



MORE is better than less.

## Dear Friends:

This past year has been a challenging one for media companies and their clients, due to the aftermath of the pandemic, supply-chain disruptions, rising interest rates and a (hopefully short-lived) recession. While the economic forecast for 2023 is uncertain, there are always opportunities to be found and new markets to reach. In this issue's feature article, we examine the advertising growth markets, led by the digital sector, and we look at some of the advertising trends to watch in the coming year.

On January 15, 2022, we will celebrate the achievements of our dedicated staff members at our annual Szabo Employee Appreciation Party here in Atlanta, Georgia. On January 24, 2023, Randy Neff and I will present "The Fine Art of Media Collections" at the Media Financial Management (MFM) Town Hall Webinar. We hope to connect with many of our friends and clients at the MFM 2023 CFO Summit on March 16-17, 2023, in Orlando, Florida.

All of us at Szabo Associates wish you a very Happy New Year and a healthy and prosperous 2023.

Robin Szabo, President  
Szabo Associates, Inc.

## Finding the Growth Markets in 2023

There's no question that 2022 has been a challenging year for the media. While all within the industry are hoping for a strong 2023, no models have accurate data incorporating the remnants of a global pandemic, continuing supply-chain disruption, interest rate hikes, inflation and a recession. Whether there are lean or rich years, opportunities are always to be found and new advertisers to reach. The challenge for media companies is staying on top of trends and figuring out what market is about to get hot and what market is about to get cold.

### Advertising Spending by the Numbers.

Though the final figures are not yet in, advertising spending for 2022 is projected to rise 11.8 percent over 2021 spending, according to an averaging of forecasts issued by Dentsu, GroupM, IPG Mediabrands' Magna, and Publicis Media's Zenith units. Projections for the coming year are lower, partly because 2023 is neither an election year nor an Olympic year, unlike 2022.

The consensus outlook for 2023 currently stands at 4.5 percent growth in U.S. ad spending. However, U.S. ad revenue is expected to rise above the \$300 billion mark for the first time, with global spending climbing above \$900 billion. Here are the individual advertising revenue forecasts:

- Dentsu: 6.1 percent
- Group M: 2.6 percent
- Magna: 4.8 percent
- Zenith: 4.5 percent

Even 4.5 percent growth can mean significant revenue increases for savvy media companies. The keys are targeting the right markets and staying on top of industry trends.

### Digital Growth: No Signs of Stopping.

Digital advertising will account for 71.8 percent of U.S. media ad spend this year, up 16 percentage points from 2019 — and still growing, according to a November 7, 2022, *InsiderIntelligence.com* article, "U.S. Digital Ad Spending Growth by Industry." Spending is projected to reach \$248.72 billion for 2022. The article's bold prediction is that, in 2026, digital ad spending will reach \$385.47 billion and make up 80.9 percent of total media ad spend.

Digital advertising is such a far-reaching concept, loosely defined as a strategy that promotes a product online. This promotion happens through social media platforms, search engines, websites, streaming channels, billboards, and email campaigns. Digital ads span media formats, including text, image, audio, and video.

Within the large, high-tech category, advertising spending is projected to grow across every digital channel in 2023, according to the Interactive Advertising Bureau's *2023 Outlook Survey: Ad Spend, Opportunities, and Strategies for Growth*. This includes Connected Television (CTV), 14 percent; paid search, 8.9 percent; podcasts, 8.1 percent; social media, 6.5 percent; digital OOH, 2.7 percent; digital display, 2.1 percent; and gaming, 1.6 percent.

Social media is the one sector showing some declines, driving down the display sector. Although Meta's Facebook platform continues to account for the most U.S. display ad dollars of any company, its share is projected to drop from 39.4 percent in 2021 to 30.4 percent in

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2024. Meta reported two consecutive quarters of declining revenue for the first time in 2022, attributed to a drop-off in advertising revenue as clients turned to competitors TikTok and other platforms.

