Long Term Global Growth

Reflections

November 2022

Adapting to the Changing Face of Advertising

As the 2022 FIFA World Cup continues to unfold in Qatar – serving as a global showpiece for players, nations and brands alike – it is perhaps an appropriate time to reflect on the changing face of advertising and how this is forcing firms to be more adaptable in this dynamic environment.

Estimates indicate that total global advertising spending in 2022 will likely to over $800bn and that more than half of this figure will be allocated towards digital channels.

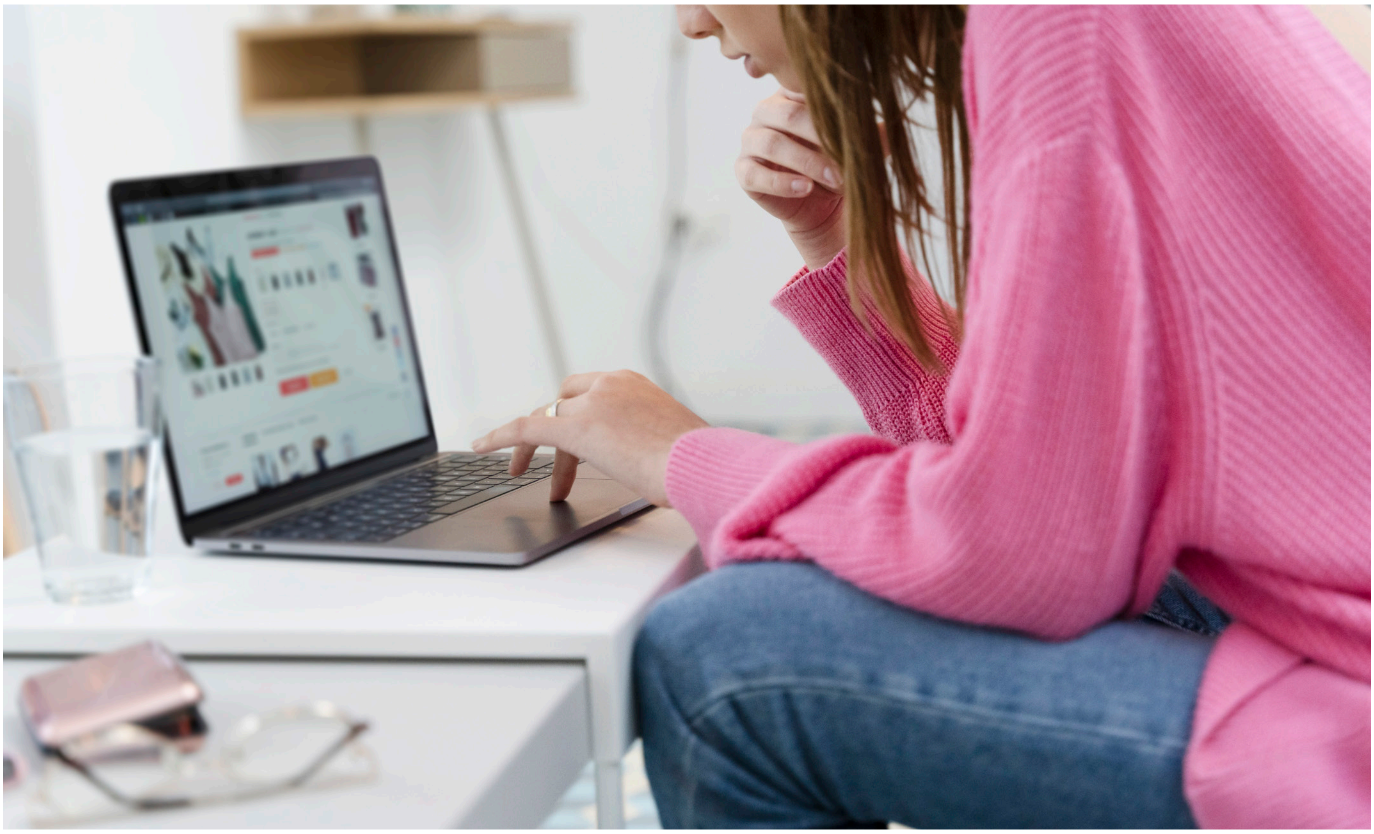
This is part of a broad structural shift within the industry – namely, the continued move away from traditional advertising in favour of digital platforms. Some industry experts predict that all advertising will eventually be transacted digitally in future. Given the current size of the market, this represents a significant growth opportunity in the future. This shift will also have a notable impact on several holdings in your portfolio.

