly boosted by the restrictions imposed during the coronavirus pandemic, is turning more consumers away from brick-and-mortar retail and toward online shopping. This is creating greater opportunities for digital advertisers to reach an ever-growing online consumer audience.

<sup>1</sup> Insider Intelligence, April 2022.

## U.S. Digital Advertising Spending, 2020–2025(E)

(Fig. 1) Anticipated growth in percentage and USD billion terms



Actual digital advertising spending data used for 2020, with estimated (e) data used from 2021-2025. Data estimates are based on the analysis of various elements related to the ad spending market, including macro-level economic conditions; historical trends of the advertising market; historical trends of each medium in relation to other media; reported revenues from major ad publishers; consumer media consumption trends; consumer device usage trends. eMarketer interviews with executives at ad agencies, brands, media publishers and other industry leaders.

### Actual outcomes may differ materially from estimates.

Includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices.

Source: eMarketer. Analysis by T. Rowe Price.

### Short-Term Challenges

Digital advertising spending soared during pandemic-induced lockdowns because of increased screen time and new digital advertising channels, but more recently, a confluence of factors has caused the market to cool down considerably.

- First, the lockdowns provided a vast captive audience for digital advertising. Now that they are over, people are returning to everyday life. That means less time on screens so less time to see ads.
- The market environment has become more difficult. Higher inflation has caused businesses to reexamine spending, while also pushing consumers to spend less. The last 12 months have shown us how quickly digital spending can be turned off in the short term—much more easily than TV advertising, for example. That said, over the medium term, digital advertising is expected to recover, while TV advertising contracts are likely to be renegotiated lower at renewal.

- The digital advertising landscape has also been shaken up in a big way by the privacy and tracking changes introduced by Apple on its iOS platform in April 2021. The implementation of Apple's App Tracking Transparency (ATT) feature to its iOS system requires platforms to get permission from users in order to track their activity while using iPhone and iPad devices. For digital advertising companies, where collecting and analyzing user data is crucial, this has effectively changed the rules of the game and forces companies to adapt to a new landscape.

### Data Privacy and Tracking Changes

This latter challenge—Apple's introduction of the ATT feature—is particularly noteworthy in that it has had very different impacts on two of the dominant players in the digital advertising space. For Alphabet and Meta, for example, the impact of the changes to Apple's privacy rules was far more challenging for one company than the other.

“...Alphabet has been retaining more of the valuable information pertaining to consumer buying intentions and habits, which we believe makes its platform more attractive to advertisers.”

**Meta** underperformed significantly over the past 12 months, to the point that, at the time of writing, the company was trading around its cheapest valuation levels in a long time. The introduction of Apple’s ATT feature to its iOS platform has proved a major blow for social/interactive media companies in particular, as companies like Meta rely on this data to target and measure ads on their apps. Meta estimates that Apple’s ATT feature will decrease the company’s 2022 revenue by around USD 10 billion, as the majority of iPhone and iPad users are choosing to opt out of ad tracking.

**Alphabet** in comparison, posted stronger performance in recent quarters, as it was less impacted by the privacy changes made by Apple to its iOS platform. A main reason for this is that Alphabet organically collects vast amounts of user data through its search engine, making it much less vulnerable to users opting out of mobile online tracking through Apple’s ATT feature. Alphabet also collects data from its 3 billion Android operating system devices worldwide—devices that are little impacted by changes to Apple’s

operating system. As such, Alphabet has been retaining more of the valuable information pertaining to consumer buying intentions and habits, which we believe makes its platform more attractive to advertisers.

Whether the decrease in digital advertising spending is a downturn or just a stabilization, the near-term impact of the post-pandemic environment on advertising and related industries is undeniable. Companies that overextended during the pandemic by increasing ad spend or head count are now pulling back. Longer term, however, we anticipate spending growth to resume to a more normalized path. The digital advertising market is expected to remain robust as more advertisers turn to digital for the considerable benefits it offers compared with traditional media channels, including greater targeting and measurability. In terms of the leading incumbents in the space, we prefer those businesses that are masters of their own fortune, in this case, data collection—the lifeblood of digital advertisers—rather than reliant on collecting this data via others.

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

## T. Rowe Price<sup>®</sup>

### Important Information

**This material is being furnished for general informational and/or marketing purposes only.** The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

**Australia**—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

**Brunei**—This material can only be delivered to certain specific institutional investors for informational purpose only. Any strategy and/or any products associated with the strategy discussed herein has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**Canada**—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

**EEA**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong**—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia**—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea**—This material is intended only to Qualified Professional Investors. Not for further distribution.

**Mainland China**—This material is provided to qualified investors only. No invitation to offer, or offer for, or sale of, the shares will be made in the mainland of the People's Republic of China ("Mainland China", not including the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the Mainland China. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the Mainland China. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the Mainland China that are expressly authorized under the laws and regulations of the Mainland China to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the Mainland China. Potential investors who are resident in the Mainland China are responsible for obtaining the required approvals from all relevant government authorities in the Mainland China, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the Mainland China, or nationals with permanent residence in the Mainland China, or to any corporation, partnership, or other entity incorporated or established in the Mainland China.

**Malaysia**—This material can only be delivered to specific institutional investor. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand**—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines**—ANY STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING DISCUSSED HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore**—Issued by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**South Africa**—Issued in South Africa by T. Rowe Price International Ltd (TRPIL), 60 Queen Victoria Street, London, EC4N 4TZ, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: [www.faisombud.co.za](http://www.faisombud.co.za), Email: [info@faisombud.co.za](mailto:info@faisombud.co.za)

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan**—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand**—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**USA**—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2022 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.