InsiderIntelligence.com data finds that retail is the fastest growing digital ad channel with a 23.5 percent growth rate in 2022, followed closely by travel (again rebound effect post pandemic), telecom, and entertainment. Magna also anticipates that entertainment and travel will be growth markets as consumers return to the movies, concerts and other in-person events, and the automotive market will rebound.

### Streaming Ahead.

Some might say that the barrage of political advertisements in 2022 encouraged more and more viewers to switch to streaming. In July 2022, for the first time ever, streaming TV surpassed cable viewing. With a combined time of more than 190 billion minutes available across the numerous streaming platforms, Nielsen calculated that Americans spent 34.8 percent of their time streaming, narrowly nudging out cable at 34.4 percent.

When talking about streaming, Netflix is usually the first channel that comes to mind, and until now, Netflix did not feature ads. That is all changing. Popular streaming channels Hulu, Peacock, Sling, Paramount+, and HBO Max have long offered ad-supported tiers. Now Netflix and Disney have joined the list, rolling out ad-supported channels at a lower subscription rate than its ad-free plans, aimed to keep price-driven viewers as subscribers. An *Ad Age* survey found that 75 percent of streaming subscribers are willing to accept advertising as a tradeoff for lower fees.

The growth of streaming is staggering. There are 200-plus streaming video services available and, according to data analytics and brand consulting company Kantar, 85 percent of U.S. households subscribe to at least one of them, though the U.S. household

average is four.

While the streaming wars are often centered around the Big Five players—Netflix, Amazon Prime Video, Disney+, Hulu, and HBO Max—free, ad-supported, smaller streaming services that cater to niche audiences are surging, selling advertising to clients serving those niches. For example, channels offering entertainment for children are ideal advertising platforms for toy companies, while travel and outdoor channels are ideal platforms for lodging, car rental, and sporting equipment sellers. A recent *Variety* report estimates that U.S. ad revenue from these smaller streaming services will top \$6 billion by 2025.

Major sporting events are also moving to streaming – sometimes in place of or in addition to national broadcast television. While Fox will air the official Super Bowl LVII broadcast in February 2023, streaming services like Hulu+, SlingTV, and FuboTV are also making deals to stream football's biggest night. HBO Max will begin an eight-year, \$200 million deal for the exclusive streaming rights of the U.S. Womens and Mens National Soccer Teams in 2023.

### OOH Growth Continues.

Out of Home (OOH) was the fastest growing ad format in the past year (30 percent year-over-year 2021-2022), according to Magna figures, driven by the easing of the pandemic. Consumers left their homes and returned to sporting events, shopping, commuting – their regular lives. Magna projects that growth will continue into 2023, forecasting 8 percent OOH growth.

Today's OOH advertising has gone high tech. While billboards and other static signage certainly remain part of OOH, new digital technologies, new formats, and new metrics help advertisers get their message out there and track their results. All that's needed is an internet connection for older, static signage to be upgraded to digital.

Digital Out of Home can be scheduled to reach audiences at contextually relevant moments, with dynamic ad placement driven by real-time data. Factors such as weather conditions, the time of day, and proximity to desired locations can all be used to customize messages for specific audiences.

Ongoing technological advancements enable advertising to better target specific markets and more accurately measure the results to determine the campaign's effectiveness. Digital messages also can be updated and customized easily and cost-effectively.

More than half of advertisers polled expect to shift advertising spends into OOH in 2023, according to a survey conducted by BWG Strategy and Talon America. Currently, advertisers are allocating 4 percent to 5 percent of overall ad budgets to OOH. The study found that marketers are planning to shift portions of their budgets from social media and linear TV to OOH.

### Advertising on the Local Front.

On the local front, media marketing research firm Borrell Associates unveiled its predictions in the November 17 webinar, "What 2023 Will Bring: Local Ad Spending Forecasts." Borrell is predicting a 3.2 percent increase (from 2022), triggered primarily by two factors: rebounding retail sales and the growing number of small businesses.