Chief among these is **The Trade Desk** – a digital marketing platform provider allowing brands to advertise across the entire open internet in a data-driven, optimised manner. The open internet comprises many platforms such as traditional desktop internet, podcasts, online video, connected televisions and mobile. This is in direct contrast to so-called 'walled gardens' such as Google and Meta, where there is one owner of a closed ecosystem with complete control over the content and access to the platform.

To contextualise the scale of The Trade Desk's open internet advertising offering, it allows its customers to select from more than 500 million digital advertising opportunities every single day. The fastest-growing segment is connected television, which arguably is in the same nascent position as the consumer internet ten years ago. Consequently, the reach and range of available data on connected television impacts the behaviour of advertisers, who now increasingly see this as their first port of call for advertising spending. This shift is powering the outperformance of The Trade Desk within a sector experiencing cyclical headwinds more broadly.

Another significant development within advertising has been Apple's implementation of app tracking transparency (ATT). This allows iPhone users to choose whether their journey across different apps is tracked. On average, only about 20 per cent of users opt into this tracking, resulting in a 'loss of signal' for those who do not.

As a result, the range of available data for targeted advertising is significantly reduced – an aspect which has, for example, negatively affected **Meta**'s core advertising business. In response, Meta is attempting to develop artificial intelligence and machine learning for probabilistic targeting and measurement. The Trade Desk, on the other hand, has largely been insulated against this development since it has simply shifted spending towards the portion of mobile impressions where the data signal is still strong (which constitutes nearly three-quarters of all mobile impressions available to them).



There is no doubt that the face of the global advertising industry is changing at a rapid pace. We are examining which companies – even those for whom advertising was never a core business – can successfully adapt and find opportunities in this changing landscape. **Amazon** is an illustrative example in this regard, having rapidly grown its advertising business in recent years to the point where it is now generating more than $30bn in revenue annually, putting it on par with YouTube. That's around half the size of revenues generated by AWS already and likely with equally (if not more) attractive margins.

Within the realm of streaming, a key development has been **Netflix**'s recent introduction of an advertising subscription tier. This further indicates a shift in strategy whereby there is likely to be a greater focus on user monetisation as opposed to pure subscriber growth going forward.

Netflix has initially opted for an advertising load of four minutes per hour to preserve a good user experience. That compares to the 12-13 minutes load on traditional network television. It has also selected the simpler rollout model of selling advertising upfront in pre-negotiated deals, as opposed to using the more complex programmatic model incorporating online auctions. It is likely that Netflix will transition to the latter model over the long run so as to optimise this revenue stream. That could also benefit The Trade Desk.

However, the impact of advertising is not only being felt along traditional touchpoints, such as our streamed viewing choices and online browsing footprints. It is also beginning to make inroads into virtual worlds.

Here, **Roblox** stands out as a notable example. It operates with the vision of "being a virtual space where people play, work, learn and create together". and the company has begun testing the concept of "immersive advertising" among its 58 million daily active users. This is a form of 3D advertising that does not get in the way or interrupt the user while at the same time offering clear mechanisms for brands to track conversion to sales within this highly engaged user base.

Roblox has already partnered with more than 90 of the world's biggest brands, including the likes of Gucci, the NFL and Warner Bros. This could potentially represent a significant new revenue stream for Roblox.

Despite the cyclicality inherent to the advertising industry, its shift to digital shows no sign of slowing down. The LTGG portfolio contains a diverse set of companies at the forefront of this transformation.

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BAILLIE GIFFORD

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

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