Borrell Executive Vice President, Local Marketing Intelligence, Corey Elliott noted that retail sales (not including automotive) remain strong but vary greatly by retail type. Sectors that did well during the pandemic, like hardware and home improvement, are continuing to climb, and shoppers are again venturing out to large brick-and-mortar stores. Meanwhile, automotive is forecast to take off in the coming year as supply-chain shortages ease. In fact, automotive is projected to rise to 20 percent of all local television advertising.

The 4.3 million new small businesses opening in the United States in the last year represent an untapped market. While these small businesses may fly under the media's radar, many are ready and willing to spend a significant amount of advertising dollars, especially on the digital side. (A word of caution: due diligence in determining creditworthiness is called for here.) Borrell estimates that \$7 out of every \$10 spent on advertising by these startups goes to digital, including paid search engine advertising and targeted banners on social media.

Here is Borrell's breakdown of

the largest predicted growth markets: Video/OTT, up 12.6 percent; Digital Audio, up 10.4 percent; Targeted Banners (includes social media), up 10.1 percent; Paid Search, up 2.7 percent; and OOH, up 2.5 percent.

As consumers increasingly turn away from broadcast television in favor of streaming and online platforms, ad dollars are also being routed away. Borrell Associates is estimating that local television advertising will drop 18 percent in 2023 after a very robust 2022.

Advertising categories that look promising for 2023 include legal services, health care, travel, tourism, education, and home improvement. Automotive, which has been local TV's biggest category, continues to lag, although many expect it to rebound in 2023.

### Trends to Watch.

The goal of any advertisement is to reach as many potential customers as possible. Consumer behavior is changing, driven both by technological advances and economic issues, and advertising strategies must keep pace with these changes. It's essential to stay on top of customers' changing habits. Here are some key findings, compiled from industry reports including Dentsu's 2023 Media Trends

report, the IAB 2023 *Outlook Survey: Ad Spend, Opportunities, and Strategies for Growth*, and the *Forbes* November 10, 2022, article, "Nine Ways Advertising Could Change in 2023."

*Artificial Intelligence will play a much larger role.* The future of advertising is AI-powered. Its use and effectiveness will improve with machine learning, meaning personalized ads for every consumer on the planet. Paired with proximity marketing, customers can receive advertisements based on their geographical location.

*QR Codes will be found almost everywhere.* From Super Bowl ads for crypto companies to stickers on the center of restaurant tables to graphics on commercial vehicles, in print advertisements, and on television screens, QR codes simplify mobile engagement like few other marketing tools. Prospective customers simply point their smartphone cameras and are delivered right to a business' website.

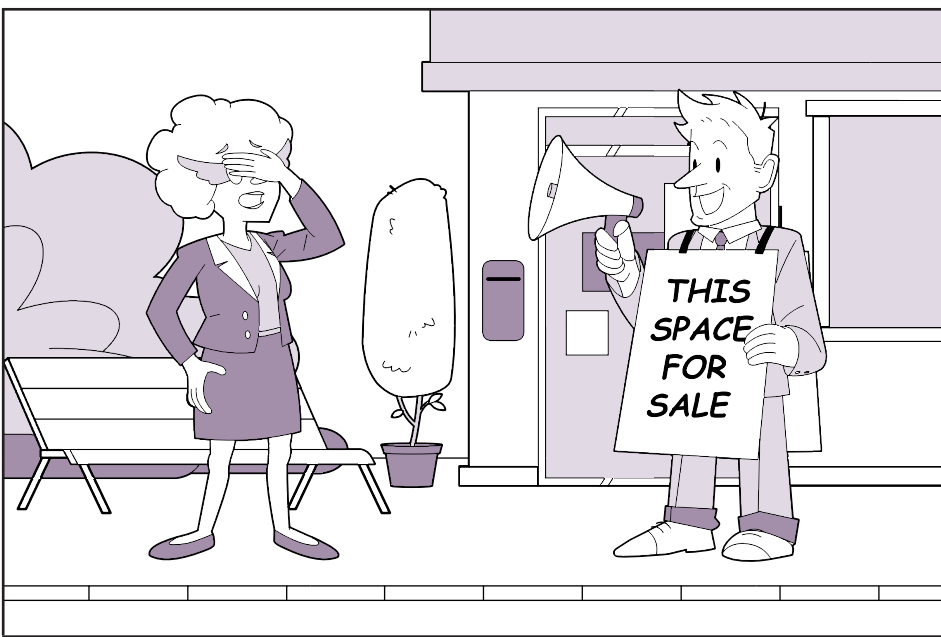
*Augmented Reality will become more widespread.* Augmented reality has already begun to be used in ads and marketing campaigns. This technology allows marketers to create immersive and interactive experiences for consumers in the Metaverse. Augmented reality can be used to show off products in

new and innovative ways or to make an ad more engaging. More than half of advertising buyers are considering investing in Metaverse advertising and marketing. Boosting brand awareness and perception as well as engaging customers in a new way are top reasons for Metaverse advertising investment.

*Gaming has gone mainstream.* In 2023, gaming is no longer purely for teen boys in dark rooms, using gaming consoles. For example, Candy Crush is a staple on nearly everyone's smartphone, serving up ads mid-game for bonuses and extra rounds and proving there's a gamer in everyone, from schoolchildren to their grandparents. According to Nielsen, gamers made up 58 percent of the total U.S. population in 2013. Today, that market has grown to 72 percent.

*Privacy concerns will be addressed in a cookie-less future.* In response to user privacy concerns, Apple, Google, and Mozilla have all announced plans to phase out support for third-party cookies in their web browsers, making it much harder for advertisers to track users across the web and serve them targeted ads. Privacy regulations such as the EU's General Data Protection Regulation (GDPR) and the California Consumer Privacy Act of 2018 (CCPA) also make it harder for companies to collect and use personal data. With data regulations being rolled out state by state instead of at the federal level, a huge challenge in 2023 and beyond will be data regulation compliance.

*Zero-Party data is a cookie alternative.* Businesses that rely on cookies for digital advertising may need to make the shift to zero-party data to stay relevant in the post-cookie world. Even now, with the demise of cookies delayed until the second half of 2024 by Google, millions of internet users are using ad blockers. Zero-party data is voluntarily shared by users with businesses. This data can include preferences, interests, and contact information. The data is collected directly from users, typically through surveys, polls and quizzes. Because it is gathered with the user's consent,



"That's not the kind of Out of Home advertising sales pitch we had in mind!"

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there are no privacy concerns. It is considered more valuable to businesses than cookies because it is more accurate, specific, and reliable.

*Advertising is coming to video streaming.* With many of the major streaming platforms like Netflix and Disney+ jumping on the ad-supported tier bandwagon (though users willing to pay more for an ad-free experience still have that option), Dentsu predicts that the ad-funded video platform is set to overtake subscription channels with time.

*Retail media platforms are on the rise.* Until recently, consumer goods companies commonly sold through a handful of e-commerce channels, usually led by Amazon. In today's connected world, consumers

can shop anywhere and anytime, and retailers want to engage with those customers. As a result, retail sites are evolving into content sites and commerce sites are changing to media sites. Digital commerce continues to evolve, both in importance and diversification of sites, apps, and platforms. The challenge for brands is to engage directly with consumers while respecting data privacy.

### **Some Key Takeaways.**

Digital advertising continues its stellar growth. Meanwhile OOH is an up-and-coming market. Technological advances enable OOH to incorporate video, target specific markets, and track results. Broadcast television is facing increased pressure from streaming services, and those streaming services are incorporating advertisements. In 2022, midterm elections and the Olympics were a boom for broadcast television advertising, but

that revenue will not be out there in 2023. While print publications continue to lose market share, newspapers, magazines, and direct mail remain viable in many markets and as part of multiplatform advertising packages.

By sector, travel and entertainment and retail are making a comeback and automotive is expected to rebound. Categories that did well during the pandemic, like hardware and home improvement, continue to grow. Those entrepreneurial small businesses launched in the last two to three years continue to expand and prosper. Many are ready to take the next step toward growing their businesses through advertising buys. While the economic outlook in 2023 and beyond is unknown and difficult to predict, there are growing opportunities for smart media companies to expand into new markets and prosper. ♦